Gender balance is smart economics

Initiatives that help increase and improve organisational performance must surely catch the attention of employers, particularly in the current economic climate. So if there was a clear method to significantly **increase company profits,** achieve a **higher Return on Equity (ROE), greater operating result and Total Return to Shareholders (TRS), higher sales, greater return on investments and to grow stock price** surely organisations would be striving to embrace such initiatives?

More women at the top: Bottom line gains

Major companies on the French CAC40 (stock exchange) with higher representation of women in management were least affected during the crisis in terms of stock market value:

- BNP-Paribas – 39% female managers: 20% stock value decline
- Credit Agricole – 16% female managers: 50% stock value decline

Source: Ferrary (2009)

Companies with the highest gender diversity in top management performed better than their sector/industry average:

- Return on equity: 10% higher
- EBIT: 48% higher
- Stock price growth: 170% higher

Source: McKinsey (2007)

Fortune 500 companies with the highest average representation of women at board of director level were more profitable and efficient on average than those companies with the lowest. Companies that had three or more directors achieved:

- Return on equity: 83% higher
- Return on sales: 73% higher
- Return on invested capital: 112% higher

Source: Catalyst (2007)

Fortune 500 companies with the highest average representation of women in top management significantly outperformed those with the lowest average representation:

- Return on equity: 35.1% higher
- Total return to shareholders: 34% higher

Source: Catalyst (2004)

The seminal 19 year study of Fortune 500 companies found that organisations with the best record of promoting women into senior positions were:

- More profitable: ranging from 18-69% higher

Source: Adler (1998)

Research studies (see box on left) on gender balance at senior, decision-making levels in organisations have made a strong business case for gender balance. They report that having women at board and top management levels can help to achieve much sought after economic gains. This makes gender diversity an issue for business to help harness organisational competitiveness.

Over the long term Ireland has been moving towards greater gender equality in labour market participation and women are represented at almost all levels of organisations in good numbers. However a gap still exists at the top levels of organisations in decision-making roles. Senior and middle management positions in Ireland are twice as likely to be occupied by men rather than women (ESRI 2009). Comparisons across Europe suggest that Ireland falls into the group with the highest labour market gender segregation alongside the UK, the Netherlands and Finland.

Today in Ireland the underrepresentation of women on corporate boards, executive committees and in politics is the reality. The box on the left shows the smart economics to be gained by gender balance. This may represent an opportunity for employers to affect their competitiveness, profitability and retain top talent.

Does gender balance really yield smart economics?
In addition to the positive correlation with company performance, the business case for increasing gender balance in leadership is also based on gaining access to a larger pool of talent, addressing the demands of investors and the ever increasing influence of female consumers with buying power.

Certain companies, despite the level of qualified individuals who are unemployed, are already experiencing difficulties in acquiring skilled workers in certain areas. This is against the backdrop of increasing numbers of female graduates emerging from Irish third level institutions. Women are becoming increasingly better educated than men accounting for 55% of university graduates in OECD countries. The World Economic Forum has found that, while Ireland ranks equal first for women's educational attainment, it is twenty ninth in women's workplace participation. In other words, we are failing to exploit the return on our investment in the education of women. We are also only achieving a low return on organisational recruitment and training investment by not developing women to senior organisation levels. (The cost of recruitment and training has been estimated by the Hay Group in the UK at 150% of the salary corresponding to the position.)

Another aspect of the business case concerns institutional investor's interest in gender diverse organisations which is growing. Although many investors focus solely on financial performance and earnings, increasingly consideration is being given beyond the balance sheet to factors such as ethics and a commitment to diversity. This may be in part due to the requirement for diversity when tendering for contracts in certain jurisdictions. Female clients and female investors in particular, are demanding better representation of females at top management and leadership and decision-makers who appreciate female customers, therefore organisations reflecting this could attract more potential investors.

Similarly, women make 80% of consumer purchases in the developed world despite complaining of being misunderstood by marketers. The needs of female and male customers are likely to be better represented where the organisation leadership is more diverse.

However, appointing a singular senior female in the organisation is unlikely to yield results. The aforementioned gains appear to be achieved only if a 'certain critical mass is attained': namely, at least three women on management committees for an average membership of 10 people. Indeed 11 of the top 12 performing companies on the FTSE 100 list in the UK have at least 3 female directors. Despite this, if the current trend continues it would take 70 years for women to hold half the FTSE 100 directorships.

Economic crisis - male dominated culture to blame?
In the aftermath of the financial crisis, some speculation has arisen to suggest that the collapse of some of the major institutions might have been mitigated had there been more women on the boards to moderate the risk taking culture. This is based on the preface that women are believed to be more risk aware, a view that is getting credence from a number of research studies on the effect of gender on risk taking. In the UK, a parliamentary enquiry into the banking crisis is investigating the lack of women in senior positions, pay inequalities and the prevalence of a sexist culture. Ultimately the suggestion is that diversity at senior levels produces more varied and open discussions that should yield smarter decisions.

So what needs to be done?

There appear to be two non-exclusive schools of thought. The first suggests that women are ascending to senior positions on their own merit and that numbers will increase in due course. To assist this process organisations have put a number of supports in place. These include flexible working arrangements, leadership development programmes, mentoring and networks for women which are considered stepping stones towards this outcome. Some suggest however, that such supports may overlook the underlying issue of gender stereotypes and attitudes which still prevent representative numbers of qualified, experienced female candidates from reaching senior management positions. Interestingly, this is not the case in NGO's where there are significant numbers of female CEO's successfully leading these organisations.

The second school of thought suggests that proactive measures and supports while essential have gone as far as they can. Proponents of this view propose that to truly crack the issue of gender balance at the top of organisations, special measures such as voluntary or legislative regulations or quota systems may be required. While the advantages and disadvantages of gender representation legislation are open to debate, many countries have implemented or begun discussing legal options.

This has been legislated for at board level in a number of European countries including Norway and Spain and success has been reported e.g. Norway reports 42% of females on their boards. An Irish survey carried out by Ipsis MORBI for Business in the Community (2010) found that among a sample of the CEO's of the Top 1000 companies in Ireland, 24% agreed that there should be gender quotas at senior management level.

Other European countries are considering a voluntary system of encouraging employers to increase their board gender balance with a number of years lead in, prior to implementing any such legislation. The argument is that where it has been successfully achieved voluntarily maybe legislation would be ultimately unnecessary. These approaches are controversial.

Opponents suggest that quotas imply a form of discrimination against those not being favoured by the quota. Proponents suggest that they compensate for a deep-rooted negative discrimination in order to break habits and perceptions which perpetuate the inequality.

Another argument suggests that those appointed through such target-setting might not be respected as fully competent or may be considered as tokens as they got "help" rather than reaching those levels by merit alone. Proponents suggest that quotas actually work to uncover merit and thereby enable true merit selection in what is essentially a patriarchal system of organisation.

The signatories of the 1916 Proclamation made a point of addressing "Irishmen and Irishwomen" on three occasions. This was an explicit recognition that society is composed of two sexes with equal contributions to make. Maybe by the 2016 centenary this will be a reality at senior levels in organisations in Ireland.

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Sources

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