

It's Official – Female Executives are Good for Business (with a few caveats)

Women may, according to Mao's well-known aphorism, "hold up half the sky", but they remain woefully underrepresented in the upper echelons of the world's largest corporations. According to Grant Thornton's latest International Business Report, only 21% of senior management roles globally are currently held by women. Interestingly, the G7 perform far worse (18%) than, for example, the BRIC economies (26%), while countries with relatively patriarchal cultures score even lower – e.g., UAE (15%), India (14%), and Japan (5%).

Regrettably, the academic research on the impact of female executives is embarrassingly inconclusive, with one well-known study even finding a negative correlation between appointing a female CEO and the firm's stock price. Of course, there may very well be good reasons for hiring more women in labour-constrained markets, such as China, but that seems merely an argument for hiring women when men are unavailable. Furthermore, heavy-handed initiatives that simply brute-force companies into appointing more female executives are easily perceived as well-intentioned cases of "positive discrimination", motivated more by political correctness than sound business judgment, as the EU recently discovered when it had to withdraw its plan to force all publicly traded companies to have 40% of their board seats filled by women by 2020 or face sanctions and fines.

So, are there no good reasons for appointing more female executives, other than altruistic appeals to social and ethical standards of equal opportunity? Is there no business case for firms to want, instead of have, to hire or promote more women into senior management roles?

Fortunately, a new study by Cristian Dezso and David Ross ("*Does Female Representation In Top Management Improve Performance?*", *Strategic Management Journal*, September 2012) finally provides quantitative evidence that female representation in top management teams does, in fact, have a positive effect on firm performance; an average increase of \$44M in firm value to be precise.

"(Gender equality) alone never seems to convince anyone."

Caroline Anstey,
Managing Director,
The World Bank



Based on their study of the top management teams of the S&P 1,500 firms, the authors conclude that the presence of more women in top management teams improves diversity through new perspectives as well as a richer discussion of alternatives and resulting set of potential solutions, and, therefore, better management decisions. In addition, women tend to be less hierarchical and more collaborative than men, which not only improves the performance of the top management team itself, but also encourages a more democratic and participatory management style throughout the firm. Finally, having more women in top management positions serves to motivate and improve the performance of women at lower levels of the organization.

As diversity and participatory management styles tend to stimulate idea generation and creativity, the appointment of female executives should be especially valuable in firms whose strategies are focused on innovation. And that is, in fact, precisely the major caveat of this study, for the authors find that only when a firm's strategy is focused on innovation will performance improve, otherwise female representation has no discernable impact at all, positive or negative, on firm performance.

A second important caveat, not mentioned by the authors, is that their conclusion, while no doubt correct in the study's limited context, is unintentionally a bit misleading, as it is likely that diversity of any kind, whether through the inclusion of women or other means, is crucial for stimulating innovation. If true, this is an especially important finding for many MNCs, whose management teams remain not only overwhelmingly male, but also tend to be dominated by executives from the company's home country.

In conclusion, it is clear that many companies need to urgently address the gender and diversity gaps in their C-suites and board rooms. Those who do so first will have a measurable competitive advantage in the marketplace.