HOW TO USE THIS REPORT: *This tool is designed to provide diversity and inclusion practitioners, diversity initiative sponsors, and employee resource group leaders with recent data to use in their efforts to build organizational business cases for diversity and inclusion.*

Why Diversity Matters

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CATALYST INFORMATION CENTER

Leaders working to create diverse and inclusive workplaces in which women can advance must make the connection between diversity initiatives and their organization's business goals.[1] Effective business cases set the context for diversity and identify organizational challenges that must be addressed in order to create change. This tool grounds the business case for diversity in solid research. It is not a bibliography of business case research, but it is intended to provide readers with recent data to use in their efforts to build an organizational business case for diversity and inclusion. The studies included are generally from 2007 to the present, with a few additional significant studies going back to 2004. New studies will be added as they are published. >>

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Improving Financial Performance

Catalyst found that companies with the most women board directors, especially those with three or more women board directors, had better financial performance than those with the fewest women board directors.

Since 2004, a series of Catalyst studies has shown that companies that achieve diversity in their management and on their corporate boards attain better financial results, on average, than other companies.

Catalyst's 2011 study found that companies with the most women board directors outperformed those with the least on return on sales (ROS) by 16 percent and return on invested capital (ROIC) by 26 percent.[2]

Companies with sustained high representation of women—three or more women board directors in at least four of five years—significantly outperformed those with no women board directors.[3]

In 2007, Catalyst found that companies with more women board directors outperformed those with the least on three financial measures: return on equity (53 percent higher), return on sales (42 percent higher), and return on invested capital (66 percent higher). Catalyst also showed that stronger-than-average results prevailed at companies with three or more women on their corporate boards.[4]

The four pillars of the business case:

- Improve financial performance
- Leverage talent
- Reflect the marketplace and build reputation
- Increase innovation and group performance

Women board directors and women in senior leadership are connected with better financial performance.

Catalyst found a clear and positive correlation between the percentage of women board directors in the past and the percentage of women corporate officers in the future. Additionally, women board directors appeared to have a greater effect on increasing the percentage of line positions held by women than they did on staff positions. Line experience is necessary for advancement into CEO and top leadership positions,[5] and Catalyst's annual Censuses show that historically women are underrepresented in these roles.[6]

McKinsey found that the 89 European-listed companies with the highest proportions of women in senior leadership positions and at least two women on their boards outperformed industry averages for the Stoxx Europe 600, with 10 percent higher return on equity, 48 percent higher EBIT (operating result), and 1.7 times the stock price growth.[7]

A study of 43 countries found that countries with a higher proportion of women on boards were more likely to have women in senior management and a smaller gender pay gap.[8]

Gender-diverse boards have been shown again and again to have a positive impact on different measures of firm performance, especially when they include a critical mass of women.

In a study of more than 150 German firms over five years, researchers confirmed that boards need a critical mass of about 30 percent women to outperform (as measured by return on equity) all-male boards. This translates into a "magic number" of about three women, based on average board size.[9]

> Positive return on equity occurred when boards were made up of about 30 percent women—when critical mass was achieved.[10]

A study that focused on 151 firms on the Australian Securities Exchange found that women had a positive impact on economic growth and social responsiveness. Firms with two or more women board directors had higher returns on equity, higher market-to-book value (M/B), and improved corporate sustainability via higher social responsiveness. [11]

An analysis of companies in Spain found that women board appointments were positively associated with firm value in the short term as well as over a sustained period.[12]

Researchers analyzed the boards of a sample of publicly listed firms in Australia and found that the presence of women directors was positively associated with higher firm value.[13]

Women board directors had a positive effect on accounting performance in more than 800 publicly listed companies in Malaysia. Researchers intentionally studied both accounting performance and market performance, as market performance reflects a society's perceptions of women in business while accounting performance is informative of women's impact as board members.[14]

A study that examined more than 900,000 private limited UK companies found that even after controlling for industry- and company-specific characteristics as well as the background and experience of directors, companies with women directors had a lower risk of insolvency than other companies.[15]

A greater number of women in management and senior leadership positions was tied with better performing organizations.

Catalyst's 2004 research found that companies with the highest representation of women in senior leadership had better financial performance than companies with the lowest representation of women; the companies with the highest representation of women had 35 percent higher return on equity and 34 percent higher total return to shareholders.[16]

McKinsey measured the "organizational excellence" of companies in Europe, North America, and Asia by evaluating them on nine organizational criteria. When McKinsey examined the senior management teams of these companies, it found that those with three or more women had higher scores, on average, than teams with no women. McKinsey found that the score increased siginficantly once critical mass was reached—about one-third women.[17]

Researchers examined stock prices after the appointment of women to senior leadership positions in U.S. companies and found that investors responded positively, especially when the company was in a female-dominated industry. The naming of men to senior leadership positions did not lead to the same significant positive impact on stock prices. Furthermore, the study found no evidence that female appointments caused share prices to suffer in reaction.[18]

Using a large matched employee/employer dataset in Italy, researchers found a robust positive association between female leadership and firm performance, measured by sales per worker, value added per worker, and total factor productivity when firms' labor forces had sufficiently high proportions of women. Furthermore, female CEOs and executives led to wage increases for women at higher levels of the firms, as they countered pre-existing wage discrimination likely created by male executives.[19]

Researchers at Columbia Business School and the University of Maryland found that a higher proportion of women in senior management, not including the CEO, was associated with better firm performance, especially at organizations involved with innovation.[20]

An analysis of large U.S. and Canadian companies found that companies operating in complex environments generated significant returns, amounting to a robust 6 percent overall return over a three-year period, when they had a high proportion of women officers, compared to companies with low representation of women officers.[21]

Other researchers found that in 2008 there was a positive relationship between firm performance and the level of female participation in management at private-owned companies in China's security exchanges.[22]

Another 2008 study on what made companies resistant to the global market crash found that in the French CAC 40, the more women a company had in management positions, the less its share price fell.[23]

Building off five of their previous studies, researchers at Pepperdine University found that organizations on *Fortune*'s list of the "100 Most Desirable MBA Employers" for women outperformed the industry medians on numerous financial measures, including:

- Profits as a percentage of revenue: 55 percent of the companies were higher than the median, 36 percent were lower, and 11 percent were tied.
- Profits as a percentage of assets: 50 percent were higher than the median, 28 percent were lower, and 23 percent were tied.

- Profits as a percentage of equity: 59 percent were higher than the median, 30 percent were lower, and 11 percent were tied.[24]

Companies with women CEOs or heads have experienced better financial performance.

Forbes examined the stock performance of the 26 publicly traded companies headed by women on its "2010 Power Women 100" list and found that, on average, companies in the group outperformed their industries by 15 percent and the overall market by 28 percent.[25]

A study in Finland on large firms found that those with women CEOs were, on average, about 10 percent more profitable than corresponding companies with men CEOs.[26]

In 2009, *USA Today* compared the stocks of 13 *Fortune* 500 companies with women CEOs to the stocks of the overall S&P 500 and found that the women-led companies were up an average of 50 percent, while the S&P 500 was up 25 percent.[27]

In 2009, the *Economic Times* in India conducted a study of the top 30 firms on the Bombay Stock Exchange and found that those with women promoter CEOs (leaders of family-owned businesses) fared better in annual growth rates for the previous five years than the Bombay Stock Exchange 30 as a whole.[28]

Mixed-gender teams led to higher performance in a field study.

A field study experiment of undergraduate students in international business at the Amsterdam College of Applied Sciences found that teams with an equal mix of men and women outperformed male-dominated teams in profits and sales. Performance peaked when a team had about 55 percent women.[29]

Beyond gender, other dimensions of diversity are also found to be good for business: race, board member background, LGBT identity, nationality.

A study found that a racially diverse workforce was positively associated with more customers, increased sales revenue, greater relative profits, and greater market share. The study also examined gender diversity and found it to be positively associated with increased sales revenue, more customers, and greater relative profits.[30]

Companies that increased their board diversity with more directors from academia had higher performance.[31]

The presence of directors from academia was associated with firms' higher acquisition performance, higher number of patents, higher stock price informativeness, lower discretionary accruals, lower CEO compensation, and higher CEO turnover-performance sensitivity, found a study that looked at S&P 1500 firms from 1998 to 2006. The Return on Assets (ROA) results were especially robust. The researchers credit these positive associations to higher meeting attendance among academic directors, their more frequent placement on monitoring-related committees and more common monitoring behaviors, and their specialized expertise.[32]

Firms that implemented LGBT-friendly policies experienced increases in firm value, productivity, and profitability. Firms that discontinued gay-friendly policies found they experienced decreases in the same performance measures. This was especially true of larger firms needing employees with technical expertise, as gay-friendly policies likely have a greater impact on attracting or alienating that more limited prospective hiring pool than the hiring pool for lower-skilled jobs.[33]

A study of 146 Swiss firms across 32 industries found that nationality diversity of top management teams is significantly and positively associated with firm performance. This is likely because teams of managers that include people who have spent their formative years in different countries from one another have been found to be better at solving complex tasks and outperform homogenous groups in offering alternatives and perspectives, which ultimately improves strategic decision-making and influences firm performance. Researchers found the effect was stronger in longer tenured teams and in highly internationalized firms.[34]

Leveraging Talent

Women outperformed men on numerous leadership competencies.

An INSEAD study looked at the 360-degree evaluations of nearly 3,000 executives from 149 countries, examining gender in light of how managers scored themselves compared to how others scored them on 10 measures of global leadership competency. The researchers saw no evidence of a "modesty effect" in women, finding the women rated themselves significantly higher than men rated themselves in 4 of the 10 measures, and scored about equal to men on the others. Furthermore, men and women subordinates, peers, supervisors, suppliers, and customers all rated women leaders higher than men on seven or more competencies, including "energizing," "designing and aligning," "outside orientation," and "tenacity."[35]

Researchers at a leadership development and training firm, analyzing data from their survey of more than 7,000 leaders, found that women outperformed men on 12 of 16 measures of outstanding leadership competencies and scored the same as men in the other four. These women and men were rated by managers, peers, direct reports, and others. While women outscored men on "nurturing" competencies such as relationship building and developing others, women outscored men most significantly on "takes initiative," "practices self-development," "displays high integrity and honesty," and "drives for results."[36]

A better diversity climate is related to lower intent to leave.

Researchers found that decreased turnover intentions were associated with employees' positive perceptions of an organization's "diversity climate." The study also found that all employees, including white men, may benefit from a positive diversity climate, and it found indirect links between positive perceptions of the climate and predictions of calculative attachment and satisfaction.[37]

Researchers found that a pro-diversity work climate was correlated with lower turnover intentions among diverse employees, especially among black employees. In addition, the researchers were surprised to find that this correlation was stronger for white men and women than it was for Hispanic employees.[38]

An inclusive leadership style reduces turnover and improves the performance of diverse teams.

Although there are many benefits linked to diverse work groups, they also have been associated with higher turnover and related high costs. Researchers at the Center for Advanced Human Resource Studies found that leaders could significantly reduce turnover when they developed high-quality relationships with most or all of their group members and demonstrated high overall levels of inclusiveness.[39]

Participants expecting to work on diverse teams had a higher preference to be led by "considerate leaders"—those who treat employees fairly and kindly—than participants expecting to be on a homogenous team. Furthermore, highly considerate leaders actually improved team functioning of diverse teams because of "leader individualization," or leaders' abilities to see members as unique individuals.[40]

Employee satisfaction and engagement hinges partially on satisfaction with a company's treatment of diverse people.

A human resources consulting firm analyzed extensive employee opinion survey responses and found a positive and significant relationship between employees' overall job satisfaction and engagement with how fairly their company treated diverse employees and consumers.[41]

A study of government agencies in the United States found that employees reported higher levels of satisfaction at agencies in which they perceive that diversity is effectively managed and that have higher levels of organizational fairness. Women reported higher job satisfaction than men when they perceived effective diversity management along with just and fair procedures.[42]

Employee engagement depends on managers, and effective managers are committed to diversity.

In a global survey of more than 50,000 employees, the Corporate Leadership Council found that employees' commitment to their managers was a critical factor in engagement. Managers are an important link between employees and the organization, and topping the list of managerial characteristics that most effectively engage employees was "shows strong commitment to diversity."[43]

There are more differences within the sexes than between them with regard to organizational attractiveness.

Researchers looked at the effects of gender diversity management on organizational attractiveness to women and men. They did not find significant differences between the sexes, but they did find significant differences within each sex based on attitudes toward affirmative action for women, centrality of gender identity, and the belief that women are discriminated against in the workplace.[44]

Reflecting the Marketplace and Building Reputation

Gender diversity on boards is connected with better corporate governance and board oversight and less unethical behavior.

Analyzing Standard & Poor's firms, researchers found that gender-diverse boards have higher levels of boardroom involvement and corporate oversight. Boards with women on them have better member attendance records. Women themselves have higher attendance, and boards with women have improved attendance of male directors as well. Board meeting attendance is critical for proper governance since that is how board members obtain the information necessary to perform their fiduciary duties. The study also found that women directors were tougher monitors than men directors and were more likely to be assigned to monitoring-related committees.[45]

> Higher numbers of women on boards were associated with lower corporate fraud in China.[46]

Comparing firms that had no fraud with firms with regulation violations over a ten-year period in China, researchers found that firms with higher proportions of women board directors and led by women chairs were less likely commit fraud or violate securities regulations. Violations include illegal share buybacks, inflated profits, assets fabrication, shareholder embezzlement, and price manipulation.[47]

The presence of at least one woman on a board was significantly associated with a lower likelihood of financial restatement. Researchers theorize that the female board member contributes to better independence of the board, improved monitoring, and reduced groupthink. The researchers studied smaller firms, theorizing that those companies are less pressured to have women board members, and therefore the women board members of those firms are likely to be authentic appointments with fewer instances of tokenism. More than 73 percent of the boards that had restatements had no women on their boards.[48] Financial restatements can be a result of poor documentation of transactions, lack of transparency, weak internal controls, and fraud, and they can negatively impact corporate reputations.[49]

Gender-inclusive leadership is associated with increased corporate social responsibility (CSR).

Catalyst and Harvard Business School looked at gender-inclusive leadership and corporate social responsibility by focusing on corporate charitable funds. They found that more women leaders correlated with significantly higher levels of corporate philanthropy, and hence, CSR. Furthermore, the presence of women leaders likely led to higher quality CSR initiatives.[50]

Another study sampled nearly 100 Standard & Poor's companies and measured corporate social performance using 43 different social performance indicators covering the categories of community, corporate governance, diversity, employee relations, environment, human rights, and product-related social issues. Gender diversity within the board had a clear, significant, and positive effect on corporate social performance.[51]

Having a critical mass of women on boards—at least three women—was associated with a more significant corporate response to natural disasters. This study measured the corporate philanthropic disaster response (CPDR) of privately owned Chinese firms after two devastating earthquakes. The authors credit this increased response on the enhanced ethical behavior that women bring to a board.[52]

Clients are asking firms to provide evidence of their diversity, policies, and initiatives.

Research conducted on 13 top City law firms in the UK found that all of them had faced demand-side diversity pressure. When bidding for potential private-sector clients, the firms reported receiving requests for information about diversity, including their diversity policies and initiatives. This practice is becoming increasingly common, and client interest in diversity is moving past the selection process and continuing once a firm is retained.[53]

Gender-diverse boards improve corporate reputation.

Researchers looking at a large sample of UK firms found that the presence of women board directors was favorably viewed in sectors that operate close to their final customers. The authors point out that this demonstrates a need to reflect diversity among consumers.[54]

A study found that the number of women on a board affected corporate social responsibility ratings, which had a positive impact on reputation.[55]

A study found that *Fortune* 500 companies with a higher percentage of women on their board of directors were more likely to be on Ethisphere Institute's list of the "World's Most Ethical Companies."[56]

> Companies viewed as ethical or good corporate citizens were more likely to have more women board directors than companies without those reputations.[57]

Researchers studied *Fortune* 500 companies that appeared on *Ethisphere Magazine*'s 2010 "World's Most Ethical Companies" or *Corporate Responsibility Magazine*'s 2010 "100 Best Corporate Citizens List" and found they were more likely to have multiple women on their boards. Furthermore, companies on those lists experienced a significantly lower loss in stock value and were associated with a reduction in price declines.[58]

Stock prices of many companies rose when the appointment of women senior leaders was announced.

Researchers compared the impact of announcements of women and men into equivalent senior leadership positions on stock prices. They found that a significant spike in stock prices occurred when a woman was announced, especially when the women were in female-dominated industries.[59]

Mirroring the community can lead to a boost in productivity, customer satisfaction, and earnings.

In an analysis of more than 700 stores of the U.S. retailer J.C. Penney, researchers found that having store employees mirror the race and ethnic makeup of their communities positively affected productivity, customer satisfaction, and ultimately earnings. In this case, an increase of more than $69 million for the parent company was attributed to this "racioethnic representativeness."[60]

Increasing Innovation and Group Performance

An increase in women has been linked to a group's effectiveness in solving difficult problems.

A study by researchers from MIT, Carnegie Mellon University, and Union College documented the existence of collective intelligence in groups whose members cooperated well, and found that collective intelligence surpassed the cognitive abilities of the individual members of the group. Groups in which one person dominated were less collectively intelligent. A major factor in creating a group with the right internal dynamics for collective intelligence to emerge was the number of women. The most effective and cooperative groups exhibited high levels of "social sensitivity." Because women tend to have higher levels of social sensitivity, the analysis revealed that the number of women in the group significantly predicted the effective problem-solving abilities of the group overall.[61]

Better problem-solving and increased creativity are positively associated with a variety of diversity attributes.

Researchers measured 28 teams on a wide variety of diversity characteristics at a company in Germany and found that highly diverse teams performed better on highly complex tasks than homogeneous teams. The authors posit that this result was related to the diverse teams' wider range of thinking processes and increased creativity.[62]

Researchers including Scott Page, author of *The Difference: How the Power of Diversity Creates Better Groups, Firms, Schools, and Societies*, found that a random group of intelligent problem solvers outperformed a team composed of the "best" problem solvers. Pointing to a tradeoff between diversity and ability, they posited that the best problem solvers necessarily become similar within the pool of all problem solvers.[63]

A study found that mere exposure to multiple cultures enhanced creativity, and that extensive multicultural experiences were positively related to creativity-supporting cognitive processes, such as retrieval of unconventional knowledge, recruitment of ideas from unfamiliar cultures for creative idea expansion, and creative performance, such as insight learning, remote association, and idea generation.[64]

Diversity is connected positively with innovation.

Using a sample of *Fortune* 500 corporate boards, researchers found that innovation was positively and significantly correlated with board racial diversity, and marginally significantly correlated with board gender diversity.[65]

Studying 15 years of data on the management teams of S&P 1500 firms, researchers found that more women in top management improved the performance of firms that were heavily focused on innovation.[66]

Studying tokenism versus greater numbers of women on boards, researchers found that reaching a critical mass of at least three women has a positive impact on firm innovation, specifically "organizational innovation," which refers to the creation or adoption of a new idea or behavior. Furthermore, the researchers found that a consistent critical mass of women impacts board strategic tasks, and that board strategic tasks in turn impact the firms' organizational innovation. The study sample consisted of more than 300 Norwegian firms.[67]

Diversity can lead to increased knowledge formation and patents.

An analysis of women's participation in IT patents found that mixed-gender teams in the United States produced patents that were cited 26 to 42 percent more frequently than the average.[68]

An analysis of 20 European countries found that greater diversity in skilled professions through skilled migrants had a positive impact on knowledge formation in the host countries when measured by published article citations and patent applications. The study also found that diversity had a positive effect on the productivity of native workers, as new ideas are likely generated by diverse approaches to problem solving. Furthermore, countries that are more efficient in matching highly skilled migrants with highly skilled occupations saw higher results in innovation.[69]

Using linked employer-employee data from Denmark, researchers found robust evidence that diversity in workforces' cultural backgrounds, education, and demographic characteristics is an important source of firm innovation among white-collar occupations. More ethnically diverse workforces correlated with firms' greater likelihood of applying for patents, having a higher number of overall patent applications, and a wider range of patenting technological fields.[70]

The proportion of women directors is linked to reduced conflict and increased board development efforts.

Researchers analyzed the boards of 201 Norwegian firms and found that the proportion of women directors seemed to affect board effectiveness by decreasing the level of conflict on the board and increasing the quality of board development activities.[71]

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