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 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, 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 48% 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.

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
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’ 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 ½ male and ½ female, the pace of change is expected to be:

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<thead>
<tr>
<th>End of:</th>
<th>Men</th>
<th>Women</th>
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<tr>
<td>2011</td>
<td>84.6%</td>
<td>15.4%</td>
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<tr>
<td>2012</td>
<td>82%</td>
<td>18%</td>
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<td>2013</td>
<td>80%</td>
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<tr>
<td>2014</td>
<td>78%</td>
<td>22%</td>
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<td>2015</td>
<td>76.5%</td>
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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 legislation 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. 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.

References

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