WHY DIVERSITY MATTERS

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Why Diversity Matters

Leaders working to create diverse and inclusive workplaces in which women can advance must make the connection between diversity initiatives and their organization's business goals.[1] Effective business cases set the context for diversity and identify organizational challenges that must be addressed in order to create change.

This tool grounds the business case for diversity in solid research. It is not a bibliography of business case research, but it is intended to provide readers, including D&I practitioners, diversity initiative sponsors, and ERG leaders, with recent data to use in their efforts to build an organizational business case for diversity and inclusion. The studies are generally from 2007 to the present, with a few additional significant studies going back to 2004. There is no final version of this tool. Rather, it is always in progress; new studies will be added as they are published.

Improving Financial Performance

Companies with the most women board directors, especially those with three or more women board directors, had better financial performance than those with the least women board directors.

Since 2004, a series of Catalyst studies has shown that companies that achieve diversity in their management and on their corporate boards attain better financial results, on average, than other companies.

Catalyst's 2011 study found that companies with the most women board directors outperformed those with the least on return on sales (ROS) by 16 percent and return on invested capital (ROIC) by 26 percent.[2]

Companies with sustained high representation of women—three or more women board directors in at least four of five years—significantly outperformed those with no women board directors.[3]

In 2007, Catalyst found that companies with more women board directors outperformed those with the least on three financial measures: return on equity (53 percent higher), return on sales (42 percent higher), and return on invested capital (66 percent higher). Catalyst also showed that stronger-than-average results prevailed at companies with three or more women on their corporate boards.[4]

A gender-diverse board of directors impacts the future of women in a company's senior leadership.

Catalyst found a clear and positive correlation between the percentage of women board directors in the past and the percentage of women corporate officers in the future.[5] Additionally, women board directors appeared to have a greater effect on increasing the percentage of line positions held by women than they did on staff positions. Line experience is necessary for advancement into CEO and top leadership positions, and Catalyst's annual Censuses show that historically women are underrepresented in these roles.

Companies with more women in upper management ranks or on boards showed better financial performance.

Catalyst's 2004 research in this area found that companies with the highest representation of women in senior leadership had better financial performance than companies with the lowest representation of women on return on equity (35 percent higher) and total return to shareholders (34 percent higher).[6]

McKinsey measured the "organizational excellence" of companies in Europe, North America, and Asia by evaluating them on nine organizational criteria. When McKinsey examined the senior management teams of these companies, it found that those with three or more women, on average, had higher scores than teams with no women. McKinsey found that the score increased siginficantly once critial mass was reached—about one-third women.[7]

McKinsey also found that the 89 European-listed companies with the highest proportions of women in senior leadership positions and at least two women on their board outperformed industry averages for the Stoxx Europe 600, with 10 percent higher return on equity, 48 percent higher EBIT (operating result), and 1.7 times the stock price growth.[8]

The majority of research on this topic has been conducted in the United States and Canada. However, non-North American studies are highlighted with this icon.

An analysis of large U.S. and Canadian companies found that companies operating in complex environments generated significant returns, amounting to a "robust" 6 percent overall return over a three-year period, when they had a high proportion of women officers, compared to companies with low representation of women officers.[9]

Other researchers found that in 2008 there was a positive relationship between firm performance and the level of female participation in management at private-owned companies in China's security exchanges.[10]

Another 2008 study on what made companies resistant to the global market crash found that in the French CAC 40, the more women a company had in management positions, the less its share price fell.[11]

Building off five previous studies they had performed, researchers at Pepperdine University found that organizations on *Fortune*'s list of the "100 Most Desirable MBA Employers" for women outperformed the industry medians on numerous financial measures, including:

- Profits as a percentage of revenue: 55 percent of the companies were higher than the median, 36 percent were lower, and 11 percent were tied.

- Profits as a percentage of assets: 50 percent were higher than the median, 28 percent were lower, and 23 percent were tied.
- Profits as a percentage of equity: 59 percent were higher than the median, 30 percent were lower, and 11 percent were tied.[12]

An analysis of companies in Spain found that women board appointments were positively associated with firm value in the short-term as well as over a sustained period.[13]

Researchers at Columbia Business School and the University of Maryland found that a higher proportion of women in senior management, not including the CEO, was associated with better firm performance, especially at organizations involved with innovation.[14]

A study of 43 countries found that countries with a higher proportion of women on boards were more likely to have women in senior management and a smaller gender pay gap.[15]

Researchers examined stock prices after the appointment of women to senior leadership positions in U.S. companies and found that investors responded positively, especially when the company was in a female-dominated industry. The naming of men to senior leadership positions did not lead to the same significant positive impact on stock prices. Furthermore, the study found no evidence that female appointments caused share prices to suffer in reaction.[16]

Researchers analyzed the boards of a sample of publicly listed firms in Australia and found that the presence of women directors was positively associated with higher firm value.[17]

Companies with women CEOs or heads have experienced better financial performance.

Forbes examined the stock performance of the 26 publicly traded companies headed by women on its “2010 Power Women 100” list and found that, on average, companies in the group outperformed their industries by 15 percent and the overall market by 28 percent.[18]

A study in Finland on large firms found that those with women CEOs were, on average, about 10 percent more profitable than corresponding companies with men CEOs.[19]

USA Today compared the stocks of 13 *Fortune* 500 companies with women CEOs to the stocks of the overall S&P 500 and found that in 2009 the women-led companies were up an average of 50 percent, while the S&P 500 was up 25 percent.[20]

In 2009, the *Economic Times* in India conducted a study of the top 30 firms on the Bombay Stock Exchange and found that those with women promoter CEOs (leaders of family-owned businesses) fared better in annual growth rates for the previous five years than the Bombay Stock Exchange 30 as a whole.[21]

More women board directors were connected with better survival and lower insolvency.

A study that examined more than 900,000 private limited UK companies and found that, even after controlling for industry- and company-specific characteristics as well as background and experience of directors, having female directors reduced the insolvency risk of these companies.[22]

Racial diversity also is found to be good for business.

A study found that a racially diverse workforce was positively associated with more customers, increased sales revenue, greater relative profits, and greater market share. The study also examined gender diversity and found it to be positively associated with increased sales revenue, more customers, and greater relative profits.[23]

Leveraging Talent

Women outperformed men on numerous leadership competencies.

An INSEAD study looked at the 360-degree evaluations of nearly 3,000 executives from 149 countries, studying gender in light of how managers scored themselves and others scored them on 10 measures of global leadership competency. The researchers saw no evidence of a "modesty effect" in women, finding the women rated themselves significantly higher than men rated themselves in 4 of the 10 measures and scoring about equal to men on the others. Further, men and women subordinates, peers, supervisors, suppliers and customers both rated women leaders higher on seven or more competencies, including "energizing," "designing and aligning," "outside orientation," and "tenacity."[24]

Researchers at a leadership development and training firm, analyzing data from their survey of more than 7,000 leaders, found that women outperformed men on 12 of 16 measures of outstanding leadership competencies and scored the same as men in the other four. These women and men were rated by managers, peers, direct reports and others. While women outscored men on "nurturing" competencies such as relationship building and developing others, women outscored men most significantly on "takes initiative," "practices self-development," "displays high integrity and honesty," and "drives for results."[25]

A better diversity climate is related to lower intent to leave.

Researchers found that decreased turnover intentions were associated with employees' positive perceptions of an organization's "diversity climate." The study also found that all employees, including white men, may benefit from a positive diversity climate, and it found indirect links between positive perceptions of the climate and predictions of calculative attachment and satisfaction.[26]

Researchers found that a pro-diversity work climate was correlated with lower turnover intentions among diverse employees, especially among black employees. In addition, the researchers were surprised to find that this correlation was stronger for white men and women than it was for Hispanic employees.[27]

Inclusive leadership reduces turnover in diverse teams and work groups.

Although there are many benefits linked to diverse work groups, they also have been associated with higher turnover and the related high costs. Researchers at the Center for Advanced Human Resource Studies found that leaders can significantly reduce turnover when they developed high-quality relationships with most or all of their group members and demonstrated high overall levels of inclusiveness.[28]

Employee satisfaction and engagement hinges partially on satisfaction with a company's treatment of diverse people.

A human resources consulting firm analyzed extensive employee opinion survey responses and found a positive and significant relationship between employees' satisfaction with how fairly their company treated diverse employees and consumers and their overall job satisfaction and engagement.[29]

Employee engagement depends on managers, and effective managers are committed to diversity.

In a global survey of more than 50,000 employees, the Corporate Leadership Council found that employees' commitment to their managers was a critical factor in engagement. The converse was also true: the manager was a crucial enabler of engagement. Managers are an important link between employees and the organization, and topping the list of managerial characteristics that most effectively engage employees was "shows strong commitment to diversity."[30]

There are more differences within the sexes than between them with regard to organizational attractiveness.

Researchers looked at the effects of gender diversity management on organizational attractiveness to women and men. They did not find significant differences between the sexes, but they did find significant differences within each sex based on attitudes toward affirmative action for women, centrality of one's gender identity, and the belief that women are discriminated against in the workplace.[31]

Reflecting the Marketplace and Building Reputation

Gender-inclusive leadership is associated with increased corporate social responsibility.

Catalyst and Harvard Business School looked at gender inclusive leadership and corporate social responsibility by focusing on corporate charitable funds. They found that more women leaders correlated with significantly higher levels of corporate philanthropy, and hence, CSR. Further, the presence of women leaders likely led to higher quality CSR initiatives.[32]

Mirroring the community can lead to a boost in productivity, customer satisfaction, and earnings.

In an analysis of more than 700 stores of the U.S. retailer J.C. Penney, researchers found a positive effect of having store employees mirror the race and ethnic makeup of their communities on productivity, customer satisfaction, and ultimately on earnings. In this case, an increase of more than $69 million dollars for the parent company was attributed to this "racioethnic representativeness."[33]

Clients are asking firms to provide evidence of their diversity, policies, and initiatives.

Research conducted on 13 top "City law firms" in the UK found that all of them had faced demand-side diversity pressure. When bidding for potential private sector clients, the firms reported receiving requests for information about diversity, including their diversity policies and initiatives. This practice is becoming increasingly common, and client interest in diversity is moving past the "pitch" process and continuing once a firm is retained.[34]

Gender-diverse boards increase corporate reputation.

Researchers looking at a large sample of UK firms found that the presence of women board directors was favorably viewed in sectors that operate close their final consumers. The authors point out that this demonstrates a need to reflect diversity among consumers.[35]

A study found that the number of women on a board affected corporate social responsibility ratings, which had a positive impact on reputation.[36]

A study found that *Fortune* 500 companies with a higher percentage of women on their board of directors were more likely to be on Ethisphere Institute's list of the "World's Most Ethical Companies."[37]

Stock prices of many companies positively were impacted by announcing the appointment of women senior leaders.

Researchers compared what impact of announcements of women and men into equivalent senior leadership positions had on stock prices. They found a significant spike in stock prices occurred when a woman was announced, especially when the women were in female-dominated industries.[38]

Increasing Innovation and Group Performance

An increase in women has been linked to a group's effectiveness in solving difficult problems.

A study by researchers from MIT, Carnegie Mellon University, and Union College documented the existence of collective intelligence in groups whose members cooperated well, and found that collective intelligence surpassed the cognitive abilities of the individual members of the group. Groups in which one person dominated were less collectively intelligent. A major factor in creating a group with the right internal dynamics for collective intelligence to emerge was the number of women. The most effective and cooperative groups exhibited high levels of "social sensitivity." Because women tend to have higher levels of social sensitivity, the analysis revealed that the number of women in the group significantly predicted the effective problem-solving abilities of the group overall.[39]

Better problem-solving and increased creativity are positively associated with a variety of diversity attributes.

Researchers measured 28 teams on a wide variety of diversity characteristics at a company in Germany and found that highly diverse teams performed better on highly complex tasks than homogeneous teams. The authors posit that this result was related to the diverse teams' wider range of thinking processes and increased creativity.[40]

Researchers including Scott Page, author of *The Difference: How the Power of Diversity Creates Better Groups, Firms, Schools, and Societies,* found that a random group of intelligent problem solvers outperformed a team composed of the "best" problem solvers. Pointing to a tradeoff between diversity and ability, they posited that the best problem solvers necessarily become similar within the pool of all problem solvers.[41]

A study found that mere exposure to multiple cultures enhanced creativity, and that extensive multicultural experiences were positively related to creativity-supporting cognitive processes, such as retrieval of unconventional knowledge, recruitment of ideas from unfamiliar cultures for creative idea expansion, and creative performance, such as insight learning, remote association, and idea generation.[42]

Gender diversity in leadership is connected positively with innovation.

Using a sample of *Fortune* 500 corporate boards, researchers found that innovation was positively and significantly correlated with board racial diversity, and marginally significantly correlated with board gender diversity.[43]

Studying 15 years of panel data of management teams of S&P 1,500 firms, researchers found that more women in top management improved the performance of firms which were heavily focused on innovation.[44]

IT patents may benefit from gender-diverse teams.

An analysis of women's participation in IT patents found that mixed-gender teams in the United States produced patents that were cited 26 to 42 percent more frequently than the average.[45]

The proportion of women directors is linked to reduced conflict and increased board development efforts.

Researchers analyzed the boards of 201 Norwegian firms and found that the proportion of women directors seemed to affect board effectiveness by decreasing the level of conflict on the board and increasing the quality of board development activities.[46]

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