REBALANCING ACT

Much has been written in the media about the need for there to be an increased number of women at the most senior executive and non executive levels within organisations. In fact there is now a strong body of evidence that suggests that greater gender diversity in the management of companies coincides with improved corporate financial performance and higher stock market valuations.

The issue of gender has been addressed at a political level too. Initially, the Norwegian government passed a law in 2003 requiring that 40 per cent of Norwegian firms' directors be women and, more recently, the new Companies Act in India was passed requiring every listed company to appoint a female board director. In the UK in 2010, David Cameron appointed the Labour peer Lord Davies of Abersoch to report on gender diversity in the boardroom. The outcome was the Davies Report, Women on Boards, which was published in February 2011. There has been significant activity in other countries, too, with differing degrees of success.

Despite this, people are now questioning whether the rhetoric on greater gender diversity is based simply on a perceived sexual discrimination and 'political correctness', or whether women in senior positions do, indeed, improve corporate productivity and financial performance? Let us examine some of the evidence used in this debate.

In their 2010 report, Women Matter 2, management consultants McKinsey & Co wrote that companies with a higher proportion of women on their executive committees were also the companies that had the best performance. A reference to this report was contained in the Davies Report.

The Credit Suisse Research Institute's report, The CS Gender 3000: Women in Senior Management, states that an increased number of women in senior management positions improves companies' financial performance and makes a difference for investors in terms of equity market returns. Apparently compelling evidence that we should be actively seeking more women for C-Suite and boardroom roles.

On the other side of the debate, Dr Ian Gregory-Smith of the University of Sheffield and Professor Brian Main of the University of Edinburgh Business School analysed the board composition and performance of the UK's 350 biggest companies listed on the Financial Times Stock Exchange between 1996 and 2010. They were quoted in The Economic Journal as saying that there is no evidence to suggest that having more women in the boardroom either increases or decreases the company's productivity.

Two University of Michigan academics, Kenneth Ahern and Amy Dittmar, analysed the performance of Norwegian companies following the introduction of the 2003 law that required 40 per cent of Norwegian firms' directors be women. They found, amongst other things, that since the law was passed there has been a significant decline in Tobin's Q (a measure of a company's assets in relation to its market value).

While the statistical findings highlighted in the Credit Suisse report suggest that diversity does coincide with improved corporate financial performance and higher stock market valuations, the authors acknowledge that their research was not able to answer the causality question and that this is an important limitation to the observations made in the study. It is therefore disingenuous to suggest that simply putting females into executive roles or into the boardroom will improve a company's financial performance and market value. There are too many variables and imposing gender quotas is not the way forward, either for companies or for women.

An international view

To understand how corporate boards are being structured to deal not only with the growing pressure to diversify, but also to deal with the challenges of operating in a dynamic economic environment, Tinzon Group, a global alliance of international executive search firms, recently undertook a comprehensive survey into the age and gender of executive and non-executive board members of publicly listed companies within its 10 member countries worldwide. The study involved almost 2000 directors in more than 180 publicly listed companies. One of the aims of the study was to evaluate (on a global basis) what differences exist between the boards of companies in the Americas, Asia/Pacific, Scandinavia and EMEA regions and what lessons could be learned.

As might be expected, there are stark differences in each of the markets included in the survey. Particularly in Asia (perhaps with the exception of Singapore), the failure of companies to recruit and retain women in senior management positions is exacerbating the talent shortage that many organisations are already facing, though India has made great efforts to change this. The cultural arguments continue to be made (women are the home makers etc), but given the rapid economic growth throughout Asia and the fact that over half of all graduates in the region today are female, it has become a business imperative for companies to find ways in which to

Tyzack's David Dumeresque Tyzack asks if the need for gender diversity is fact or fiction.

employ, retain and promote talented women.

In other countries, the outlook for women is much brighter. The numbers taking up positions in the C-Suite and the boardroom are rising although many women will claim the progress still remains painfully slow. In the UK, approximately 18.5 per cent of corporate board members are female, although this is still below the target of 25 per cent and slightly less than the EU target of 19 per cent. Australia and New Zealand are similar at around 18 per cent for both countries. Given its emphasis on diversity, our findings surprisingly showed the US – with only 12.6 per cent of board members being female – significantly lagging behind Europe, Australasia and Singapore.

We could find no evidence that in UK, Australasian, Singaporean and US companies the rise or fall in corporate value could be directly related to gender diversity. What we did find, however, was that there other more compelling issues to be considered relating to women in the C-Suite and boardroom.

Emerging issues

First, women bring different and complementary leadership styles to the workplace that can be of significant benefit to companies. There is evidence to support the claim that feminine leadership can help to create a team-oriented, collaborative and non-competitive culture within an organisation.

Second, it was apparent in the Tinzon survey, that in many companies good management practices continue to be based on what could be called stereotypical masculine traits. Where women employ management behaviours that do not fit with the leadership models accepted by

employees, managers and senior executives, this potentially leads to a lower performance evaluation, even though the actual results women managers achieve are in line with (or exceed) the corporate objectives and indeed the achievements of their male peers.

Third, ongoing government support in areas such as child care and maternity leave will be needed in all areas if the benefits of greater gender diversity are to be able to be fully harnessed. Furthermore, companies also need to do much more to encourage and retain women in management roles. By providing an appropriate balance between work and family life, more women will remain in the workforce which, in turn, will provide the corporate pipeline with more potential female leaders.

In the early 1990s, the USA had the sixth highest female labour participation rate among 22 OECD countries. By 2010, its rank had fallen to 17th. The lack of 'family-friendly' policies including parental leave (in comparison with other OECD countries) is believed to account for around 30 per cent of this decrease.

Fourth, the lead for any initiative must come from those seated at the top of the organisation. Simply expecting the gender diversity issue to be dealt with by the HR department will ultimately achieve very little. CEOs and board chairmen must not only take the lead but also make a visible commitment to driving change within the organisation.

Finally, and perhaps most contentiously, the issue of remuneration parity must be addressed. There is evidence that the financial packages offered to female executives falls woefully short of their male counterparts in the majority of organisations, although there are conflicting views on why this is. Little wonder that talented women feel like second-class citizens and have very little faith in the system.

As we move into the digital era, remuneration parity is something which will need to be addressed, not the least because the millennial generation is not motivated by hierarchical promises or autocratic management styles. With the increasing management talent shortage occurring across countries and across industries, astute business leaders are beginning to realise that this is an issue which demands attention.

Increasing female participation in management positions should not be seen as something that is simply a box ticking exercise imposed to satisfy quotas. Rather, diversity at senior levels is of paramount importance to all organisations who wish to stand out in an increasingly competitive marketplace. ■