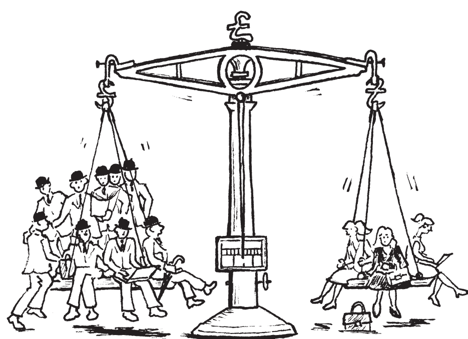
Sheconomics: Why more women on boards boosts company performance

How many women does it take to make a company more profitable? Just three. **Karen Pine** finds a remarkable statistic that is being ignored in city boardrooms worldwide.



This year the government has stated that all FTSE 100 companies should aim for a minimum of 25% female representation on boards. It might be nice to believe that this is a gesture towards equality of the sexes, empowerment of women, and so forth. In fact there is a more basic reason: it is financial.

Women currently make up just 12.5% of the board members of FTSE 100 companies. There are many possible reasons for this. Lack of opportunity, traditional male cultural environments, sexual discrimination and lack of aspiration may be just a few. Regardless of the reasons, however, the gender imbalance has shown up a clear consequence. Companies with more females on the board do better.

That is the evidence emerging from a range of empirical studies that have examined the relationship between women in board positions and the company's bottom line. The evidence is so strong that it has prompted Lord Davies to publish a report[1] in February this year urging companies to appoint more women.

Some European companies have already seen the benefits of gender diversity in business and are committed to championing it. For example, in 2009 a Swiss company, Naissance Capital Ltd, announced the formation of The Women's Leadership Fund. This fund, they stated, would only be investing "in firms which understand the need for greater female representation" and which would take "an activist stance against those which do not". Naissance's decision was not based on altruism. It took account of a number of findings from research groups, mainly in the United States, that had shown that appointing more women to company boards and top management teams significantly boosted company performance. It was a smart move. In the post-Lehman Brothers era government bailouts and quests for vast investment are commonplace, yet Naissance had discovered a safer, simpler, and remarkably simple way of ensuring financial prosperity: investing in women.

The evidence for taking such a decision appears unequivocal. Research by McKinsey has found greater gender diversity in management to be associated with above-average return on equity and stock performance in top-listed European companies[2]. Data from Gavurin Intelligence reveals that when women made up at least 30% of board members a company's profitability increases[3]. Readers are invited to make a quick guess by how much. The answer is a rather astonishing threefold.

Research by Catalyst, the global organisation representing women in business, confirms the connection between gender diversity on corporate boards and financial performance[4]. They carried out careful analysis of gender diversity data for senior leadership teams and boards of directors from companies appearing in the Fortune 500 for a specified time span, taking account of three outcome measures of financial performance: return on sales (ROS), return on invested capital (ROIC) and return on equity (ROE). When it came to ROS, companies with the most women board directors outperformed those with the least by 16%. On ROIC, companies with the most outperformed those with the least by 26%. And companies with sustained female representation – that is, with three or more women board directors in at least four out of five years – significantly outperformed those with the least by 84% on ROS, by 60% on ROIC and by 46% on ROE.

We all know that correlations do not constitute causality. It may be that the less well-performing companies have backward-looking boards that fail to keep up with any of the best practices, gender equality being only one of them. Nevertheless, the evidence from multiple measures has been mounting, with gender diversity emerging as the most influential determinant of higher ROE. Earlier findings from a large 19-year study by Pepperdine University had found that the Fortune 500 companies with the most women at the top were 18–69% more profitable during the 1980s and 1990s than the median companies in their industry[5].

Interestingly, the Pepperdine study threw up another remarkable statistic: three women is all it takes to make the crucial difference. The Pepperdine study showed that when a company had three women on the board of directors it outperformed the competition on all measures by at least 40%. The researchers also found that Fortune 500 companies with three or more women in senior management positions scored higher on measures of organisational excellence, so the benefits were wide-ranging.

Some companies, and some countries, have taken the statistic on board and see women as a wise investment – others are catching on more slowly. Despite the evidence, and the decisive moves of companies like Naissance, women are still underrepresented at boardroom and management levels in Europe. The UK sits at an embarrassing tenth position in the league of European countries and the percentage of women on boards with just 8.5%, coming behind Switzerland (9.2%) and France (9.5%), then Germany (10.5%), Netherlands (13.7%), Ireland

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(14.1%), Denmark (14.4%), Finland (23.4%), Sweden (23.9%) and Norway (34.3%)[6].

In Norway one in every three board members is female. The reason for this goes back to legislative changes implemented in 2003. The Norwegian Trade and Industry manager, Asnager Gabrielsen, saw the signs of a link between diversity and the creation of wealth early on. He was concerned about the homogeneity of the groups that were making financial decisions. Frequently, he noted, board members comprised a small circle of men who went "hunting and fishing together". There was a high risk of group-think in the boards' decision-making processes, and a lack of diverse perspectives. So, in February 2002, the government legislated that private listed companies should raise the proportion of women on their boards to 40% by July 2005. By this date, the proportion had only reached 24%. So, in January 2006, legislation was introduced giving companies a final deadline of January 2008, after which they would face fines or even closure. At the 2008 deadline all 500 companies on the Oslo Stock Exchange had boards that comprised at least 40% women. Was this not just an empty directive aimed at improving opportunities for females? On the contrary. There was an observable impact on the bottom line of these companies, and the positive benefits showed up in the companies' and the country's performance. Norway enjoyed 3% economic growth in 2009 and an 11% budget surplus, while many of its EU neighbours were still in the depths of economic recession. Although the data are, again, only correlational, and Norway is a sample of just one, it is interesting to note that Norway is now the only country that can be said to have thrived during the economic recession.

Yet other countries have been reluctant to believe the statistic or to follow Norway's example. The European Union is currently debating whether or not to impose quotas and legislation across European member states. The UK has seen a need to change since a report by the Equality and Human Rights Commission in 2008 suggested that, at the current rate of change, it will take *more than 70 years* to achieve gender-balanced boardrooms in the UK's largest 100 companies. Yet the Davies report[1] states: "We have chosen not to recommend quotas because we believe that board appointments should be made on the basis of business needs, skills and ability. But a more focused business-led approach can increase the number of women on company boards at a much faster rate than we have seen recently." This raises questions about compliance. Can boards be relied upon not to continue their current practice of looking to their old boys' networks for new members? Old habits die hard and had they always appointed on the basis of business needs, or looked around at the evidence, the gender imbalance would not be so marked today, particularly given the long record of women gaining the highest qualifications and leadership positions in many walks of life. On the other hand, introducing quotas can lead to tokenism, which all wish to avoid, although Davies[1] states that supply is no longer an excuse: "There are women in the UK more than capable of serving on boards who are not currently getting these roles."

Nonetheless the Davis report has set out that a minimum of 25% female representation on FTSE 100 boards is achievable by 2015. Their rationale is that currently there are 1076 board positions within the FTSE 100 companies, of which 12.5% are held by women. With an assumed board turnover of 14% a year (based on the past six years average) and a target for all new appointments to be ⅔ male and ⅓ female, the pace of change is expected to be:

End of:	*Men*	*Women*
2011	84.6%	15.4%
2012	82%	18%
2013	80%	20%
2014	78%	22%
2015	76.5%	23.5%

These predictions assume, of course, that all companies will comply. There will be no penalties for non-compliance. However, quoted companies will be required to disclose each year the proportion of women on their board. The achievement of the targets is predicted, rather optimistically to my mind, on the premise that "what gets measured gets done".

The UK is not alone in favouring recommendation over regulation. In the USA, after senior economists speculated that the presence of more women on Wall Street might have averted the economic downturn, boards and senior management teams came under scrutiny. In February 2010 the US Securities and Exchange Commission ruled that public companies and mutual funds must disclose how their nominating committees consider diversity when identifying board nominees[7]. Given the research emanating from the US on the link between women at the top and business prosperity, however, it is still surprising that the USA has not taken a stronger line on improving gender diversity.

With an eye on Norway's example, France is now considering introducing the 40% of women on boards policy by 2016. More generally, though, the EU is hoping that companies will change the composition of their board membership without the imposition of quotas. If not, it will legislate for 20% of board members to be female. Spain, which at 1.8% has the lowest number of women on boards, is committed to mandating 40% representation from 2015. Countries around the globe are slowly waking up to the fact that appointing women to senior roles could be the easiest way to boost business performance.

As a psychologist I am interested in the dynamics behind groups that make financial decisions. One benefit of women on the board is that it reduces the risk of "group-think". It can also moderate the effect of male traits such as overconfidence, risk-taking or herd behaviour.

The personal qualities that will determine group effectiveness in the twenty-first century are of the collaborative, sociable, consensual, mediating sort: qualities that women possess in abundance. Knowing how to compromise, how to broaden discussions and not bamboozle, can significantly enhance board dynamics. Of course masculine drive, ambition and assertiveness do account for a huge number of business successes around the globe. Balancing male and female attributes and creating a more diverse mix by adding more women to leadership teams may be the solution to many challenges facing organisations today. Governments are desperately hoping for a return to prosperity. Adding three women to every male-only boardroom in the land would seem a remarkably simple way to achieve it.

"What gets measured gets done" – an optimistic premise?

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