WHEN DOES GENDER DIVERSITY MATTER THE MOST?

EXECUTIVE TEAM GENDER DIVERSITY AND FIRM PERFORMANCE DURING ADVERSE AND FAVOURABLE SITUATIONS.

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The mission of the Wo+Men’s Leadership Centre (WLC) is to become a hub for global thought leadership in making the changes needed to foster a gender balanced workforce around the world. By bringing students, corporations and policy makers more closely together we disseminate our findings and create the forums to translate ideas into practical solutions.

Since its inception in 2015 (as the Women’s Leadership Initiative), the Wo+Men’s Leadership Centre is quickly becoming a world-class research group within the University of Cambridge. The centre produces cutting edge, academically rigorous and practically relevant research and forums focused on gender issues in businesses – large public and government corporations, SMEs as well as entrepreneurship. Several high-potential inter-disciplinary research projects and flagship conferences on women in business and society are already in progress at Cambridge Judge Business School. Research and forums initiated by WLC have won prestigious academic and industry thought leadership awards and have been featured in top media outlets around the world.

You will find more information about the WLC here: www.jbs.cam.ac.uk/women
The Centre for Human Resources Strategy and Development (CHRSD) of School of Business of Hong Kong Baptist University (人力資源策略及發展研究中心) is a premier institute in Greater China building excellence in research and education in order to enhance the quality of human capital in the region. Members of the Centre conduct research relevant to human resources management in Greater China and offer HRM-related consulting services. Since its establishment in 2006, the CHRSD has organized and conducted a wide range of activities and services which are tailored to address the needs of the academic community, the business sector and the general public at large through our in-house Consultancy and Training, Professional Development Seminars, Conference and Policy Research activities. Through our in-house consultancy and training projects, our faculty members are able to have direct communication with the HR practitioners and provide our professional advice tailored to their organization’s needs and concerns. CHRSD provides consulting services in a number of areas, i.e., organization development, labour relations, performance management, and executive coaching. Seminars and workshops on work-life balance, family friendly employment and minimum wage ordinance, has been delivered, aiming to provide a platform for the general public to enhance their knowledge on current human resources issues. Pay Level Survey for Hong Kong and mainland China is conducted annually since 2008, which allow human resource professionals to have the most updated information on salary trends.
Foreword

Min Zhang
CEO, China Lodging Group (known as Huazhu Hotels Group)

Gender diversity in senior leadership teams is very important to organisational performance, so this new White Paper marks a very important contribution to discussion of this topical issue.

Gender diversity helps improve the quality of decision making, because many females can express different opinions without direct confrontation – bringing additional angles and completeness of thought to the table. In addition, the potential for collaboration is better when top teams have both males and females. In China, we say that when you bring women and men together you don’t get tired when you work. It makes the team more interesting and fun, and even more light-hearted at times.

The White Paper’s focus on how gender diversity can help firms going through a tough time offers a significant new perspective.

When things are not going well, there is a greater tendency to become more confrontational and engage in finger pointing – and female executives are able to soften the tone and increase the level of resilience.

Women in Chinese business of the current generation were raised with a feeling that they are not limited in any way, and that has led to many women heading up small and medium-sized businesses. For women as well as men leaders, it’s important to make a decision and have the ability to tell people what you think, and to encourage other people to be candid and speak up.

I hope that this new White Paper will help businesses in China and around the world realise the importance of gender diversity in executive teams – and encourage even more women in business to know that their potential is limitless.

About Min Zhang

Min Zhang is the CEO of China Lodge Group (known as Huazhu hotels), which is the fourth largest hotel chain in China and thirteenth largest in the world. Before joining China Lodging Group in 2007, Min Zhang worked at Eli Lilly (Asia) Inc., ASIMCO Casting (Beijing) Company, Ltd., and McKinsey & Company, Inc. She has served on the board of directors of many companies including Accor Hotels. She holds a Master in Business Administration degree from Harvard Business School.
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Sucheta is the head of the Strategy & International Business subject group at the Cambridge Judge Business School and Professorial fellow at Newnham College. She has published numerous articles in top academic journals. Sucheta previously served as the associate editor of the Journal of Management and is currently an associate editor of the Academy of Management Journal.

Sucheta has received several research grants including the National Science Foundation EPSCOR grant. Sucheta has also worked on research projects and grants with organisations such as Boeing, Booz Allen Hamilton, Newton Asset Management, BNY Mellon and the 30% club in the areas of strategic change and gender diversity in boards and senior management. Her research has been featured in global media outlets including The New York Times, Reuters, Forbes, CNBC, Huffington Post, The Guardian, The Telegraph, The Irish Independent, The Scotsman, Economic Times, Times of India and Business Standard.

Sucheta holds a PhD from the University of Kansas.

Li-Qun WEI
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Li-Qun WEI is Professor of Management in the Department of Management and DBA Program Associate Director of Faculty of Business Administration, Hong Kong Baptist University. She currently serves as the associate editor of Journal of Management Studies. Her research interests are strategic human resource management (SHRM), top management teams (TMTs) and Chinese business strategy, with recent projects mainly focusing on the HRM system evolution and founding team effectiveness in entrepreneurial firms in China.

Li-Qun WEI has published over 30 articles in quality academic journals, and conducted executive training for global and Chinese firms such as Schneider-Electric and China World Hotel. In recent years, she actively engages in providing consultancy services to various kinds of firms especially small-and-medium sized enterprises in China. She has also been interviewed for reports on Hong Kong Commercial Daily, Economic Times, and South China Morning Post.
Shi Tang  
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Shi is a PhD candidate at Cambridge Judge Business School and a Benavitch Scholar at St Catharine's College. Shi holds an MPhil degree in Innovation, Strategy & Organisation from the University of Cambridge, and a BSc in Biological Science from Tsinghua University.

Prior to pursuing her PhD, Shi worked as research assistant in the field of social psychology at UC Berkeley in the US, Nanyang Technological University in Singapore, and Tsinghua University in China.

Stephen Zhang  
Senior Lecturer, Department of Strategy, Innovation, and Entrepreneurship, University of Sydney

Stephen's research program focuses on entrepreneurs and top management teams of new ventures and SMEs. This research program seeks to answer questions such as how do founders, CEOs, top management teams, and other key strategic leaders shape their companies. The results of this research program can help to predict which kinds of entrepreneurs and top management help or hinder certain aspects of their companies during certain stages. The research carries implications on the selection and evaluation of entrepreneurs and top management, a problem faced by entrepreneurship assistance projects, venture and angel capitals, government innovation and entrepreneurship initiatives, executive training and development programs, among many others.

Before coming to Sydney, Stephen was an assistant professor of entrepreneurship and founded the Center for Entrepreneurial Strategy Under Uncertainty in Catholic University of Chile, which ranks #1 in South America. Stephen received his Bachelor Degree at Nanyang Technological University in Singapore, and his Ph.D. from National University of Singapore. Prior to his academic career, Stephen gained experiences in several industries including engineering, management consultant, market research, project evaluation as well as founding new ventures.

Stephen teaches entrepreneurship with an action-based approach. This approach has generated many entrepreneurs with highly scalable businesses, and Stephen has been rated consistently as the best professor for his entrepreneurship course in the master program.
There has long been a confusing debate around whether there is a business case for gender diversity in executive teams. Several recent reports such as Catalyst (2017) and McKinsey (2015) have shown that having more women on corporate boards improves company performance including sales, revenues and firm value. However, academic research published in top peer-reviewed journals has shown that gender diversity has little or no effect on a range of performance metrics (Post & Byron, 2015; Terjesen, Sealy, & Singh, 2009).

This study seeks to understand this inconsistency by looking at gender balance in top management teams (TMTs) in China. Studies on gender diversity have mostly focused on western companies, yet China is emerging as a leader in achieving gender balance in senior leadership – particularly in small and medium-sized enterprises (SMEs) (Grant Thornton report, 2013).

This study focused on the pivotal question:

When does TMT gender diversity matter in improving firm performance?

We conclude that the impact is more significant when firm conditions are adverse (past performance has been consistently low), and matters less in favourable conditions (when past performance is consistently strong). This finding helps to resolve the inconsistency between workplace studies and more detailed scientific analysis and holds critical practical implications for organisations.

Looking at adversity

We looked at a critical adverse firm condition: consistently low past firm performance. Consistently low past performance hurts firms internally as well as externally. Internally, continued dismal performance indicates failure of prior strategies and the need for a significant rethinking of current strategy. Executives are pressured to disrupt their previous course of actions and set out a new direction. However, these new directions do not guarantee a turnaround in performance. Externally, persistently low performance threatens the credibility of the firm and makes it vulnerable to attacks from rivals. To the contrary, consistently high past performance reinforces the success of previous strategies and enhances the credibility of the firm in the eyes of external stakeholders including rivals, investors and customers.

Getting firms out of this performance adversity and back on the upward performance trajectory is a difficult challenge for the executive team and requires strong vision and innovative, out-of-box thinking. We expect that gender diversity will provide the variety of perspectives and effective processes essential to achieve such performance turnaround.
The Chinese hi-tech small and medium-sized enterprise (SME) context

We test this model of TMT gender diversity in hi-tech small and medium-sized enterprises (SMEs) in China. The development of technology and innovation as a new engine for China's economic growth has provided women with numerous opportunities to take on leading roles to leverage this trend actively. Women in China have been reported to have high career aspirations for senior leadership positions, especially compared to those in the U.S. and Europe (Guardian, 2013). Indeed, the number of women involved in science, technology, and entrepreneurship has experienced a sharp increase in the last few years, with many holding executive positions in SMEs. In 2013, the number of middle-ranking and senior female professional and technical personnel reached 6.61 million, or 44.1 percent of the total in this category (China Daily, 2015).

This notable growth of women in executive roles in China also reflects the historical, cultural shift in perceptions of women in the workplace, which dates back to Mao Zedong's declaration that women hold up half the sky. Although China in the past has been considered to have a low gender-egalitarian culture where gender disparity is acceptable (House et al., 2002), new generations have been promoting a turnaround to the traditional Chinese wisdom of Taoism that advocates the importance of a Yin (women) - Yang (men) balance. Several recent reports have shown that China is amongst the countries with the highest percentages of females in senior leadership roles, particularly in SMEs (Grant Thornton, 2013; Forbes Insights, 2013).

How we constructed the study

Sample: The sample consisted of responses from 122 Chinese hi-tech SMEs with 387 TMT members. The firms were at least six years old and had 10 to 500 employees. The TMT size ranged from three to six members, with an average of 4.38 members per team. The female percentage in TMTs ranged from 0 to 100 percent.

Data collection: We prepared the original survey in English, and then translated it into Chinese following the back-translation practices (Brislin, 1980). We pre-tested the survey with 10 Chinese executives to ensure its clarity.

We administered the survey instruments at two different times. The first survey (T1) contained gender diversity, past firm performance and other demographic and control variables. One year later (T2), we asked TMT members to rate their firm performance. This longitudinal design allows for a better test of causality than cross-sectional designs.

Measures: We calculated TMT gender diversity by the percentage of females in teams. We collected the performance data in two time periods. In time t1 together with gender diversity data, we asked the executives to evaluate their performance over the past three years. In time t2, one year after collecting data on gender diversity and first performance data, we asked executives to evaluate their performance over the previous year. This lagged data collection allowed us to separate the time frames for performance in computing adverse and favourable conditions and turnaround performance.
In both cases, we measured performance by a scale adapted from Nadkarni and Herrmann (2010) that captured three metrics: firm profitability, return on equity and return on assets. The executives were asked to evaluate the performance relative to their major competitors on a seven-point scale from 1 to 7, with 1 = much worse than competitors and 7 = much better than competitors. The scale yielded strong reliability ($\alpha = 0.96$)

**Controls:** We controlled for industry sectors, firm size, CEO gender, TMT team size and TMT demographic diversity (educational background, functional background, and firm tenure diversity).

**Results and analysis**

We used the t-test statistic to compare the firm performance of high and low female percentage in executive teams separately for firms facing adverse\(^1\) conditions and firms facing favourable\(^2\) conditions. Figures 1, 2 and 3 show these results.

In figure 1, firms with a high percentage of females in TMTs enjoy significantly higher profitability than firms with a low percentage of females during adverse conditions\(^1\) only (figure 1a). However, there are no significant differences during favourable conditions\(^2\).

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\(^1\) Firms in the bottom 33% of our sample for firm profitability, return on equity and return on assets over the previous three years (much worse than competitors).

\(^2\) Firms in the top 33% of our sample for firm profitability, return on equity and return on assets over the previous three years (much better than competitors).
Figure 1: Firm profitability in firms with high and low percentage of females in TMTs during adverse and favourable conditions.

**Figure 1a** Adverse firm condition

- **Strong difference**

**Figure 1b** Favourable firm condition

- **No significant difference**
Similarly, in Figure 2, firms with a high percentage of females in TMTs enjoy a significantly higher return on assets than TMTs with low female performance during adverse condition (Figure 2a). However, these differences disappear for firms with favourable conditions (Figure 2b).

**Figure 2**: Return on equity in firms with high and low percentage of females in TMTs during adverse and favourable conditions

**Figure 2a** Adverse firm condition

**Figure 2b** Favourable firm condition
Finally, Figure 3 shows that return on assets is significantly higher for firms with a high percentage of females in TMTs than those with a low percentage of females in TMTs during adverse condition (Figure 3a), but there are no differences during favourable condition (Figure 3b).

**Figure 3**: Return on assets in firms with high and low percentage of females in TMTs during adverse and favourable conditions

**Figure 3a** Adverse firm condition

**Figure 3b** Favourable firm condition
Implications for business and other organisations

These results are significant because organisations may not see the day-to-day benefits of gender diversity in senior leadership and choose to invest less in fostering it. Yet they may be missing tremendous opportunities in reaping the benefits of TMT gender diversity when it matters the most – during tough situations. Gender diversity in executive teams can be a crucial in-built safeguard in combatting adversity.

References

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