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Leveraging diversity to maximum advantage: The business case for appointing more women to boards

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Leveraging diversity to maximum advantage: The business case for appointing more women to boards

Women bring a different perspective to decision making. Yet where that perspective is, arguably, needed most, on boards, women are noticeably under-represented. In this article, Ivey's Dean, who sits on several boards, makes a strong and compelling case for why there should be more women on more boards and what companies can do to identify and help more women to become board members.

By Carol Stephenson

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The poet Ezra Pound once said that: "When two men in business always agree, one of them is unnecessary." Many companies appear to recognize this truism and the fact that diversity fosters ideas and learning. Some have established comprehensive strategies to recruit and retain employees from different cultures and backgrounds. Others promote diversity and its benefits in their corporate vision statements. And many carefully portray diversity in their annual reports and advertising campaigns.

Unfortunately, however, few Canadian companies have boards with a range of people with different interests and backgrounds. Still fewer have plans in place to address diversity at the board level. The majority continue to be governed by all male, all white board members who share largely the same backgrounds, circles of influence and views.

William Donaldson, chairman of the U.S. Securities and Exchange Commission recently wrote: "Just as we strive for diversity in our workforce, we should strive for diversity of thought and experience on our boards. Monolithic backgrounds are destined to foster monolithic thinking." And I believe that monolithic thinking leads to missed opportunities, unresolved issues and potentially unworkable solutions.

However, as research on the impact of women on leadership teams demonstrates, diversity often eliminates this stagnation. Gender diversity, in particular, brings a number of other vital benefits to the boardroom as well. So, if a company is serious about cultivating a dynamic and diverse leadership team, then having more women on the board is a great way to begin.

This article first presents some of the compelling evidence for why companies need more women at the board level. Second, it elaborates on why women are not progressing as quickly as they should. Third, it prescribes some preliminary actions to address these issues. Essentially, this article underscores the fact that women merit a place at the board table - not simply for equity reasons, but because it makes sound business sense.

Why more women should be on more boards

Let's look at some of the reports and studies that substantiate the valuable contributions women make in positions of executive and board power.

In January 2004, the New York research group, Catalyst, released a study which examined the financial performance of 353 companies for four out of five years between 1996 and 2000. Catalyst found that the group of companies with the highest representation of women in their senior management teams had a 35 percent higher Return on Equity (ROE) and a 34 percent higher Total Return to Shareholders (TRS) than companies with the lowest women's representation.

"Far from focusing on traditionally 'soft' areas, boards with more women surpass all-male boards in their attention to audit and risk oversight and control."

This mirrors the results of a longer-term study led by Roy Adler, a marketing professor at Pepperdine University in Malibu, California and executive director of the Glass Ceiling Research Centre. This study tracked the number of women in high-ranking positions at 215 Fortune 500 companies between 1980 and 1998.

The 25 companies with the best record for promoting women to senior positions, including the board, posted returns 18 percent higher and returns on investment 69 percent higher than the Fortune 500 median of their industry.

Similarly, the Conference Board of Canada tracked the progress of Canadian corporations with two or more women on the board from 1995 to 2001. The Conference Board found that these companies "were far more likely to be industry leaders in revenues and profits six years later."

Interestingly, this 2002 Conference Board report also refutes some of the most common myths about the impact of women on corporate boards. These myths include widely held misconceptions such as: women only care about the "soft" issues; women don't have the financial or strategic acumen needed at the board level; and women will hamper board unity.

To the contrary, the Conference Board concludes that: "Far from focusing on traditionally 'soft' areas, boards with more women surpass all-male boards in their attention to audit and risk oversight and control." Specifically, its research shows that:

- "74 percent of boards with three or more women explicitly identify criteria for measuring strategy; only 45 percent of all-male boards do; and
- "94 percent of boards with three or more women explicitly monitor the implementation of corporate strategy; 66 percent of all-male boards do."

The Conference Board further concludes that the diversity that women bring enriches "the leadership palette with different perspectives" and that this "diversity enables constructive dissent that leads to board unity."

The Conference Board's research points to other critical benefits. For instance, gender diversity on the board and senior management team helps organizations to attract and retain valuable female talent. Also, "CEOs report that having women on boards contributes to positive attitudes among female employees."

In addition, the advantages that women bring in terms of ethical conduct are clearly significant:

- "94 percent of boards with three or more women ensure conflict of interest guidelines, compared with 68 percent of all-male boards, and
- "86 percent of boards with three or more women ensure a code of conduct for the organization, compared with 66 percent of all-male boards."

Women apparently broaden the focus of a board as well. When more women are on the board, the Conference Board found a major increase in the use of non-financial performance measures - such as innovation and social and community responsibility. As the Conference Board believes, "the factors that appear to be influenced by more women on boards are precisely those that have the most impact on corporate results."

Another important consideration is the fact that women have a deep and intimate knowledge of consumer markets and customers. Women, for example, control 80 percent of household spending, and using their own resources, make up 47 percent of investors. They buy more than three quarters of all products and services in North America.

The influence of women in business-to-business markets is also growing, especially here in Canada. There are more women entrepreneurs per capita in Canada than in any industrialized country. According to the Prime Minister's Task Force on Women Entrepreneurs, more than 821,000 Canadian women entrepreneurs annually contribute in excess of $18 billion to Canada's economy. Their numbers have increased more than 200 percent over the past 20 years and they represent the fastest growing demographic in our economy today.

Sadly, the progress of women in advancing to the board level is not as impressive. According to the 2003 Catalyst Census of Women Board Directors of Canada, women hold 11.2 percent of board positions in the Financial Post 500, up from 9.8 percent in 2001. That's less than a two percent gain. (*Editor's note*: Please see Professor Jay Lorsch's comments on women on boards in Canada in the Leader's Edge feature elsewhere in this issue of *IBJ*).

And the proportion of companies with no women directors has remained the same since 2001, 51.4 percent. What's more, women chair only three of the 243 publicly traded companies on the Financial Post 500.

Why aren't more women on boards?

The most common reason given for why more women are occupying positions of corporate leadership is that they do not have the operational experience required. Catalyst, for example, blames the gap on the fact that women often choose staff jobs, such as marketing and human resources, while most senior executives and board positions are filled from the ranks of line managers with critical profit-and-loss responsibility.

Recently, several business researchers and observers have also speculated that women are not advancing because they do not have the ambition and competitive drive of men. New York psychiatrist, Anna Fels, author of *Necessary Dreams: Ambition in Women's Changing Lives*, believes that women are conditioned to be "selflessly unambitious." From an early age, they learn that in order to be liked, they must play down their accomplishments. Consequently when they join the corporate world, they fail to push for raises and promotions.

Similarly, Linda Babcock and Sandra Laschever, co-authors of *Women Don't Ask: Negotiation and the Gender Divide*, say that girls are taught to be "communal," to make relationships a priority and to focus on the needs of others instead of their own needs. This makes them hesitant to negotiate for more pay or greater responsibility on the job.

A third common reason given for why women don't advance is that business - and society in general - still doesn't adequately compensate women for shouldering more family responsibilities. Consequently, women are paid less and don't advance as quickly or as far up the corporate ladder as men do.

For example, economist Stephen J. Rose and Heidi I. Hartmann, President of the Institute for Women's

Policy Research in Washington, released a report earlier this year that compares the earnings of the average woman with those of the average man in the United States. Based on Bureau of Labour Statistics, the report shows that the average American woman earns less than half - about 44 percent - of what the average man earns over the course of his career.

What's more, so what if women prefer marketing or human resources as career paths? Are these functions any less important than operations or finance to the success of a company?

Why? Outright discrimination is part of the reason. Another reason is that the majority of women and men still work in largely sex-segregated occupations, leaving women stuck in lower-paying jobs. However, a third reason is that few companies have found ways to help women blend their family responsibilities with the demands of the job. Rose and Hartmann found that women are sometimes treated equally, mostly when they behave like traditional men and leave their family responsibilities at home.

On the other hand, some experts dispute the belief that women are not as ambitious as men. Catalyst, for example, polled more than 950 Fortune 1000 executives within two to three reporting levels of the CEO and conducted in-depth interviews with more than 30 female and male executives. Women and men reported "equal aspirations to reach the corner office, and women who have children living with them are just as likely to aspire to the CEO job as those who do not."

These survey results also refuted the contention that only women care about achieving a balance between their working and personal lives. For example, both women and men reported that they employ similar advancement strategies and have experienced similar barriers during their rise to the top.

Catalyst further uncovered "striking similarities between men and women regarding work/life balance management: 51 percent of women and 43 percent of men reported difficulty in achieving a balance between work and personal lives, and women and men participants equally desire a variety of informal and formal flexible work arrangements." Nevertheless, as women advanced to senior levels, Catalyst reported that they have made more trade-offs than men between work and their personal lives.

From my experience, women are just as committed as men to achieving corporate success and career excellence. I have also found that men and women often express the same desire for balance between their work and personal lives. And I know that women can and do make powerful contributions to their organization's success, even though they are less likely to brag about their accomplishments.

What's more, so what if women prefer marketing or human resources as career paths? Are these functions any less important than operations or finance to the success of a company? Should these "softer" considerations be absent from discussions of corporate direction and strategy? And in an era where corporate social responsibility, trust and caring are the hallmarks of enduring corporate success, are not the tendencies of women to be more attuned and attentive to the interests of others invaluable to companies?

What should companies and women do?

To benefit from the increasingly important assets that women bring to companies, I believe that corporate boards must not only recognize those assets, but also develop a plan to ensure that their boards become more gender diverse. This plan should stem from a careful analysis of the current skills and experiences of board members, thus identifying any existing gaps.

Then, boards should actively seek out potential female candidates who could address these gaps. This means expanding the scope and depth of the search for new directors. For example, board recruiters could approach women's business groups or solicit the recommendations of female executives, both within and outside the company.

Contacting universities and business schools are other excellent ways to find out about potential leadership talent. At Ivey, for example, most of our students in the regular MBA program have at least five years of management experience. Our executive MBA program attracts business leaders with established credentials in a wide variety of industries, and in both the public and private sectors.

There is also the "Women in the Lead/Femmes de Tete" Directory, co-sponsored by Ivey and HSBC Bank Canada. Developed by Doreen McKenzie-Sanders, it compiles the credentials and experience of more 568 Canadian women with impressive achievements in a range of industries.

In addition to improved recruiting, effective diversity plans should include programs to assist women to succeed in their new responsibilities, such as mentoring, corporate orientation and in-depth briefings on core business and industry issues. These programs ultimately benefit all new board members.

Overall, the board's diversity plan should be specific and measurable, with clear accountabilities. But, this is not about establishing quotas. Rather, an effective diversity initiative examines and evaluates results, not just numbers.

Nevertheless, I don't believe that boards are solely responsible for the poor representation of women on corporate boards. Women must also actively seek out potential opportunities to serve at the board level. No one can sit back and expect board appointments to come their way.

To attract board invitations, women must promote their accomplishments, build and leverage their connections, and seek opportunities to enhance their qualifications. And when they join a board, they must be willing to invest their time and talent toward learning and contributing to a healthy discussion of the issues. Once more women take charge of their own future, the fruits of their efforts will blossom, grow and spread the seeds for future opportunities.

Fully leveraging diversity

There is a powerful business case for why corporate boards should bring more women around the board table. As the research proves, companies with female board members can expect significantly higher returns and better overall financial performance.

More female representation also translates into improved risk management and audit control, increased ethical oversight and a broader, more accurate assessment of the company's success.

Equally important, with more female leadership, companies are better able to attract more female talent. They send a powerful message to the women who already work for their organizations that their contributions are valuable - that their voices are heard. They demonstrate to employees, investors and other stakeholders that diversity truly matters to their corporate success.

Indeed it does. When companies bring together a diversity of people - especially at the board level - ideas flow and innovation soars. Improved strategies emerge. Better decisions are made. A virtuous circle of continuous learning is created and sustained. In an economy where knowledge drives results, diversity is a precious asset. I