Women in business: the value of diversity

Renewable energy and board diversity: two very different but topical issues with shared challenges. People generally accept that the world needs to move away from fossil fuels; that we can’t go on as we are; that collectively it’s our duty to make progress and clean up our act.

However, unknowns over performance remain: can we rely on renewables when the sun doesn’t shine or the wind doesn’t blow? Upfront costs are higher, so how long will it take for the savings to feed through?

In the same way, we know there is a moral imperative to get more women on the boards of companies – that the status quo is the product of a bygone era. But what about financial performance? Do companies with diverse boards really perform better than those run purely by men, which currently dominate the corporate landscape?

The answer is yes: they perform better. Materially better.

Research from the Kellogg School of Management and the Scientific American has shown how heterogeneity can boost decision-making. These bodies of work were a catalyst for us to explore the hard commercial impact of diverse boards – to understand the value of diversity in terms of financial performance.

Until recently it has been difficult to make a decent assessment. There were too few significantly sized companies with women on the board and on which financial performance information is readily available.

But we have now reached a position where all but 16 of the S&P 500 have a woman on their board; 330 of the FTSE 350 do; and in the Indian CNX 200, 176 companies have a female board member. This is progress but for the most part, these women are employed as non-executive directors. Just 127 of the 1,050 companies we looked at in India, the UK and US employ women as executives.

Companies with diverse executive teams outperform competitors run by men only

So it is here that we have focused our research, where women are involved in the day-to-day operations of a business. Based on return on assets, companies with diverse executive teams outperform by a significant margin in the three markets we explored.

Our analysis suggests that the profit foregone - or opportunity cost - by the companies with male-only boards is a staggering $655 billion across the three economies. In the UK and US the impact of moving to mixed boards on the S&P 500 and FTSE 350 could boost GDP by around 3%. Impressive as they are, however, these numbers are based just on large listed companies. Further, unquantifiable, potential lies beyond in non-listed companies and mid-sized companies.

Our research into the proportion of senior business roles held by women has revealed precious little movement over the past decade. Perhaps businesses have simply not been aware of the value diversity brings. So it makes sense to invest in your high-performing junior women now to make sure they are ready and willing to take the step up into senior management.

Just as the world will grow faster and more sustainably powered by renewables, your business growth potential will increase with greater diversity in decision-making. The numbers laid out in this report speak volumes. Now is the time to take positive action. It’s time to plug into a new source of energy.

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The opportunity cost

Our research shows a significant opportunity cost associated with male-only boards: US$655bn for 1,050 companies across the three markets. Imagine extrapolating this for all companies globally.

Companies with women on the board (executives and/or non-execs)

484/500  
US - S&P 500

176/200  
INDIA - CNX 200

330/350  
UK - FTSE 350

Companies with diverse executive boards (at least one female executive)

35/500  
US - S&P 500

45/200  
INDIA - CNX 200

47/350  
UK - FTSE 350

1 GDP 2014 in US$  
2 Estimated increase in country business profit levels if all businesses had at least one female executive directors (based on ROA performance)
Diverse board outperformance

US - S&P 500: 1.91% (6.77% + 8.68%)
INDIA - CNX 200: 0.85% (6.68% + 7.53%)
UK - FTSE 350: 0.53% (6.18% + 6.71%)

Average ROA

Opportunity cost (% GDP) 1

US - S&P 500: 3.5%
INDIA - CNX 200: 0.7%
UK - FTSE 350: 2.5%

Opportunity cost (US$bn) 2

US - S&P 500: $567BN
INDIA - CNX 200: $14BN
UK - FTSE 350: $74BN

Total opportunity cost (US$bn)

US - S&P 500: $567BN
INDIA - CNX 200: $14BN
UK - FTSE 350: $74BN

Total opportunity cost: $655BN
Our recommendations

Companies
Listed or otherwise, you need to go further and move beyond female participation at a non-executive level. Diversity in decision-making boosts performance so if your board is male-only it could be underperforming.

Investors
You need to put pressure on companies to diversify their boards at an executive level. There are proven performance benefits. Don’t wait for legislation such as quotas, but instead work with non-executive teams to press for progress.

Governments
You need to be mindful that your economies have potential for greater performance. At a time when productivity is falling, mixed executive teams are generating greater returns from their assets.

Note: This analysis is illustrative – we used indices of public companies because information on composition and performance is readily available. However, mixed boards and the potential they can deliver is available to all companies, not just those listed on stock exchanges.

Methodology
The data shows the differences in return on assets for companies with and without women directors. It covers the FTSE 350, S&P 500 and CNX 200. Analysis was conducted between April and June 2015 by Grant Thornton’s Global Research Centre and Linstock Communications.

Read more about Grant Thornton’s women in business research via our global website

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