The Business Case for Gender Diversity

Compiled by Genevieve Smith

The summary and table includes points from a collection of research. It was adapted and built off of Building a Business Case for Gender Diversity[1] of the Centre for Ethical Leadership at the University of Melbourne (2014) and the CEW CEO Toolkit.[2]

Summary

✔ Improved Financial and Market Performance from Women in Leadership

- Companies with more women in executive management have been shown to financially outperform companies that have no women in senior roles.
- Firms with a larger share of women in senior roles have a significantly higher return on assets (ROAs), even within narrowly defined industries.
- The correlation between women at the C-suite level and firm profitability is demonstrated repeatedly, and magnitude of the estimated effects is not small.
- Companies with female CEOs have strong financial performance.
- Companies with more women on their boards have been shown to financially outperform companies with no women on their boards.
- More women on corporate boards may be a way of promoting women to rise through corporate ranks.
- Companies with more women in senior management score higher on organizational criteria than companies with no women at the top.

✔ Greater Capitalization of Talent

- Drawing leaders from the total talent pool will give the organisation more strength and flexibility.
- Highly qualified and educated women are being underutilized.
- Women are less presented in finance and STEM industry sector boards; this goes back to education enrollment.
- Losing talent is expensive, in both employment and opportunity costs. A rule of thumb for cost of attrition is 150-200% of the annual package (based on recruitment costs, lost productivity, time to recruit and train new employees).

✔Enhanced leadership, Team Performance and Motivation

- Heterogeneous teams are more creative, better at generating new ideas and avoiding 'groupthink', but only if the organisational culture values diverse views.
- Women bring different leadership skills and behaviors to the table.
- More women in leadership roles highlights opportunities for women to succeed, creating a virtuous circle.
- Diversity programs have a positive impact on motivation.
- Diverse workforces perform better financially.
- Perceived leadership quality is linked to the proportion of women leaders.
- Employee engagement is critical to organisation success, and directly impacted by diversity. What women find unappealing about organisations is increasingly being reflected in the attitudes of male employees as well—particularly younger ones. Employees who are not engaged with company values and behaviour perform poorly.
- Greater diversity in organizations reduces staff turnover.

✔Risk Management / Corporate Governance

- Companies with women in key board committee roles (such as risk and audit) perform better.
- There is a link between more women on boards and good corporate governance credentials.
- Companies with at least one woman on their boards may reduce their risk of bankruptcy.
- Lagging in this area potentially exposes your organisation to public relations challenges as well as legal issues in extreme cases.

✔Economic Growth

- Unlocking the hidden value of the female labor pool is good for the economy.
- Reducing gender gap in workforces can increase GDP.
- More women in the labor force will expand labor supply.

✔Corporate Social Responsibility and Culture

- More gender diversity on boards may lead to greater corporate transparency and improved ethical orientation.
- More gender diversity protects women against sexism and sexual harassment.

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[1] https://cel.edu.au/our-research/building-a-business-case-for-gender-diversity
[2] http://www.cew.org.au/resources/toolkits/ceo-toolkit

Table

Argument	Evidence	Source
Organizational, Financial and Market Performance		
Companies with more women in executive management have been shown to financially outperform companies that have no women in senior roles	A long-term US study released in 2009 showed a correlation between women in executive management and short and long-term profitability. The study, which used data on Fortune 500 companies since 1980, demonstrated a link between a good record of promoting women into the executive suite and high profitability. The study identified firms that were most aggressive in promoting women to high levels and compared their profit performance to the median performance of Fortune 500 firms in the same industries (amongst other measures). For 2001, the 25 best firms for women outperformed the industry medians, with overall profits 34 percent higher when calculated for revenue, 18 percent higher in terms of assets and 69 percent higher in regard to equity. These results were confirmed in subsequent comparisons to 2008.	Adler, R. (2009). Profit, thy name is... Woman? *Pacific Standard*.
	According to a US study, Fortune 500 companies with the highest representation of women on their top management teams experienced better financial performance on measures of ROE (35.1 percent higher) and Total Return to Shareholders (34 percent higher) than companies with the lowest women's representation.	Catalyst. (2004). The bottom line: Connecting corporate performance and gender diversity. *Catalyst*.
	McKinsey conducted a study with 345 companies in six countries in Latin America, examining their financial results and the gender composition of their exec committees. The results shows a link between the two in all countries and in all business sectors: companies with one or more women on their executive committees outperformed those with all-male committees. Their returns on equity were 44% higher, and their EBIT margin 47% higher.	McKinsey & Company. (2013). Why women matter: A Latin America perspective. *McKinsey & Company.*
Firms with a larger share of women in senior roles have a significantly higher return on assets (ROAs), even within narrowly defined industries	Using a sample of more than 2 million companies across 34 European countries in 2013, a strong positive association is found between the share of women in senior positions and firms' ROAs. Replacing one man by a woman in senior management or on the corporate board is associated with 8-13 basis points higher ROAs. Two specific channels at work: 1. The positive association between gender equality in senior positions and firm performance is significantly stronger in sectors that employ more women in the labor force. For a firm in an industry in the top quartile in terms of female intensity, having one more women on the board or in senior management, while keeping size of board unchanged, is associated with about 20 basis points higher ROAs. 2. Knowledge intensive and high technology sectors, which demand higher creativity and critical thinking that diversity in general may bring, seem to benefit significantly more from a higher share of women in senior management. In these sectors, an additional women on the board or in senior management is associated with about 30 basis points higher ROAs.	Christiansen, L., Huidan, L., Pereira, J., Topalova, P., Turk, R. (2016). Gender diversity in senior positions and firm performance: Evidence from Europe. *IMF*.
The correlation between women at the C-suite level and firm profitability is demonstrated repeatedly, and magnitude of the estimated effects is not small	A profitable firm at which 30% of leaders (C-suite) are women could expect to add more than 1 percentage point to its net margin compared to otherwise similar firms with no female leaders. By way of comparison, the typical profitable firm on the sample had a net profit margin of 6.4% so a 1 percentage point increase represents a 15% boost to profitability. The firm with more women can expect a 6 percentage point increase in net profit, while overall median net profit was just over 3%. Results do not suggest that female CEOs tend to outperform their male counterparts. Instead, the benefits of female leadership participation appear to be more driven by the fact that a more diverse leadership team tends to deliver better outcomes on average.	Noland, M., Moran, T., Kotschwar, B. (2016). Is gender diversity profitable? Evidence from a global survey', *Peterson Institute for International Economics*.
Companies with female CEOs have strong financial performance	Only 5% of Fortune 1000 companies have female CEOs, but these companies generate 7% of the Fortune 1000's total revenue. Fortune 1000 companies with female chiefs outperformed the S&P 500 index over their respective tenures.	Fairchild, C. (2014). 'Women CEOs in the fortune 1000: By the numbers. *Fortune*.
Companies with more women on their boards have been shown to financially outperform companies that have no women on their boards	A study of 160 REITs, found that those with at least one woman on their board for more than three years tended to produce annual total shareholder return growth rates that were 2.6 percentage points higher than their peers during the three-year period, 3.6 percentage points higher over a five-year period and 3.4 percentage points higher in the course of 10 years.	Ferguson Partners Limited. (2012) Correlating REIT enterprise performance with board diversity representation. *FPL Advisory Group.*
	Research by McKinsey has demonstrated a link between diversity of company boards (defined as number of women and foreign nationals) and financial performance. In a study of 180 companies across Europe, the UK and the US, in the period 2008-10, research found that for companies ranking in the top quartile of executive-board diversity, ROEs were 53 percent higher, on average, than they were for those in the bottom quartile. At the same time, EBIT margins at the most diverse companies were 14 percent higher, on average, than those of the least diverse companies.	(2012). McKinsey Quarterly: Is there a payoff from top-team diversity? *McKinsey & Company.*

	Research by Credit Suisse shows that companies displaying greater board gender diversity display excess stock market returns adjusted for sector bias. Companies with more than one woman on the board have returned a compound 3.7% a year over those that have none since 2005. The excess return has moderated since our initial report. Over the last two and a half years, the excess return is a compound 2.0% a year. We find also that companies with higher female representation at the board level or in top management exhibit higher returns on equity, higher valuations and also higher payout ratios.	(2014). The CS gender 3000: Women in senior management. *Credit Suisse, Research Institute.*
	In a separate study of listed European and BRIC companies in the period 2007-09, McKinsey found that companies with the highest share of women outperform companies with no women: by 41 percent in terms of return on equity, and by 56 percent in terms of EBIT.	(2010). Women matter: Women at the top of corporations: making it happen. *McKinsey & Company.*
	A Catalyst study of Fortune 500 companies across a four-to-five year period found a connection between gender diversity on boards and financial performance. The study found that companies with the most women board directors outperform those with the least on return on sales (ROS) by 16 percent and on return on invested capital (ROIC) by 26 percent. The study also found that companies with sustained high representation of women board directors, defined as those with three or more in at least four of five years, significantly outperformed those with sustained low representation by 84 percent on ROS, by 60 percent on ROIC, and by 46 percent on return on equity.	(2011). 'The Bottom line: corporate performance and women's representation on boards (2004-2008). *Catalyst*.
	In Australia, an analysis of ASX500 companies over a three and five year timeframe found that companies with female representation on their boards outperformed the markets and companies with no gender diversity over both time periods. There was an 8.7 percent difference over five year return-on-equity and a 6.7 percent difference over three years.	(2011). ASX500 – Women leaders: Research note. *Reibey Institute*.
	Credit Suisse analyzed more than 2,500 companies and found that companies with more than one woman on the board have outperformed those with no women on the board by 26 percent since 2005	(2012). Gender diversity and corporate performance. *Credit Suisse.*
Gender diversity in corporate boards could improve firm value because of the contributions that women make to the board	Women directors contribute to boards by offering specific functional expertise, often missing from corporate boards. The additional expertise increases board heterogeneity which can increase firm value	Kim, D., & L. Starks. (2016). Gender diversity on corporate boards: Do women contribute unique skills? *American Economic Review* 106 (5): 267–271.
The more women in senior managerial positions and in corporate boards, the more profitable firms are	A new IMF study finds that in Europe, one more woman in senior management or on a corporate board is associated with 8 to 13 basis points higher return on assets. In addition, prevalence of full time female employment is a strong predictor of the share of senior corporate positions held by women. Since more women in senior managerial positions and in corporate boardrooms is associated with stronger firm financial performance, this would help support corporate investment and productivity, further mitigating the shutdown in potential growth in Europe.	(2016). Unlocking female employment potential in Europe: Drivers and benefits. *IMF*.
More women on corporate boards may be a way of promoting women to rise through corporate ranks	Statistically there is a correlation between the presence of women on boards and the presence of women in executive ranks, which is correlated to firm profitability (see above) A more gender-balanced board might show greater interest in encouraging a more balanced executive team.	Noland, M., Moran, T., Kotschwar, B. (2016). Is gender diversity profitable? Evidence from a global survey. *Peterson Institute for International Economics*.
Companies with more women in senior management score higher on organizational criteria than companies with no women at the top.	A McKinsey study found that companies with three or more women in senior management functions score higher, on average, on organizational criteria (such as leadership, direction, accountability, coordination and control, innovation, external orientation, capability, motivation, work environment) than companies with no women at the top.	(2010). Women matter: Women at the top of corporations: making it happen. *McKinsey & Company.*
	Eureka Report has undertaken an analysis of the share price performance of listed Australian companies to compare those with both male and female executives and those with only male executives. Over the two years to April 30, 2012, the report's census date, the All Ordinaries, which tracks around 500 Australian equities, fell by 7.59 per cent (or –3.86 per cent annualized). An index of the 167 companies with at least one female executive KMP, equally weighted, fell by 4.71 per cent (or –2.38 per cent annualized). That is, it lost less ground than the All Ordinaries. Some 41 companies were identified where woman made up 30 per cent or more of the total executive KMP. An index of these companies, equally weighted, rose by 5.73 per cent (or +2.82 per cent annualized).	(2015). Gender balance buys better results. *Eureka Report.*

Companies need to recognize and cater to the buying power of women in order to capitalize on growth opportunities.	For instance, women in the United States wield purchasing power in excess of an estimated US$5 trillion, buying half of all computers and cars and more than 80 percent of all consumer purchases. They also represent nearly half of all shareholders.	(2011). The gender dividend: Making the business case for investing in women. *Deloitte*.
More working women means more disposable income.	As women continue to enter the workforce in larger numbers, they will have more money of their own to spend. Women control roughly US$20 trillion of total consumer spending globally, and that number is predicted to rise to US$28 trillion by 2014.	Silverstein, M. & Sayre, K. (2009). The female economy. *Harvard Business Review*.
Leadership, Team Performance and Motivation		
Women bring different leadership skills and behaviours to the table	A meta-analysis of 45 studies on leadership styles found that women were more likely than men to have a 'transformational' leadership approach (where leaders establish themselves as role models by gaining followers' trust and confidence) than a 'transactional' leadership approach (where leaders establish give-and- take relationships that appeal to subordinates' self-interest). Women are also perceived to adopt a more participative and collaborative style.	Eagly, A., & Carli, L., 'Women and the Labyrinth of Leadership', *Harvard Business Review*, September 2007
	Although consistent differences in the perceptions of leadership practices of male and female managers have been found to be evident, studies have found that the genders are equal with respect to overall effectiveness	Kabanoff, R. (2008). Gender differences in organisational leadership: A large sample study. *Ph.D. Management Research Group*.
Diverse teams are smarter and more effective	Along with social sensitivity and equal turns at conversation, studies have suggested that the "collective intelligence" of a group is strongly correlated with the proportion of females in the group, making for smarter and more effective teams.	Williams, A. et al. (2010). Evidence for a Collective Intelligence Factor in the Performance of Human Groups, *Science* v. 330, p. 686 .
Diverse teams are more creative	Heterogeneous top management teams relate to more creative idea generating, and are thus linked to more innovative organisations.	Marinova, Plantegna & Remery 'Gender Diversity and Firm Performance', Utrecht School of Economics, January 2010
Diverse workforces perform better financially	Companies in the top quartile for gender diversity are 15% more likely to have financial returns above their respective national industry means. Companies in the top quartile for racial and ethnic diversity are 35% more likely to have financial returns above their respective national industry medians. Companies in the bottom quartile for both gender and ethnicity/race are statistically less likely to achieve above-average financial returns that average companies in the data set.	(2015). Diversity matters. *Mckinsey & Company*.
	High gender diversity companies have delivered slightly better returns, with lower volatility, compared with their low diversity or sector peers, and they have moderately outperformed on average in the past five years. Companies with more diversity tended to have higher level of forward one-year ROE, on average .7% better than their regional sector peers and 1.1% above those with low representation of women in the workplace. The top fifth of selected companies that consistently rank gender diversity among their priorities, with data to back it up, outperformed their peers based on volatility and risk factors. Over the past five years, high gender diversity companies have modestly outperformed low gender diversity companies on a monthly annualized basis, by +2.3% in N. America, by +1.3% in Europe, and by +1% in Asia Pacific (exc. Japan). The high diversity cohort has outperformed the regional benchmark across regions (exc. Japan) so investing in high gender diversity stocks can be moderately accretive to performance.	(2016). Why it Pays to Invest in Gender Diversity. *Morgan Stanley*.
	High gender diversity companies display a lower ROE volatility over a three year horizon relative to their low gender diversity or sector peers. The long term earnings quality, measured by the average total accruals over assets over a three year horizon of a high gender diversity company is higher than that of low gender diversity companies and that of their sector peers, across regions.	(2016). Putting Gender Diversity to Work: Better Fundamentals, Less Volatility. *Morgan Stanley*.
More women in leadership roles provides more motivation for women to succeed	A Catalyst survey found that 64% of women see the absence of role models as a barrier to their career development. Almost as many women said that a lack of mentoring was a barrier to career progression.	(2007). Women Matter: Gender Diversity, a corporate performance driver. *McKinsey & Company.*

Perceived leadership quality is linked to the proportion of women leaders.	Leaders from organizations with a majority of women leaders had over 50% more leaders rating their leadership quality as high compared to any other group. Importantly, organizations with higher quality development programs had more female leaders than organizations with low quality leadership development programs at all management levels.	(2011). Women Work: The Benefits of Closing the Gender Gap. *DDI.*
More female board directors means more women, and consequently a greater range of talent, in the leadership pipeline.	Researchers have found a clear correlation between the percentage of women board directors in the past and percentage of women corporate offers in the future. Additionally, women board directors appear to have a greater effect on increasing the percentage of women in line positions, which has a direct and significant impact on the number of experienced women funneled through the pipeline to leadership roles	(2012). Why Diversity Matters. *Catalyst*.
Diversity programs have a positive impact on motivation	A European Commission study found that 60 percent of companies identified improvement in motivation and efficiency as a key benefit of diversity policies.	'The Costs and Benefits of Diversity: A Study on Methods and Indicators to Measure the Cost-Effectiveness of Diversity Policies in Enterprises',
	A study examining the relationship between diverse workplaces and staff turnover found a link between positive perceptions of an organization's climate and employee satisfaction, suggesting that all employees, not just women, benefit from a positive diversity climate.	Kaplan, D., Wiley, J., Maertz, C. (2011). The Role of Calculative Attachment in the Relationship between Diversity Climate and Retention. *Human Resources Management* (50), 2
Greater diversity in organizations reduces staff turnover	Employees in Australia re more likely to remain at an organization when a work culture is diverse, inclusive and encourages flexibility, thereby reducing the risk of staff turnover and decreasing costs to the organization.	(2013). Australian Human Resources Institute (AHRI) data in the 'Business Case for Gender Equality. *Workplace Gender Equality Agency*.
Capitalization of talent		
Women constitute a large proportion of the workforce Women make up more than half of all graduates	Women comprise 45.6 percent of the total labour force in Australia. The female labour force participation rate is 65.3 percent.	ABS data in 'Stats at a Glance', EOWA, April2012
	In 2009 58 percent of university graduates in the US and UK were women.	(2011). The Gender Dividend: Making the business case for investing in women. *Deloitte*.
Highly qualified and educated women are being underutilized	Despite accounting for 45% of PhD graduates in the EU in science, research and development in 2006, women accounted for just 18% of the most senior researchers in the same year.	(2010). More Women in Senior Positions. *European Commission.*
Women are less presented in finance and STEM industry sector boards	Women are less presented in finance and STEM industry sector boards: Average diversity in these sectors is 24% lower than the mean. Gender differences in STEM university enrolments and occupations have long-term consequences for female business leadership. Leadership gap in finance and STEM difficult to eliminate due to blanket boardroom diversity policies, which are also likely to have different impact on firms in these sectors than in non-STEM sectors.	Adams, R. & Kirchmaier, T. (2016). Women on boards in finance and STEM industries. American Economic Review 106 (5): 277–281.
Culture contributes to a gender math gap	Immigrant girls whose parents come from more gender-equal countries perform better (relative to similar boys) on math tests than immigrant girls whose parents come from less gender-equal countries. This suggests an important role for cultural beliefs on the role of women in society on the math gender gap. Transmission of cultural beliefs accounts for at least 2/3 of the overall contribution of gender-related factors.	Nollenberger, N., Rodríguez-Planas, N. & Sevilla, A. (2016). The math gender gap: The role of culture. American Economic Review 106 (5): 257–261.
Risk Management / Corporate Governance		
Companies with women in key board committee roles (such as risk and audit) perform better	Gender-diverse boards allocate more effort to monitoring. Across a sample of firms, studies have found that female directors have better attendance records than male directors, male directors have fewer attendance problems in more gender-diverse boards and women are more likely to join monitoring committees.	Adams, R., & Ferreira, D. (2009). Women in the boardroom and their impact on governance and performance. *Journal of Financial Economics*.

There is a link between more women on boards and good corporate governance credentials	A 2002 Canadian study found that boards in Canada with three or more female directors took more responsibility for their approach to governance issues, verifying the integrity of audit information and ensuring conflict of interest guidelines, amongst other measures. For instance, 91 percent of boards with a minimum of three female directors explicitly took responsibility for governance issues, versus 76 percent of all-male boards.	(2002). Women on Boards: Not just the right thing... But the bright thing. *Conference Board of Canada.*
Companies with at least one woman on their boards may reduce their risk of bankruptcy.	A study by Leeds University Business School of 17,000 UK companies that went insolvent in 2008 concluded that having at least one female director cuts a company's chances of going bankrupt by about 20%.	(2009). Higher heels, lower risk: why women on the board help a company through recession. *The Times*.
Economic Growth		
Unlocking the hidden value of the female labor pool is good for the economy	Goldman Sachs & JBWere have calculated that the rise in the female employment rate since 1974 has boosted economic activity by 22% in Australia. Further closing the gap between male and female employment rates could boost the level of Australian GDP by 11%.	(2009). Australia's Hidden Resource: The Economic Case for Increasing Female Participation. *Goldman Sachs & JBWere.*
Reducing gender gap in workforces can increase GDP	The OECD estimates that a 50% reduction in the gender gap in member countries could lead to a GDP gain of around 6% by 2030. That figure could increase by an additional 6% if the gap is completely closed in the next 15 years.	(2016). Why it Pays to Invest in Gender Diversity. *Morgan Stanley.*
	If every country narrowed the gender gap at the same historical rate as the fastest-improving country in its regional peer group, the world could add $12 trillion to GDP in 2025. That's some 11% higher than business as usual scenario. Gender Parity Scores (GPS) need to rise by at least 8-21% above their levels in 2014 to achieve the $12 trillion incremental GDP growth opportunity (see report for further information on GPS). At a "full potential" scenario where women participate in the world of work to an identical extent as men, erasing current gender gaps in labor force participation rates, hours worked and representation within each sector (which affects their productivity) as much as $28 trillion could be added to GDP in 2025, raising global economic output y 26% over a business as usual scenario. This potential impact is roughly equivalent to the economies of the US and China Today. It assumes that global average participation rate of women of prime working age rises from its current level of 64% to 95%.	(2015). Delivering the Power of Parity. *McKinsey*.
More women in the labor force will expand labor supply	If women choose to participate in the labor market as much as men do, Europe's workforce could increase by 6%. If they choose to work as many hours as men, the workforce could grow by as much as 15%.	(2016). Unlocking Female Employment Potential in Europe: Drivers and Benefits. *IMF*.
Corporate Social Responsibility and Culture		
More gender diversity on boards may lead to greater corporate transparency and improved ethical orientation	Fortune 500 companies that had higher numbers of women on their boards in 2010 were more likely to be listed on either or both *Ethisphere Magazine's* 'World's Most Ethical Companies' and *Corporate Responsibility Magazine's* '100 Best Corporate Citizens List'.	Larkin, M., Bernardi, B., & Bosco, S. (2012). Board Gender Diversity, Corporate Reputation and Market Performance. *The International Journal of Banking and Finance.*
More gender diversity protects women against sexism and sexual harassment	The presence of more women working in an area, particularly in senior leadership roles, can counter the imbalance of power between men and women. As the number of women working in an area increases, the dominant culture shifts and male cultural traits that are associated with sexism and sexual harassment are diluted in their effects.	Sojo, V. & Wood, R. (2012). Women's Fit, Functioning and Growth at Work: Indicators and Predictors.