Research Paper

The Business Case for Balance

Evaluating the Effects of Gender Balance on the Boards and Senior Leadership Teams of Companies on Business Performance

Balance *for* Better Business

Contents

EXECUTIVE SUMMARY

A prominent part of the discourse surrounding gender diversity is the so-called ‘business case’ that argues for increased women’s participation on the basis that gender diversity is associated with better company performance. Though this has traditionally related to financial performance, the ‘business case’ has been expended to claim benefits from gender diversity on other business performance metrics.

This paper will review and critically evaluate the existing research literature on the effects of gender diversity in business leadership on business performance, including identifying the limits of the currently established research, across a range of metrics, financial and otherwise. From this, conclusions and inferences are drawn with the intention of informing future policy discussions.

Main Findings

- Internationally and domestically, **promoting female participation and representation in both the senior leadership teams and boards of businesses is seen as extremely important** and has led to numerous commitments and initiatives from both Government and other organisations.
- A wide array of studies have been conducted and **found a positive relationship between gender diversity, in both leadership teams and corporate boards, and a range of metrics for firm financial performance and profitability**, including operating margins (earnings before interest and taxation (EBIT) and earnings before interest, taxes, depreciation, and amortisation (EBITDA)), returns on investments (Cash Flow Return on Investment (CFROI), Return on Assets (ROA), Return on Equity (ROE), and share price performance (Alpha, Tobin’s Q), among others.
- These findings are supplemented by results finding that **diversity can improve the way that groups make decisions** and that the presence of female members on boards and senior leadership teams lead to different groups decisions being made. Additionally, multiple studies have found **female leaders to outperform males on average in a majority of leadership capabilities**.
- These results also find that **gender diversity among leadership teams is more strongly associated with company performance than gender diversity on boards**; a significant result given female representation in leadership teams lags that on boards.
- Despite these indicative results, **a causal relationship between gender diversity and improved financial performance is not possible to establish**, and there are alternative available explanations for why these correlations might be observed.
- The simple business case faces other limitations and is complicated by other considerations. Among these, the data suggests that **numerical diversity alone is insufficient for improved performance, with culture playing a significant role** in determining whether or not diversity is associated with business benefits.

- Despite these limitations, it should be remembered that, as a minimum, the available evidence refutes the idea of a systematic negative relationship between gender diversity in leadership and firm performance, and that there is no more robust business case for maintaining the status quo.
- Beyond financial metrics, other business benefits have been identified as correlated with gender diversity in leadership teams and on corporate boards.
- **Increasingly, employees and potential employees consider the diversity and inclusiveness of their workplace as a priority**, while **female leaders have been found to be more likely to take supporting and mentoring actions** of the sort that ease burnout and reduce the likelihood of employees considering leaving.
- The issues of employee relations, recruitment, and retention are particularly salient in the current post-COVID economic climate, which saw huge disruptions to the economy and labour market, including precipitating the so called ‘great resignation’ and many female employees leaving the labour market.
- Similarly, **evidence increasingly suggests that consumers value gender diversity and are interested in prioritising values in their purchasing decisions**. Moreover, research has found that **gender diversity in leadership improves a company’s reputation and meet consumers’ needs to achieve customer satisfaction**.
- There is also evidence that **gender diversity may positively contribute to performance on Environmental, Social, and Governance metrics (ESG)**, which are growing in importance as a factor in investment decisions and capital availability.
- Improved female participation directly contributes to ESG performance in so far as gender diversity is itself a constitutive element of the social dimension of ESG, which is currently the fastest growing dimension in ESG.
- Female representation in leadership can also contribute indirectly to ESG performance, as there is evidence, across all three dimensions, that gender diversity is associated with better performance and that female directors and executives are taking the lead, being more engaged and more actively involved in ESG efforts.
- Though ESG is an emerging and rapidly developing area, it is expected that this will only increase in importance for company competitivity, and the current evidence, though preliminary, suggests that gender diversity is an important part of getting ESG right.

1. INTRODUCTION

This paper was prepared as part of the Enterprise Strategy Unit's work programme, in line with the Unit's role offering policy advice to the Minister for Enterprise, Trade and Employment on matters impacting on sex and gender equality in business and business leadership and the Unit's work supporting the Balance for Better Business initiative.[1]

The paper, for which secondary research was conducted, is set out as follows:

- Section 2 offers a background to the research paper, outlining the current Irish policy context regarding the promotion of greater female representation in business leadership
- Section 3 examines current research regarding the relationship between gender diversity on boards and senior leadership teams and firms' financial outcomes
- Section 4 examines current research regarding potential other benefits to firms from greater gender diversity, focusing particularly on issues of employee relations and retention, and consumer relations
- Section 5 examines current research regarding the connections between gender diversity in business leadership and the emerging area of ESG performance and its connection to shareholder and investor decisions; and
- Section 6 offers some conclusions on these findings.

[1] **A note on terminology**: there is some degree of inconsistency in the literature over the terminology and conceptualisation of 'gender' in the business context Though this paper does not attempt to resolve this debate, the paper hereafter uses the language of 'women' and 'gender diversity', in line with the Balance for Better Business Review Group, and uses the terms 'female' and 'sex' only for specificity in a statistical context or when representing the opinions or findings of other sources.

2. CONTEXT

Promoting greater gender diversity in business leadership is a widespread goal both internationally and domestically and is being actively supported by a range of initiatives by both government and non-government actors and organisations. Improving gender diversity entails increasing female representation, as they are currently the underrepresented sex in most sectors and companies. In Ireland, as of 1 September 2022, female representation on the boards of listed companies stood at 32%, with ISEQ20 companies (the top 20 companies listed on the Irish stock exchange) at 36% on average and other listed companies at 26% on average.[2] For the senior leadership teams of these same companies, these figures were 27% and 21% for ISEQ20 and Other Listed Companies, respectively.[3]

2.1. International Commitments

Numerous intergovernmental institutions have made commitments and recommendations regarding the promotion of women (and thereby the achievement of greater diversity) in business leadership roles. Recommendation I.C and I.C.1 of the OECD 2013 Gender Recommendation states the aim to *"increase the representation of women in decision-making positions"* through actions that *"enhance gender diversity on boards and in senior management"*.[4]

At the EU level, achieving gender balanced leadership and decision-making in business (and politics) is one of the main principles of the EU Gender Equality Strategy 2020-2025. The Strategy, launched by the European Commission in March 2020, presents actions and policy objectives intended to make progress towards a gender-equal EU by 2025 as part of the Commission's commitment to achieving a Union of Equality. The Strategy is being implemented through a dual approach of targeted initiatives to overcome some of the biggest challenges and gender mainstreaming to include a gender perspective in all EU policies and processes, including funding actions. The Strategy notes that achieving gender equality will require joined-up action from all EU institutions, Member States, and EU agencies, in partnership with the private sector and civil society, and calls on these actors to work together to achieve a gender-equal Europe.

One of the priorities in the European Commission's EU Gender Equality Strategy 2020-2025 was passing a directive on gender balance among non-executive directors of listed companies, initially submitted by the Commission in 2012 following the announcement of an EU-wide regulation on gender diversity on boards in 2010 and the European Parliament's endorsement of this approach in 2011. In December 2022, the EU Directive 2022/2391 was published in the Official Journal of the European Union, following trilogue negotiations between the Council, Parliament, and Commission earlier in the year. The Directive sets the

[2] Balance for Better Business (2022), Fifth Annual Report of the Balance for Better Business Review Group
[3] Ibid.
[4] 2013 OECD Recommendation of the Council on Gender Equality in Education, Employment and Entrepreneurship - OECD library

aim of achieving a minimum target of 40% of non-executive director positions, or 33% of all director positions, to be held by members of the under-represented sex for listed companies. There is a two-year transposition period for Member States and a target date of 30 June 2026 by which companies are to meet the Directive's targets. The Department of Children, Equality, Disability, Integration, and Youth has primary responsibility for this Directive in Ireland.

2.2. Balance for Better Business

Balance for Better Business was launched in 2018 by Taoiseach, Leo Varadkar T.D., as an independent business-led Review Group to improve gender balance on the boards and senior leadership teams of businesses in Ireland. The initiative was established as an action under the National Strategy for Women and Girls 2017-2020 to make recommendations on how more women can be involved in decision-making at the top level of businesses in Ireland. The Review Group, which is comprised of senior figures in Irish business and public service, examines the gender mix within the governance and senior management of companies in Ireland and the issues that arise in connection with the appointment of company directors and senior management.

The Review Group has called for reform to ensure more women play a role at board level and in senior leadership teams. They have set progressive targets to 2023 for the achievement of improved gender balance on the boards and senior management of these companies. These targets are voluntary and non-binding, with progress monitored by the Review Group and published in its annual reports. The Review Group is assisted in its work by the Balance for Better Business Advisory Group, which is representative of a wider cross section of business organisations and other interested parties.

Balance for Better Business has argued for gender diversity in business leadership on the grounds of business benefits. This is evident not only in its name, but the language it uses in its public communications. In the Fourth Annual Report of the Balance for Better Business Review Group, published in 2021, in the section entitled 'Business Case', it was noted that "*gender-balanced leadership has a positive impact on financial results for businesses*", while the Balance for Better Business Co-Chairs highlighted in their foreword that "*there is abundant evidence that gender equality in leadership is good for business.*"[5]

2.3. Other National Government Initiatives

Outside the Balance for Better Business initiative, much work has been done across the Government system. Actions by Government contributing towards women's full and equal representation in business leadership include encouraging and enabling female participation in the labour market, promoting STEM education and careers to women and girls, and

[5] Balance for Better Business (2021) Fourth Annual Report, p. 39; p. 8.

facilitating greater work life balance such as through provision of affordable, accessible, and high-quality early learning and school age childcare, and new modes of working.

Specific initiatives include the following:

- **Women in Finance Charter** – Ireland's Women in Finance Charter, a commitment under Ireland for Finance, was launched on 27 April 2022 as an industry-led Charter supported by the Department of Finance and Department of Enterprise, Trade and Employment. The Charter underpins the financial services industry's ambition to see increased participation of women at all levels. The Charter is being overseen by a Steering Group comprised of industry representatives and public sector officials – with an industry chair - and it is envisaged that an annual report will be produced by the Charter's data partner, ESRI, to track progress, share best practices, and promote the Charter.
- **National Remote Work Strategy** - Making Remote Work, the National Remote Work Strategy, was published in January 2021 to make remote working a permanent feature of Ireland's workforce in a way that can benefit all. The strategy highlights that remote working "*presents an opportunity to address some of the barriers to the full participation of women in the workforce*." Right to Request Remote Working legislative proposals are being brought forward by Government as part of the commitments of the National Remote Work Strategy, and other outputs include the Guidance for Working Remotely webpage, and the National Hub Network, among others.
- **Right to Disconnect** - The Code of Practice on the Right to Disconnect was published by the Workplace Relations Commission and was signed into effect by the Minister on 1 April 2021. The Code provides practical guidance and best practice in relation to the Right to Disconnect, which refers to an employee's right to be able to disengage from work and refrain from engaging in work-related electronic communications outside normal working hours.
- **Gender Pay Gap Information Act** - The Gender Pay Gap Information Act 2021 introduced the legislative basis for annual gender pay gap (GPG) reporting in Ireland. The Regulations under the Act require organisations with over 250 employees to report on their GPG across a range of metrics from 2022, along with a statement setting out, in the employers' opinion, the reasons for the GPG in their company and what actions are being taken, or proposed to be taken, to eliminate or reduce that gap. The first set of reports were made available in December 2022, with employers required to publish the reports in a way that is accessible to the public and all their employees for a minimum of three years. Organisations with over 150 employees will be required to report from 2024, while those with over 50 employees will be required to report from 2025. A centralised reporting system is in development. The Department of Children, Equality, Disability, Inclusion and Youth is responsible for the GPG Information Act.
- **Enterprise Ireland Action Plan for Women in Business** - In January 2020, Enterprise Ireland (EI) launched a six-year Action Plan for Women in Business including four core objectives of increasing the number of women-led companies growing on international markets, increasing the number of women in senior management and leadership roles in Irish companies, increasing the number of women becoming entrepreneurs, and

increasing the number of High Potential Start Ups (HPSUs) founded by women. The Action Plan is intended to drive Ireland's economic success by harnessing the full talent and expertise of Ireland's diverse population and contains a detailed 24-point plan to achieve its objectives. This is a long-term strategy because it requires systemic change across the enterprise base. Key actions have included facilitating funding for female—led companies, requiring gender reporting from Enterprise Ireland clients and fund recipients, encouraging flexible working arrangements for senior managers, organizing women-focused mentoring programs and trade missions, leadership development programs supporting diversity and inclusion in the workplace such as New Frontiers and Leadership4Growth, the Inspiring Women program launched in October 2022 to increase the number of women who become entrepreneurs, and the Level Project (see below).

- **The Level Project** - The Level Project was launched by EI in November 2021 under the 2020 Action Plan for Women in Business, to drive the key objective of increasing the number of women in senior management and leadership in Irish Companies. The Level Project encompasses a suite of actions to influence and support Irish companies to implement practical actions to improve gender balance in senior business leadership and on boards and involves a three-pronged approach of raising awareness of the business benefits of gender balance, providing companies with resources to assess their situation and develop a strategy and action plan, and assisting eligible client companies to implement their strategy. The Level Project Online Action Planning Toolkit, which helps companies to assess their current situation and put in place practical actions to enhance gender balance in their senior teams, has been made available free to all companies at www.levelproject.ie. Enterprise Ireland has additionally launched the Level Project Consultancy Grant, where companies can receive 80% funding to help them bring in a diversity expert to support the development of their strategy and action plan for balanced leadership. There are plans to review and relaunch aspects of the Project to increase participation.

2.4. Other Irish Initiatives

2.4.1. Legislative Efforts

The Oireachtas resolution establishing The Citizens' Assembly on Gender Equality, which sat from 2020 to 2021, asked the Assembly to make recommendations to "*seek to ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in the workplace, politics and public life.*" As part of its recommendations to the Oireachtas, the Assembly called for workplaces to develop gender-neutral recruitment and promotion policies (Recommendation 25) and recommended that gender quota legislation be enacted requiring private companies to have at least 40% gender balance on their boards (Recommendation 20.b).[6] This has been followed by further calls for legislation

[6] The Citizens' Assembly (2021), Recommendations of the Citizens' Assembly on Gender Equality

for board quotas to be introduced in Ireland.[7] In 2021, a Private Members Bill, The Irish Corporate Governance (Gender Balance) Bill 2021, was introduced, proposing board quotas of 33% within the first year and 40% within 3 years of introduction.[8] This Bill received a second reading in the Dáil on Thursday 7 July 2022.[9]

2.4.2. Non-Governmental Activities in Ireland

Besides government actions, there are also several non-governmental activities taking place in Ireland, including:

- The 30% Club is a global campaign group with an Irish Chapter that is supported by board Chairs and CEOs of member organisations with the aim of achieving better gender balance at leadership level and throughout organisations.[10]
- Business in the Community Ireland has launched the Elevate Pledge to encourage more inclusive workplaces, covering gender balance among other diversity issues. The Pledge currently has 52 companies as signatories and launched its first benchmarking data report in May 2022.[11]
- The National Women's Council advocates for women's leadership in a range of fields, including the private sector, publishing reports promoting the increased representation of women on boards in Ireland and working with young women to promote the next generation of leadership, as well as advocating for legislative change (see 2.4.1. above).[12]

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[7] National Women's Council of Ireland (2021) National Women's Council calls for 40 per cent legislative quota for female representation on corporate boards
[8] Ibid.; Irish Corporate Governance (Gender Balance) Bill 2021 – No. 124 of 2021
[9] Irish Corporate Governance (Gender Balance) Bill 2021: Second Stage [Private Members] - oireachtas.ie
[10] 30% Club Ireland Chapter (30percentclub.org)
[11] Elevate-Annual-Report-2022.pdf (bitc.ie)
[12] The National Women's Council of Ireland - What We Do: Women in Leadership » (nwci.ie)

3. COMPANY PERFORMANCE: EVIDENCE AND LIMITATIONS

3.1. The Business Case for Balance

'The business case for balance' refers to the linking of greater gender diversity on private sector boards and in senior leadership teams with positive business outcomes, particularly financial outcomes, to argue for increased female representation in business leadership. Over time, this has become a widespread and common part of the discourse around gender diversity in leadership. The Fourth Annual Report of the Balance for Better Business Review Group published in December 2021, for example, observed that "*For some the business case in relation to gender balance has been well established and the conversation needs to move on to focus on the work that needs to be done.*"[13] Going further than this, in the Elevate Pledge Report published by Business in the Community Ireland in 2022, it was argued that "*we no longer need to explain why diversity is good for business.*"[14]

The business case for balance was initially popularised in 2007 when Catalyst and McKinsey published independent studies each finding positive associations between gender diversity in leadership and firm performance, although similar findings predate these reports.[15] The 2007 McKinsey study found that European listed companies with the highest level of gender diversity in top management posts outperformed their sector in terms of return on equity, operating result (EBIT) and stock price growth over a two-year period.[16] The same study also found that women's participation in management teams, at least above a certain threshold, was positively associated with various measures of organisational excellence including, among others, direction, accountability, and innovation.[17]

In the years since, a large volume of subsequent studies, conducted by a range of organisations, have reinforced and expanded these findings, identifying correlations between female participation on boards or in senior leadership teams with a diversity of financial performance metrics across different countries and industries.

[13] Balance for Better Business (2021) Fourth Annual Report p. 38.
[14] Business in the Community Ireland (2022) Elevate Annual Report 2022
[15] See: FT (2014) The evidence is growing – there really is a business case for diversity
[16] Available at https://www.mckinsey.com/business-functions/people-and-organizational-performance/our-insights/gender-diversity-a-corporate-performance-driver p.13-14
[17] Available at https://www.mckinsey.com/business-functions/people-and-organizational-performance/our-insights/gender-diversity-a-corporate-performance-driver p. 12

3.2. Evidence

In McKinsey's most recent report investigating the business case for diversity, published in 2020 and using data from 2019 for 1,039 companies across 15 countries, it was found that companies whose boards are in the top quartile of gender diversity are 28% more likely than their peers to outperform in terms of profitability, measured in EBIT.[18] Companies with more than 30% women on their executive teams, meanwhile, were found to be significantly more likely to outperform those with between 10-30% women in senior roles on EBIT margin, which were in turn more likely to outperform those with fewer or no women executives, with a total performance differential of 48% between the companies with most and least gender diverse executive teams.[19] Both findings were statistically significant at the 5% level, which had not been established in previous iterations of the report.[20]

Credit Suisse, meanwhile, in their 2021 annual CS Gender 3000 Report, which covered 33,000 senior executives from over 3,000 companies across 46 countries, compared the sector-adjusted profitability of firms with a greater and lesser representation of women in senior management and found that, since 2010, companies with an above-average level of female representation (over the 20% diversity threshold) enjoyed an average premium in operating margins (earnings before interest, taxes, depreciation, and amortisation or EBITDA) of 1.6 percentage points, and an average premium in cash flow return on investment (CFROI) of 1.91 percentage point, when compared to companies below the 15% diversity threshold.[21] These premiums were even greater when compared with companies at lower diversity thresholds in senior management teams, and consistently showed that, the higher the diversity threshold, the higher the operating margins and returns (see Figure 1 and Figure 2, from Credit Suisse report).[22]

Figure 1: Better EBITDA margins across time*
(non-financials, sector-adjusted, sales-weighted)

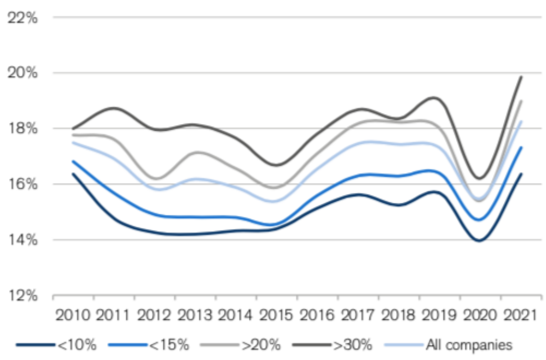
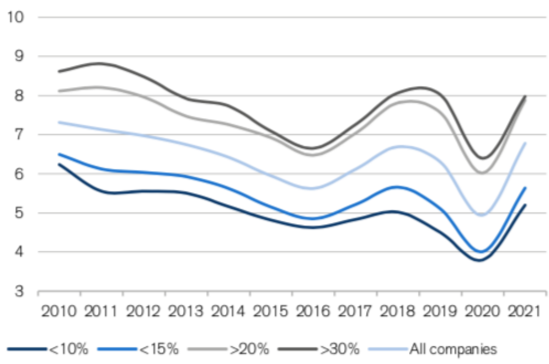


Figure 2: Higher cash flow returns*
(non-financials, sector-adjusted, gross-investment-weighted, in %)



[18] McKinsey (2020), Diversity Wins: How Inclusion Matters
[19] Ibid.
[20] Ibid.
[21] Credit Suisse (2021), The CS Gender 3000 in 2021
[22] Ibid.

The same study also found positive associations between female representation in senior management and company credit ratings, finding that almost 28% of companies with above average female representation have credit ratings of A– or higher, compared to 17% for companies with less than 15% female representation.[23] A positive association was also identified with share price performance, finding an alpha (a measure of a stock's performance above or below a benchmark index of other stocks) of 200 basis points (2%) on an annualised basis when comparing companies according to the same above-20% and below-15% diversity thresholds, though the report notes that gender diversity may become less influential for share price as it becomes more mainstream, and hence less distinctive.[24] Furthermore, the study also identifies evidence of positive associations between firm performance and gender diversity on boards, but find that "*lowering the levels of management diversity among companies that still display the same and above-average board diversity erodes returns', suggesting that 'the more broadly [gender diversity] manifests itself within the layers of leadership, the better.*"[25]

A strong relationship has also been found between female representation and Return on Assets (ROA). An International Monetary Fund (IMF) Paper, which analysed more than 2 million listed and non-listed firms across 34 European countries, found that, statistically, replacing one male member of the senior management team or board with a female member is associated with 8 to 13 basis points higher ROAs', rising to almost 30 basis points higher ROAs in knowledge intensive and high-technology sectors.[26] The paper notes that this "*estimated boost to profitability is relatively small but highly statistically significant.*"[27]

Though it is not possible to examine in detail all the available studies, further studies have also found correlations between gender diversity and other metrics of firm financial performance and profitability, both accounting and market based. These include, in addition to EBIT margins, EBITDA margins, Alpha, and ROA, ROE, Return on Sales (ROS), Tobin's Q, and Market Value.[28]

3.3. Explanations

Many theories have been offered to try to explain these relationships, and to do so in causal terms. In the academic literature, theories include the resource dependency theory, human capital theory, agency theory, social psychological theory, and critical mass theory, each of which offers a somewhat different explanations of how diversity affects boards and leadership teams and might be brought to bear in improving performance.[29] These academic

[23] Credit Suisse (2021), The CS Gender 3000 in 2021
[24] Ibid.
[25] Ibid., p. 26
[26] IMF Working Paper (2016), Christiansen et al., Gender Diversity in Senior Positions and Firm Performance/ Evidence from Europe, p. 6
[27] Ibid., p. 15
[28] See Why Diversity and Inclusion Matter: Financial Performance (Appendix) | Catalyst
[29] For a literature review covering these theoretical perspectives on gender diversity and firm performance, see for e.g., Brahma et al. (2020), Board gender diversity and firm performance: The UK evidence

theories are echoed in more mainstream and accessible explanations for the observed correlations.

3.3.1. Cognitive Variety Theory

One of the most popular theories offered to explain the connection between gender diversity and financial performance is that diversity (or gender or otherwise) offers ‘cognitive variety’ to teams and boards. According to this theory, diversity increases the range of experiences and perspectives, and, hence, ways of thinking, available to teams and boards, whether arising from the diversity characteristics themselves, or the way these shape their professional experience by generating certain expectations or shaping possible career progressions. This, in turn, gives the group more perspectives to draw from, resulting in better discussions and, consequently, better decisions; as characterised by Prof Katherine Klein of Wharton Business School, “*The greater a board’s cognitive variety, the theory goes, the more options it is likely to consider and the more deeply it is likely to debate those options.*”[30]

This theory has evidentiary support from works of social psychology that have considered the effects of diversity on group decision making in various contexts and found several causal effects. Studies, for example, have found that more diverse groups focus more closely on facts compared to less diverse groups, that they consider those facts more carefully and cautiously, which leads them reach more accurate conclusions, and that, under the right conditions, diverse perspectives can make a group more open to the possibility and the benefits of change.[31]

In a business context, these ideas are further, if somewhat indirectly, supported by the findings that greater female representation on corporate boards and leadership teams leads to changes in decision making. Chen, Crossland and Huang (2016), studying a multiyear sample of US public firms, for instance, finds greater female representation on a firm's board is negatively associated with both the number of acquisitions the firm engages in and, conditional on doing a deal, acquisition size.[32] Similarly, Post, Lokshin & Boone (2022) find that firms shift their focus from Mergers & Acquisitions to Research & Development, and become less open to risk, though more open to change, when women join top management teams.[33] Furthermore, it was found that these effects were greater when there were other female members on the top management teams, supporting the critical mass theory that a certain threshold of under-represented individuals is needed to overcome the effects of tokenism and allow those members of under-represented groups to contribute fully and productively. While it cannot be said that these are ‘better’ strategies, per se, as this

[30] Knowledge at Wharton (2017) Klein, Does Gender Diversity on Boards Really Boost Company Performance?
[31] Levine et al. (2014), Ethnic Diversity Deflates Price Bubbles; Phillips, Liljenquist & Neale, (2009) Is the Pain Worth the Gain? The Advantages and Liabilities of Agreeing With Socially Distinct Newcomers; Homan, van Knippenberg, Van Kleef & De Dreu (2007), Bridging faultlines by valuing diversity: diversity beliefs, information elaboration, and performance in diverse work groups
[32] Chen, Crossland and Huang (2016), Female Board Representation and Corporate Acquisition Intensity
[33] Post, Lokshin & Boone (2022) What Changes after Women Enter Top Management Teams? A Gender-Based Model of Strategic Renewal

depends on the individual business and its context, and these are average effects, to which there are exceptions, these results show that diversity does make a difference in the way that both boards and management teams operate and make decisions and provide a causal mechanism that may explain the association between gender diversity and improved financial performance.

This empirical evidence is further borne out in the subjective experience of corporate board directors, who, when surveyed, largely express support for the introduction of sex-based and other forms of diversity onto boards and endorse the idea that they are beneficial to group decision making. In responses to PwC's 2021 Annual Corporate Directors Survey of 851 US-based directors, for example, 75% agreed that diversity improved company performance, while even higher rates agreed that it enhances board performance (85%) and brings unique perspectives to the boardroom (93%).[34]

3.3.2. Individual Leadership Capabilities

An additional possibility, beyond the contribution of female directors to the dynamics of group decision making, is that female directors or executives are simply, on an individual basis, more likely to be of better quality than their male counterparts. Specifically, such an advantage in quality might be a function of sex or gender characteristics, either biological or socially conditioned, or, alternatively, may reflect discriminatory selection practices that mean those who are able to achieve the highest positions in business are required to be truly exceptional. This possibility has some degree of evidentiary support, with a McKinsey survey of over 9000 managers, male and female, finding that women tended to exhibit less of 2 of the 9 behaviours that improve organisational performance, but exhibit equal or higher amounts of the other 7, including inspiration, participative decision-making, and role modelling.[35] Meanwhile, according to 2019 research conducted by Zenger and Folkman, presented in the Harvard Business Review, based on thousands of '360-degree reviews', women were rated better than men on 17 of 19 core leadership capabilities[36]. This reinforced their findings from 2012 that "*while the differences were not huge, women scored at a statistically significantly higher level than men on the vast majority of leadership competencies [measured].*"[37] Though it is not clear whether these differences would be sufficient to generate the differences in financial performance associated with gender diversity, such findings put into sharp relief the discrepancies between male and female levels of representation in business leadership.

3.4. Challenges and Limitations

Despite the widespread invocation of the business case for gender diversity in business leadership, the case is not without its limitations and challenges, nor its objectors, with some

[34] PwC (2021) Annual Corporate Directors Survey
[35] Referenced in Deutsche Bank Research (2010), Towards gender-balanced leadership, p. 4.
[36] Harvard Business Review (2019), Zenger & Folkman, Research: Women Score Higher Than Men in Most Leadership Skills
[37] Ibid.

raised doubts about its validity, at least in its 'simplistic' form. In a 2020 Harvard Business Review article, for example, Harvard researchers Robin J. Ely and David A. Thomas describe *"the claim that putting more women on corporate boards leads to economic gains"* as "*a fallacy*" and argue that, though firms might benefit from some forms of diversity with the right business culture, the business case, in relation to gender diversity and company performance, should be de-emphasised.[38] Catalyst, meanwhile, a global non-profit that was instrumental in developing the early business case (see 3.1. above), has written that "*the connection between financial rewards and diversity is impossible to prove*" and encourage going "*beyond the business case for diversity*."[39]

3.4.1. Correlation and Causation

The first and most significant limitation of the business case is that the studies finding associations between gender diversity and financial performance have, at best, only been able to establish correlation and not causation. This is typically acknowledged in the reports presenting the findings but is not always reflected in the rhetoric around the business case for balance or the conclusions drawn from these studies.

While these correlations may be explained by a causal process by which gender diversity leads to better decisions and hence better business outcomes (and some evidence is available to support such a mechanism, see 3.3 above), this is not the only possibility. For example, one alternative explanation, as noted in an International Labour Organisation (ILO) report, is that "*dynamic companies will embrace gender diversity as integral to a set of innovative and sustainable business strategies, thereby making it difficult to attribute increased profit to gender diversity alone.*"[40] Alternatively, it is possible that gender diversity acts as a kind of proxy for the quality of a company's appointment process, reflecting less reliance on personal networks for recruitment. These alternative possibilities mean that simple causality between gender diversity and company performance cannot be assumed on the basis of the associations between the two outlined above.

3.4.2. Challenges from Academia

A second limitation cited is that most studies finding the strongest positive relationships between gender diversity and financial performance have been conducted by consulting firms, NGOs, or other non-academic entities, whereas the findings from published academic studies (which are generally considered more rigorous and reliable, due to the demands of the peer review process) have been more equivocal. An influential and widely cited 2015 meta-analysis of 140 studies on female representation on boards and firm finance performance, covering a combined sample of more than 90,000 firms from 30 countries, found that, while there was a statistically significant correlation between more female directors and higher accounting returns, the magnitude was tiny, explaining only 2 tenths of

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[38] Harvard Business Review (2020), Ely & Thomas, Getting Serious About Diversity: Enough Already with the Business Case
[39] Why Diversity and Inclusion Matter (Quick Take) | Catalyst
[40] ILO (2019) The Business Case for Change, p.23

1% of the variance in company performance.[41] The correlation found between board gender diversity and market performance (i.e. stock performance, shareholder returns) was even smaller and not statistically significant, even with the large population.[42] Another meta-analysis from 2015, covering 20 studies testing the relationship between board gender diversity and firm financial performance that were published in peer-reviewed academic journals, found that the average correlation between the percentage of women on the board and firm performance was small at 0.01, and not statistically significant.[43] In a meta-analysis of the relationship between diversity on various fronts and team performance, meanwhile, Bell et al (2011). found no positive correlation, suggesting instead that "*sex variety diversity had small negative or no relationships with team performance.*"[44]

Despite the results of these meta-analyses, it should be noted that the academic literature is not unanimous in finding neutral or only weak associations between gender diversity and financial performance. In a 2020 study of FTSE 100 companies in the United Kingdom, for instance, a positive and significant relationship was found between gender diversity and firm performance, controlling for sector, firm size, and other factors, and a "*highly significant and unequivocal*" correlation when three or more female directors are represented on boards compared to two or fewer female directors on the board.[45] This provides support to both the business case in general, and the 'tipping point' theory that a certain critical mass of female representation is required for its benefits to be maximised and to avoid the effects of tokenism (see Section 3.3 above). As such, the academic literature should not be considered as definitely refuting the business case, though it does, in general, paint a more sceptical picture.

Moreover, at worst, these studies find a neutral relationship between gender diversity and financial performance, thus excluding any systematic negative relationship between gender diversity and financial performance in general. It should be remembered, indeed, that whatever the merits of the business case for gender diversity, there is no strongly evidenced case for there being financial or business benefits to the status quo.

3.4.3. Inefficacy in Effecting Change

A further challenge to the business case, levelled by both Catalyst and Ely & Thomas, is that the business case may be ineffective at prompting change, having so far proved insufficient to move the needle fully on diversity, despite many years of prominence. Catalyst writes that the business case "*never seems to be enough*" while Ely & Thomas claims that the "*lack of*

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41 Post and Byron, (2015) Women on Boards and Firm Financial Performance: A Meta-Analysis
42 Ibid.
43 Pletzer, Nikolova, Kedzior, Voelpel (2015) Does Gender Matter? Female Representation on Corporate Boards and Firm Financial Performance - A Meta-Analysis
44 Bell et al. (2011) Getting Specific about Demographic Diversity Variable and Team Performance Relationships: A Meta-Analysis
45 Brahma et al. (2020), Board gender diversity and firm performance: The UK evidence

progress suggests that top executives don't actually find the business case terribly compelling" as a motivation for action.[46]

Indeed, beyond mere inefficacy, multiple studies have found evidence to suggest that the business case may be actively counterproductive when compared with morally grounded arguments for diversity. Mayer et al. (2019), in research based on three field survey studies and one experimental vignette study, find that managers are more likely to act when social issues are presented in moral, rather than economic, terms.[47] A study from the Yale School of Management, moreover, finds that company diversity statements emphasising economic payoffs lead people from underrepresented groups to question their belonging in the organisation.[48]

This limitation for the business case should not be overdone; many companies have taken initiatives to increase female representation on boards and senior leadership teams, citing the business case as motivation, and the idea that gender diversity increases firm performance seems to be widely acceptance among directors (see 3.3.1 above). However, to the extent that progress has been delayed and businesses slow to act, this raises problems not only for the rhetorical usefulness of the business case but also gives *prima facie* reason for doubt in its accuracy, or at least generalisability. After all, if it were evident that increasing gender diversity in senior leadership and on the corporate boards will significantly improve financial performance, and could reasonably be achieved, why would all profit-motivated companies not have already made this change?

3.4.4. Numerical Diversity versus Culture and Inclusion

The final challenge to the business case for gender diversity presented here is that the relationship between gender diversity and financial performance does not appear to be simply a numbers game, but requires the presence of other factors, chiefly cultural and organisational, to be observed. In the meta-analyses of academic papers on board gender diversity and financial performance, significant heterogeneity was observed, implying some other mediating factors may be determining the direction and magnitude of the relationship. In a paper conducted using evidence across several countries and industries, and hence a diversity of institutional contexts, it was found that gender diversity was most strongly positively associated with market valuation and revenue where gender diversity was most normatively accepted, with significant variation across different countries and industries.[49] At the individual firm level, moreover, the IMF study finding a correlation between female representation and ROA, referenced previously, noted that this relationship only held when

[46] Why Diversity and Inclusion Matter (Quick Take) | Catalyst; Harvard Business Review (2020), Ely & Thomas, Getting Serious About Diversity: Enough Already with the Business Case
[47] Mayer et al. (2019) The money or the morals? When moral language is more effective for selling social issues
[48] Georgeac & Rattan (2022) The Business Case for Diversity Backfires: Detrimental Effects of Organizations' Instrumental Diversity Rhetoric for Underrepresented Group Members' Sense of Belonging
[49] Zhang (2020), An Institutional Approach to Gender Diversity and Firm Performance

there was female representation throughout the business, whereas "*a firm in an industry with relatively few women in its labor force would not see a positive change in its profitability*."[50]

Further indirect evidence for the importance of institutional and cultural factors is provided by evidence from companies that have improved the gender diversity on their boards as a consequence of their countries introducing quotas and legislation, rather than self-directed actions and choice. Masta and Miller (2009), looking at the effects of gender board quotas in Norway, found reductions in short-term profitability following the introduction of quotas for firms that previously had no female board members, while Ahem and Dittmar (2012) found that listed companies experiences declined market valuation following the announcement of quotas. A 2021 meta-analysis of studies investigating gender quotas and company financial performance across several jurisdictions, meanwhile, concluded that "*quotas for women on corporate boards have mainly decreased company performance*."[51]

This cannot be attributed to quotas requiring companies to make lower-quality appointments, moreover, as evidence from the implementation of gender quotas for corporate boards in Norway shows that the newly appointed women were observably better qualified than their female predecessors, suggesting that the quotas prompted companies to seek out previously untapped resources of female talent.[52] It is plausible instead, then, that, despite their high qualifications, the appointment of these female directors was ineffective at improving financial performance due to the cultural factors at play in these companies that would not otherwise have appointed a sufficient proportion of female directors themselves, perhaps relating to the valuing of diversity and perception of women in leadership and business. As such, the results of these studies, which are sometimes considered better capable of establishing causalities given the exogenous nature of the change in female representation, must be understood to complicate any simple causal story about gender diversity and firm performance, and to suggest that, if diversity is to be associated with improved business outcomes, numerical diversity alone is insufficient and must be accompanied by other conditions.

[50] IMF Working Paper (2016), Christiansen et al., Gender Diversity in Senior Positions and Firm Performance/ Evidence from Europe, p. 6
[51] Yu & Madison (2021), Gender quotas and company financial performance: A systematic review
[52] Bertrand et al. (2019) Breaking the Glass Ceiling? The Effect of Board Quotas on Female Labour Market Outcomes in Norway, The Review of Economic Studies, Volume 86, Issue 1, January 2019, Pages 191–239

4. OTHER BENEFITS: EMPLOYEES & CONSUMERS

The potential benefits of gender diversity to business, however, are not confined to the bottom-line financial metrics considered by the simple business case discussed in Section 3 above. Rather, they are many other kinds of potential benefits that can arise from the contribution of women leaders to the firm other than in the form of a financial surplus. These benefits reflect the positive internal functioning of the firm and include the role played by women's leadership when it comes to employee relations, commitment towards clients and the wider functioning of the organisation.

4.1. Employee Recruitment and Retention

4.1.1. Context: COVID-19 and 'Great Resignation'

The importance of employee recruitment and retention are particularly acutely felt in the current post-COVID economy. COVID-19 has altered the daily functioning of firms from the way employees interact with one another to customer relations. New priorities have emerged out of these turbulent times. By the same token, the role of women leaders within firms and their needs have also altered. As the world resumes its former activity after the pandemic, several challenges relating to employees and employment are currently salient.

The pandemic forced a reinvention of the workplace as lockdowns impeded physical interaction. It also led to the closure of many firms and to unprecedented job losses. According to the ILO, the pandemic had a greater impact on women's employment.[53] In a survey conducted by Deloitte on nearly 400 women globally, nearly 82% of respondents said that their lives had been negatively disrupted by the pandemic and almost 70% of those surveyed feared that their career progression may be disrupted as a result of these negative changes.[54] Reasons as to why this has happened are complex, yet studies indicate that additional unpaid care work and the nature of female-dominated employments such as the health sector are some of the reasons why the pandemic has taken a greater toll on women.[55] According to a KPMG survey, 60% of CEOs in the Republic of Ireland noted that the pandemic's negative impact on women had made gender parity more difficult.[56] Moreover, PwC's Women in Work Index, conducted across OECD countries, fell for the first time in a decade, with Ireland ranking 15th of 33 countries, down from 13th in 2019.[57] These results contrast with Grant Thornton's survey, which suggest that there has been an incremental improvement in the appointment of women in leadership positions globally during the pandemic, however, improvements were mostly given in Africa and the Asia-

[53] COVID19 and the world of work 2021 ILO
[54] Understanding the pandemic's impact on working women 2020 Deloitte
[55] Women in Work 2022 PwC , Women at the core of the fight against COVID-19 crisis 2020 OECD,p.3.
[56] CEO Outlook 2021 KPMG
[57] Women in Work 2022 PwC

Pacific region.[58] Indeed, 73% of respondents to this survey considered that the pandemic could potentially elevate women into senior management and that changes to the working environment could benefit women's career trajectories in the long term. Nonetheless, 62% of respondents were unsure of the ultimate effects of Covid-19 on women.[59] These contrasting results reflect the high level of uncertainty brought by the recent pandemic, which is, in turn, related to other current challenges such as skills shortages and a tight labour market.

In December 2021, the US Department of Labor reported 10.9 million open jobs. The "Great Resignation", a global phenomenon intensified by the pandemic, is also a current reality in Ireland. For instance, according to a survey conducted by Workhuman across the UK, the US, Canada and Ireland, 47% of Irish workers surveyed were planning to leave their current employment in comparison with 36% across all countries included in the survey.[60] Additionally, Irish parents presented the highest levels of stress and overworked ratings in comparison with other workers in the UK, the US, Canada.[61] According to a survey conducted in April 2022 by the County Kildare Chamber across 400 businesses and 38,000 employees, 51% of businesses reported that staff retention and recruitment is the biggest challenge they face, with almost 60% of respondents indicating staff turnover as an issue in the last year.[62] Similarly, in a survey conducted by University of Limerick's Kemmy Business School, 40% of graduates surveyed (with graduates representing 12% of 1035 respondents) experienced burnout in comparison to 38% of non-graduates.[63] Remarkably, most of these graduates saw their future lying outside their current organisation.[64]

Skill shortages can be considered one of the main causes of a tight labour market. In fact, according to a survey conducted on 767 firms across Ireland in April 2022, labour and skills challenges now outrank other concerns, such as the pandemic and Brexit. For instance, 65% of SMEs surveyed declared finding it difficult to recruit workers with the appropriate skills.[65] This situation is particularly acute among women, with burnout escalating at a faster pace compared to their male colleagues. According to a McKinsey survey across 423 organisations and more than 65,000 employees, one in three women surveyed reported to have considered 'downshifting' their careers (i.e. by reducing work hours, moving to part-time, or switching to a less demanding role) or leaving the workforce in 2021, compared to 1 in 4 who reported this at the start of the pandemic.[66] This reality is particularly applicable to women in leadership positions. According to this same survey, 50% of women with responsibility for the management of a team are often or almost always burned out and around 40% have considered leaving the workforce or downshifting their careers.[67] Thus, this

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58 Women in Business 2022 Grant Thornton
59 Ibid.
60 Two years into Covid: The State of Human Connection at Work 2022 Workhuman
61 Ibid.
62 Chamber Membership Survey 2022 County Kildare Chamber
63 Seeking safe spaces 2021 Kemmy Business School
64 Ibid.
65 Q1 2022 Business Monitor ITI
66 Women in the Workplace 2021 McKinsey
67 Ibid.

evidence suggests that women in leadership positions are particularly sensitive to the current tight labour market conditions.

4.1.2 Evidence and Explanations

Analysis of LinkedIn data finds that the need for an inclusive workplace is the second fastest growing priority for employment candidates since the pandemic, rising 7.3% globally and 39% in the UK, although it is still not a top-three priority overall.[68] The other fastest growing priorities were flexible work arrangements and work-life balance – both of which are viewed as important in promoting increased participation of women in the labour force overall.[69]

The representation of women in the senior level of companies can be important for current and potential employees interacting with the company in a variety of ways, encouraging both new applications and staff retention. Firstly, the presence of women can be significant for signalling a company's values and encouraging applicants of all genders to apply or join the company. For example, according to a Women in Technology Survey conducted in the US for 450 women, who currently work or previously worked in technology fields, 75% had women role models at their company, while 44% of women who chose to leave the technology sector did not.[70] Therefore, this seems to suggest that the absence of women leaders within an organisation can disincentivise the presence of women at lower ranks as well as meaning a loss of specific skills that women leaders are more prone to offer. Some evidence also suggests that female applicants are more likely to apply for jobs when they can see women's representation in the company and the role (as in recruiting collateral), and the same mechanism may also hold for female employees once in a company or organisation being more likely to put themselves forward for promotion, which they typically do at lower rates than their male counterparts, though such internal data is typically not published in a private labour market context.[71] On the other hand, there is also evidence to suggest that prominent featuring of gender diversity can improve a company's prestige among certain groups of men, too, who view the company as more broadminded and tolerant as a result.[72] It should be noted that this symbolic effect is considered more relevant for members of senior leadership teams than non-executive directors, given they usually have greater visibility within the company.

Secondly, beyond symbolic value, there is also evidence to suggest that women leaders throughout organisations are more supportive of other employees and provide greater encouragement for career development. McKinsey's 2021 Women in the Workplace survey, covering more than 65,000 employees from 423 participating organisations, found that women in management positions consistently do more to promote well-being by checking on

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[68] LinkedIn Talent Solutions (2021), Talent Market Drivers Since the Start of COVID
[69] Ibid.
[70] Women in Technology 2019 Capital One
[71] HBR (2019) How to Recruit More Women to Your Company; LSE Business Review (2018) Gender gaps in promotion: it is also because women apply less
[72] Wilton et al. (2018), In Good Company: When Gender Diversity Boosts a Company's Reputation

team members, helping them manage workloads, and providing assistance for those dealing with burnout or navigating work-life challenges.[73] Furthermore, although men in senior leaders outnumber their women counterparts on average 2 to 1, survey respondents were equally likely to say that men or women in leadership have bolstered their career development, indicating that women leaders are engaging in mentorship and sponsorship at roughly twice the rate of their counterparts who are men, as well as being more likely to mentor and sponsor employees from underrepresented groups.[74] Both of these types of actions (supportive and allyship actions) are found to make employees more likely to be satisfied with their job and to recommend it as a great place to work, and less likely to be burned out and/or to consider leaving.[75] It is important, moreover, that women are recognised for these contributions above and beyond their regular duties, rather than penalised for it, with a study finding that women are more likely to volunteer for and be tasked with responsibilities that benefit the organisation as a whole but hinder their own advancement.[76]

Thirdly, not all recruiting problems currently faced by organisations may reside on the characteristics of potential workers, but also on the recruitment mechanisms used by businesses. For example, according to PWC's 2021 Annual Corporate Directors' survey, 59% of female directors point to over-reliance on directors' own networks to source board candidates as main explanation for the failure to find fitting candidates, against a 31% in the case of male respondents.[77] On the contrary, 54% of male respondents expressed that a lack of qualified candidates was the main cause of sourcing problems, whilst 21% of female directors believed this to be the reason.[78]

As employers continue to face a tight labour market and increasing competition for talent, then, the evidence seems to suggest that women's representation in senior leadership teams is a valuable resource for recruiting and retaining talent. As employees increasingly value diversity and inclusion as they consider their potential employers, women leaders provide a symbolic force to signal a company's values and the potential career paths available to female talent within it, encouraging applications. What's more, as managers and as senior leadership members, women leaders are found to take tangible actions that ease the afflictions of burnout and job dissatisfaction that lead to a lack of talent retention, especially among underrepresented groups and female employees, whose talents cannot be afforded to be wasted.

4.2. Consumers and Consumer Preferences

Besides the priorities and concerns of employees, there is also evidence to suggest that diversity is increasingly salient for consumers and that it may be necessary to reflect the

[73] Women in the Workplace 2021 McKinsey, p. 18
[74] Ibid., p. 18
[75] Ibid., p. 20
[76] Babcock et al. (2017), Gender Differences in Accepting and Receiving Requests for Tasks with Low Promotability
[77] Annual Corporate Directors' Survey 2021 PwC
[78] Ibid.

interests and preferences of a consumer population that is increasingly diversifying. Though there is not as much specific evidence regarding gender or sex diversity, it is reasonable to assume that these are included in the social values of interest to consumers, while gender diversity in companies has been shown to enhance reputation and customer satisfaction.

Social values are increasingly important to consumers, especially young consumers. Deloitte's 2021 Diversity in Marketing Survey of 11,500 global consumers found that 94% of Generation Z responders expect companies to take a stand on important social issues, while 90% expressed willingness to purchase products on the basis of their benefit to society.[79] Meanwhile, 57% of customers surveyed expressed greater loyalty to brands that commit to actions that tackle social inequities.[80] That these value judgements are able to shape consumption habits is further supported by the results of a 2018 survey conducted by Edelman across 40,000 respondents in 8 different markets, which found that more than two thirds of customers make purchasing decisions based on beliefs, rather than mere price.[81] In the 2021 follow up to this survey, it was found that these trends towards belief-driven consumption have intensified , with value, customer safety and putting people ahead of profits up 37 points in importance since the pandemic, and 86% of survey respondents sayin they "*expect brands to act beyond their product or business*" to make the world a better place.[82] This emphasis on actions, identified in both surveys, goes beyond merely inclusive marketing or 'diversity-washing', and will likely give a competitive edge to those firms that are able to demonstrate equitable outcomes over things they can control, such as senior leadership and board composition.

Furthermore, beyond consumer preferences for diversity, there is some evidence to suggest that gender diversity simply helps firms to innovate and anticipate customers' needs, perhaps especially given the importance of women as consumers in purchasing decisions. According to an early study by the European Commission in 2003, among companies that implemented diversity strategies, 57% saw a positive impact in customer satisfaction and 69% noted an improvement in their brand image.[83] More recent publications have reinforced this view that greater gender balance can improve customer satisfaction, as with Korenkiewicz & Maennig (2022), which considers the relationship between gender diversity on boards and consumer satisfaction and concludes that "*optimizing certain determinants of organizational performance is key to increasing customer satisfaction, and […] gender diversity at the executive level can be an additional lever for improving customer satisfaction.*"[84] Similarly, according to a survey conducted by Kearny on 1000 consumers, 33% of respondents stated that they consider executive female leadership within an organisation a primary consideration in their purchasing decisions, while a further 42% said

[79] Deloitte Insights (2021), Diversity and inclusion in marketing
[80] Ibid.
[81] Edelman (2018) Earned Brand
[82] Edelman (2021) Trust: The New Brand Equity
[83] European Commission (2003) The Costs and Benefits of Diversity
[84] Korenkiewicz & Maennig (2022) Women on a Corporate Board of Directors and Consumer Satisfaction

that it was appreciated.[85] On the other hand, the growth of many women-led enterprises may be determined by investment conditions. For example, women Venture Capital partners lead to more female founding teams getting financing, particularly in Computer Science and Consumer start-ups, in part because women make up most U.S. consumer spending decisions, particularly in terms of food, fitness, beauty, and apparel.[86] This is equally applicable to the UK, where women are involved in 80% of all purchasing decisions.[87]

[85] Women Consumers Survey Results 2020 Kearney.
[86] Women VC invest in up to 2x More Female Founders 2022 Kauffman Fellows
[87] Diversity matters 2015. McKinsey.

5. ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG)

5.1. The Importance of ESG

ESG refers to companies' performance across a range of environmental, social and governance metrics not directly related to financial performance. Increasingly, shareholders and investors are using ESG to guide investment decisions, either due to the belief that ESG factors are important for the profitability and performance of the firm or due to the interest of stakeholders, including customers and investors.

Firms' ability to meet capital requirements (access to finance and funding) has now been found to be determined by ESG performance. For instance, according to a study carried out by Credit Suisse on 3,000 companies across 46 countries, a company's ESG rating has a direct effect on its cost of capital and, ultimately, on its share price.[88] Moreover, Morningstar indicates that inflows into ESG-related equity funds amounted to up to US$95 billion in the first half of 2021, which represents a 72% growth rate rise compared to the previous year.[89]

Nonetheless, despite the current surge in ESG metrics, according to a global KPMG survey, 42% CEOs still find communicating ESG performance to stakeholders challenging.[90] Particularly, CEOs in Ireland find that ESG reporting does not have the rigour of financial reporting.[91] ESG is a relatively new concept which is directly determined by fast changes. This requires adaptability by organisations that seek to align their goals with solutions to social, environmental and governance challenges. Another main challenge linked to ESG is the lack of standardisation across ESG metrics. Firms and organisations are currently not subject to rigid interpretation standards in what respects the ESG components. This has led to stakeholder concerns regarding Green and Gender "washing". In response to this, the World Economic Forum recommends a series of ESG metrics to guide organisations towards a common ESG vision.[92]

Shareholders and investors appear to also show increasing interest in ESG. A McKinsey Global survey involving 558 respondents found that 83% of C-suite leaders and investment professionals expected ESG programmes to contribute comparatively more to shareholder

[88] CS Gender 3000 2021 Credit Suisse
[89] Found in CS Gender 3000 2021 Credit Suisse
[90] CEO Outlook 2021 KPMG
[91] Ibid.
[92] Measuring Stakeholder Capitalism 2020 World Economic Forum

value by 2024.[93] They also reported that they would be prepared to pay a 10% median premium to acquire a company with positive ESG records.[94]

Sustainability has become increasingly prominent among investors. For example, according to a Blackrock survey of 425 investors across 27 countries, 88% of those surveyed ranked “Environment” as the most pressing priority.[95] Survey respondents also sought to double their sustainable assets under management from 18% in 2020 to an average of 37% by 2025.[96] Investors’ expectations are changing, and this is also exerting changes on firms’ priorities. According to a KPMG report, 40% of surveyed CEOs in the Republic of Ireland expressed concern on investors shying away from the organisation due to a firm’s failure to meet climate change expectations.[97]

By the same token, the social dimension of ESG has experienced a surge in attention due to the COVID-19 pandemic, with April 2020 being the first month when issuing social and sustainability bonds outdid green bonds.[98] This move towards the social side of ESG is not only observed in investors but also in the motivations of shareholders. A Credit Suisse report recorded a surge in all types of social-related shareholder proposals. Particularly, social-related proposals that centred on ‘Diversity’ presented the highest approval rate at 37% for the year 2021.[99]

5.2. Women in Leadership and ESG performance

Increasing women’s representation in corporate leadership can have a positive impact on ESG performance. On the one hand, gender balance in leadership positions is an element of the social dimension of ESG and is directly related to Equality Diversity and Inclusion (EDI) initiatives. On the other hand, as board members and members of the executive team, women in leadership can shape decision-making and drive the ESG agenda. It has been found that women leaders display a greater interest in the ESG dimension of firms. For instance, according to a survey conducted by RBC Wealth Management on 1,003 investors, those respondents identifying as women were twice as likely as men to underline that the companies they invest in should include ESG factors into their policies and decision-making.[100] Additionally, survey results indicated that 74% of women were interested in increasing the share of ESG investment they currently held in their portfolios, compared to 53% of men.[101] It was also found that it was more likely that women investors would show a greater interest in learning about ESG than men.[102] Women in leadership positions have

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93 Value’s changing look 2020 McKinsey on Finance
94 Ibid.
95 Global Sustainable Investing Survey 2020 BlackRock
96 Ibid.
97 CEO Outlook 2021 KPMG
98 Sustainable Investing: A focus on the “S” in ESG 2020 Impactonomics, Bank of America, p. 4
99 CS Gender 3000 2021 Credit Suisse
100 Women are leading the charge for Environmental, Social and Governance (ESG) 2021 RBC Wealth Management.
101 Ibid.
102 Ibid.

been found to play a crucial role in the development and promotion of the ESG dimension in organisations. Women's proactivity with regards to ESG issues has been corroborated by a Credit Suisse study, which found that companies that present a greater share of female managers score higher across all three areas of ESG.[103]

This same Credit Suisse survey of more than 33,000 senior executives also found that many of those who are sustainability officers combine this with other executive functions and that women executives are more frequently chosen to manage sustainability portfolios than men.[104] According to the Credit Suisse Global Dataset, "*The proportion of female "sustainability heads" stands at almost 45% of all such positions*."[105] Tasks carried out by sustainability officers have been found to have significant reputational, financial and regulatory implications for companies, especially given the current increasing interest shown by investors and shareholders in ESG.[106]

Women's presence on corporate boards is associated with greater community engagement, stronger governance, and greater involvement in sustainable environmental practices. Even the presence of one or two women on corporate boards is associated with an improvement of a firm's CSR (Corporate Social Responsibility). These results stem from a study conducted by Cook et Glass whose database integrates the 100 Most Sustainable Corporations at a global scale.[107]

Women in leadership positions have been shown to make contributions across the three ESG dimensions:

- The **Social dimension** refers to "how an organisation treats its employees, the community and its clients by taking responsibility for its products and services, diversity, the fight against corruption and respect for human rights throughout its supply chain."[108] Evidence suggests that the role of women in leadership positions with regards to the social dimension is particularly relevant, not only because gender balance is in itself an element of the social dimension, but also because women executives contribute towards the promotion of EDI within the company to a greater extent than their male colleagues. For instance, according to a McKinsey study of 423 companies across the US and Canada, women in middle management and above are twice as likely as men is similar positions to contribute to EDI work outside of formal responsibilities, be this supporting other employees from underrepresented groups as well as employee resource groups.[109] This same study shows that after surveying 65,000 employees, 38% of senior level women mentor or sponsor at least one woman of colour, compared to only 26% of senior-level men.[110] Another survey conducted by PWC across 851 board directors, women in

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[103] CS Gender 3000 2021 Credit Suisse
[104] Ibid.
[105] Ibid,
[106] Ibid.
[107] Women on corporate boards: Do they advance corporate social responsibility? 2018 Cook et Glass
[108] Toward sustainable corporate behavior: The effect of the critical mass of female directors on environmental, social, and governance disclosure 2021 De Masi et al, p. 1866
[109] Women in the Workplace 2021 McKinsey
[110] Women in the Workplace 2021 McKinsey, p.19

director positions are more likely to include D&I goals in incentive plans than men (74% of women's responses as opposed to 44% of men).

- The **Environmental dimension** can be defined as "*the area within ESG that deals with climate change mitigation, pollution and sustainability*."[111] In the last decade, there has been a surge in the number of companies that appoint Chief Sustainability Officers (CSOs). Not only has there been a considerable increase in appointments for this new role, but this has been particularly observed with regards to women in leadership positions. The percentage of female CSOs has nearly doubled, from 28% in 2011 to 54% in 2021 - a 94% increase.[112] This significant increase may be explained by a greater disposition by women leaders to show interest and commitment towards sustainability concerns. For instance, according to PwC's Annual Corporate Directors Survey conducted across 851 different corporate directors, women in leadership show greater engagement with sustainability, with 87% of female board directors showing concern with the climate crisis as opposed to only 67% percent of male board directors.[113]
- The **Governance dimension** deals with "balancing shareholders and stakeholders' interests as well as complying with the best practices of corporate governance, including the extent to which a company uses accurate and transparent accounting methods, protects the shareholders' interests by avoiding excessive executive pay and other practices violating their property rights."[114] Women leaders have been shown to pay greater attention to the fulfilment of governance requirements. Evidence from a study of 1500 firms from Bloomberg shows that board gender composition has a positive impact on a firm's pay-out level and a firm's propensity to pay dividends. However, this solely applied when the company's CEO also was head of the board.[115] Similarly, a study by Bugeja et al also shows that women on boards have a positive relationship with the proportion of executive directors' remuneration when this is linked to a company's performance as well as the CEO's remuneration.[116]

5.3. Limitations

There has been an unprecedented surge in the demand for ESG-related financial assets and there is clear evidence from financial markets that these types of assets are more popular among investors, and especially women investors, than in the past.[117] With regards to the involvement of female senior managers and female board chairs, it appears that female leaders give greater importance to the ESG dimension and its components than their male colleagues.[118] Nonetheless, this evidence mostly comes from survey results, which may not allow for comparisons across time, in the same way as financial evidence does. Surveys may be also constrained to particular samples and countries, as well as by non-response

[111] Toward sustainable corporate behavior: The effect of the critical mass of female directors on environmental, social, and governance disclosure 2021 De Masi et al, p. 1866
[112] The Chief Sustainability Officer. 10 years later 2021. Weinreb Group
[113] Annual Corporate Directors Survey 2021 PWC
[114] Toward sustainable corporate behavior: The effect of the critical mass of female directors on environmental, social, and governance disclosure 2021 De Masi et al, p. 1866
[115] Board gender composition, dividend policy and COD: the implications of CEO duality 2018, Benjamin et Biswas.
[116] The Association Between Gender-Diverse Compensation Committees and CEO Compensation 2016 Bugeja et al
[117] Women are leading the charge for Environmental, Social and Governance (ESG) 2021 RBC Wealth Management.
[118] CS Gender 3000 2021 Credit Suisse

biases. Nonetheless, these survey results indicate that overall, the appointment of more women to leadership positions only enhances the commitment to ESG within a firm. There is no significant evidence that suggests that having more women in leadership positions leads to negative outcomes for organisations with regards to ESG.

6. CONCLUSIONS

Both internationally and domestically, improving women's representation in senior business roles is a leading policy priority, as reflected by the many initiatives to encourage companies to take action. A central aspect of this agenda is the argument that a more diverse representation of the genders and sexes in decision-making roles on boards and in senior leadership teams is beneficial for business performance and supports competitivity. This paper undertook to summarise and evaluate the research available to support such claims.

6.1. When Diversity Makes a Difference

There is a large volume of research linking gender diversity and female representation on boards and senior leadership teams with improved company performance across several core metrics, often at statistically significant levels and reproduced in studies from diverse organisations, countries, and sectoral settings, controlling for factors such as sector and firm size (Section 3.2). Indeed, **at worst, studies find that gender diversity is neutral in its effects**, with no significant studies relevant to an Irish context suggesting any systematic negative association between gender diversity and firm performance: a significant result in itself (Section 3.4.2).

Even so, while these correlations are consistent and compelling, there is not clear support for a 'simple' business case that says that sheer numerical diversity will lead to improved returns for companies, with the evidence instead painting a more nuanced picture. Even to the extent that diversity and performance are linked, **other factors beyond sheer numbers have been found to play a role**, with the potential benefits from diversity seemingly depending on other organisational and institutional conditions, particularly around culture and inclusiveness. The correlations between gender diversity and measures of improved performance are not seen in industries and countries where gender diversity is not normatively accepted, or in individual organisations where female representation is lacking throughout the workforce (Section 3.4.4). The benefits of diversity for teams more generally, meanwhile, has been found to depend in part on whether diversity is valued by the members of the team (Section 3.3.1). The insufficiency of mere numerical diversity is further seen in the lack of success of mandatory quota legislation in improving company performance. This is despite these measures being successful in increasing female representation on boards and encouraging companies to access new pools of female talent and suggests that, where change is forced on companies from outside, rather than emerging from self-directed actions, it does not generate the same rewards (Section 3.4.4).

Although board diversity is positively associated with firm success, **the evidence indicates that gender diversity on senior leadership teams is more impactful**. The increased visibility of the senior leadership team compared to the board means that the presence of women, and the benefits it brings, is felt more strongly by various stakeholder groups, including employees (Section 4.1.2). Statistically, meanwhile, studies have found gender or sex diversity in senior leadership to be more predictive of returns than board membership (Section 3.2). This is an important conclusion as, so far, progress in female representation on senior leadership teams has lagged that of boards. In Ireland, female representation on the leadership teams of ISEQ20 companies (the top 20 companies listed on the Irish stock exchange) was 27% as of September 2022, compared to 32% for board directors.[119] It should be noted that recruiting talent for senior leadership teams is generally seen as more challenging than for boards, given the increased importance of relevant experience in the sector and in profit and loss responsibilities, where there are generally significant sex and gender discrepancies. A further challenge is that senior management teams are an area over which shareholders and board directors have less influence, besides the CEO, who usually appoints the other members of the C-Suite cohort.

Taken together, these conclusions indicate that, **while the greater representation of women at board level may be a good start, the forms of gender diversity most associated with increased company performance are those that are manifest throughout the organisation, including in senior leadership, and are supported by inclusive workplace cultures that truly value and welcome diversity.**

6.2. The Distinctive Contribution of Women in Leadership

The evidence further indicates that women in **director and senior leadership positions make distinctive and beneficial contributions to their teams**. At an individual level, not only do female leaders on average perform better across most leadership competencies, including taking initiative, driving for results, bold leadership, and problem solving, but they are more active in other activities beyond the bottom line (Section 3.3.2). This includes developing the next generation of talent through mentoring and sponsorship, which women leaders are thought to do at roughly twice the rate of their men counterparts, as well as taking the lead in sustainability and other ESG-related activities, with women leaders found to be more concerned about sustainability issues and more likely to hold leading roles on such issues (Section 4.1.2; Section 5.2).

Beyond these individual contributions, sex- and gender-based diversity on teams has also been found to change the way teams think and make decisions as a whole, at least where that diversity is valued and there is a sufficient critical mass of female representation to prevent tokenism. Under such conditions, social psychology research finds that diverse teams are better at focusing on facts, reach more accurate conclusions, and are more open to change, while female participation in business leadership contexts has been found to produce substantively different outcomes and improve factors such as direction, leadership,

[119] Balance for Better Business (2022), Fifth Annual Report of the Balance for Better Business Review Group

and innovation. This carries over to corporate leaders' own experiences, with large majorities of surveyed directors agreeing that **diversity brings new perspectives and improved decision making to boards** (Section 3.3.1).

6.3. The Importance of Gender Diversity for Stakeholders

Stakeholders, including customers, employees (potential and current), and investors, are all **increasingly taking an interest in the gender diversity of companies**, along with their wider social values. When companies ignore female talent in leadership and beyond, then, they risk not only losing out on half the population, and more than half of graduates, but also risk alienating groups vital to their long-term success.

Consumers have, for years, been trending towards more value-based consumption habits, and place a premium on brands not only expressing values but delivering through actions and achievements. This is especially true of younger consumers, who represent the future consumer base of companies (Section 4.2).

Employees and job seekers of all genders **view companies more positively when they emphasise and exhibit gender diversity**, while retention rates for female employees are seemingly higher when they have women role models within their organisation (Section 4.1.2). These are factors that are particularly important in the current labour market, in which companies are in a competition for talent, and many employees, particularly women, are revaluating their careers and priorities (Section 4.1.1).

Shareholders and investors, too, whether motivated by the business case, personal values, or as part of a broader ESG agenda, are **increasingly paying attention to how companies are dealing with equality and other social issues, with diversity one of its most important elements** (Section 5). Though this continues to be an emerging area, the amount interest and capital in ESG, and particularly the social dimension therein, has only grown in recent years, reshaping the investment landscape to further favour companies that are proactive in promoting diversity and other aspects of social responsibility (Section 5.1).