CORPORATE COUNSEL
The Business Magazine for In-House Counsel
corpcounsel.com | February 19, 2020

Gender Diversity Pays

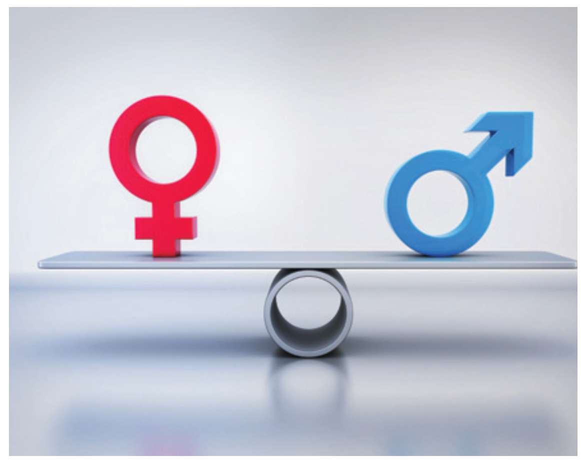
The data has been consistent for decades now: companies led by female executives are more profitable.

By Robin Cohen, Laura Franco and Ryan Hargrave

The data has been consistent for decades now: companies led by female executives are more profitable.

One of the earliest quantitative studies on the subject, published in 2001, analyzed nearly two decades worth of data of women in top executive positions and on boards of directors at Fortune 500 companies. The study, by researchers at Pepperdine University, found that companies with the best records of promoting women were consistently more profitable than the median in their respective industries.

Since that study, the evidence that business performance across all metrics improves when more women occupy leadership positions has only grown stronger. Take, for instance, a 2015 study by McKinsey & Company that analyzed 366 companies across four countries and many industries. It showed that businesses in the top quartile for gender diversity—defined as a greater share of women in leadership roles—were 15% more likely to outperform their less diverse competitors. Another study, published last year by Morgan Stanley, analyzed data from 1,875 companies and found better stock market performance at companies with more female leaders. There is also data that suggests that women-led companies are more innovative, as companies with women in top management roles produce 20% more patents than their male-led peers.



Shutterstock

These economic benefits apply equally to law firms. A 2009 study of the AmLaw 200 firms published in The Journal of the Legal Profession found that more diverse firms reported higher profits per partner and revenue per lawyer. Specifically, "a firm ranked in the top quarter in the diversity rankings will generate more than $100,000 of additional profit per partner than a peer firm of the same size in the same city, with the same hours and leverage but a diversity ranking in the bottom quarter of firms."

While the bottom line is clear, understanding *why* increased female leadership works well for companies and law firms is slightly less straightforward. However, some demonstrable trends have emerged from the data.

In a May 2019 study, the International Labor Organization analyzed 13,000 businesses and identified higher productivity, greater creativity, enhanced reputation, and the ability to better gauge consumer interest and demand in businesses where women are in decision-making positions. And in a study of 47 female CEOs, researchers identified that the women tended to be risk-takers, resilient, agile, and capable of managing ambiguity. They also were generally capable of leveraging the collective power of their teams, were more likely to share credit, and scored higher than the control group on humility. Other commentary has pointed to the fact that women-led companies are better at inspiring belief and confidence in their products or services, which, in turn, leads to better employee engagement.

In another study, released in 2018, the Boston Consulting Group (BCG) looked at 350 start-ups. Although the women-led businesses raised significantly less money than male-led teams, they generated 10% more in cumulative revenue over a five-year period. BCG offered three explanations for the disparity: (1) women are more likely than men to accept legitimate feedback, (2) women are less likely to oversell in pitches, and (3) women are more likely than men to innovate in areas they are familiar with, allowing them to market their businesses more effectively.

Another tangible benefit of gender-diverse leadership is that, when allowed to influence company culture, it can propagate gender diversity throughout the organization by attracting more female talent and then retaining it; a recent PWC study found that a majority of women consider gender diversity when making job decisions. Thus, the most recent data suggests that there's not just a *correlation* between increased female leadership and greater profitability, but that increased female leadership can actually *cause* greater profitability.

Accordingly, organizations are increasingly committed to pursuing gender diversity at all levels. L'Oreal has long been recognized as a leader in this area. The company was an original signatory to the White House Pledge on Pay Equity in 2016, which was intended to tangibly address the gender pay gap by encouraging employers to acknowledge the role they must play in reducing the gap. L'Oreal was also the first US company to be certified by EDGE (Economic Dividends for Gender Equality), which requires a comprehensive review of a company's gender policies and practices. From 2010 to 2018, female representation on the company's board increased from 21% to 46%. In that time, the number of women on the executive committee and in key positions rose 10% and 17%, respectively. As of April 2019, the company announced that over 50% of its executive committee were women. And overall, 69% of L'Oreal's workforce is female. At the end of 2018, L'Oreal reported its best sales growth in over 10 years and a new record for operating margin.

The global consulting firm Accenture has also emerged as a champion for increased female leadership. In fact, Accenture has expressly committed to achieving a gender-balanced workforce by 2025. Ranked as the top company on the Thomson Reuters Diversity and Inclusion Index, Accenture voluntarily publishes its workforce demographics in a commitment to transparency. The company recently named as its CEO Julie Sweet, who has been vocal in her commitment to diversity and inclusion.

According to a global survey of nearly 22,000 firms, gains are made when women in leadership are given the opportunity to influence strategy and when companies maintain a pipeline of female managers. As such, organizations seeking to capitalize on this reality must aim higher than a mere boost in their numbers. In the absence of a gender-inclusive company culture, there is no evidence that enacting female quotas or catapulting lone women to the top correlates with increased profitability.

Despite the consistency in the data, women are still vastly underrepresented in basically every sphere of organizational leadership. And the numbers have stalled. A 2019 study published by McKinsey and Company showed that women account for only 23% of all senior VPs and only 22% of all C-suite leaders. Those numbers reflect only 1% and 2% improvements over the 2015 numbers, respectively. Overall, if companies hire and promote women to management positions at the current rate, the numbers are projected to increase only 1% over the next 10 years.

Businesses seeking greater gender diversity cannot hope to level the playing field with female-only initiatives that are divorced from broader company culture and leadership, or with part-time programs that rarely offer women meaningful opportunities for leadership. These efforts will not deliver the desired outcomes. Instead, companies looking to create and maintain a pipeline of profitable female leaders must commit to addressing the systemic barriers to entry within corporate culture. Research suggests that facilitating mentor and sponsor relationships gives women access to the rooms where decisions are made, empowering them to advocate for other women. Company leaders will also need to understand and raise awareness of how implicit and affinity biases can impede the advancement of women.

For example, CBS sets a tone focused on increased diversity at the company's highest levels. In an effort to enhance opportunity, it has expanded its recruiting pipelines. To tangibly promote inclusivity, meeting organizers are encouraged to invite broader groups to attend, and feedback is sought from participants who may not typically weigh in. Building in accountability is also important, which can involve bonuses or other compensation that is tied to implementation of diversity goals. Feedback surveys and pay equity studies can be used as measures of success.

Similarly, law firms can take specific steps to increase the representation of female attorneys in leadership by broadening the pool of women considered for promotions, management of client relationships, pitches, and other highly visible roles inside the firm. In this effort, some firms and in-house legal departments have committed to implementing the Mansfield Rule, which asks law firms to commit to considering a certain percentage of historically underrepresented lawyers, including women and attorneys of color, for their leadership and governance roles.

In sum, it will take a dedicated focus of time and resources to make real progress toward gender-diverse leadership across the spectrum. However, it is clear, as demonstrated by companies like L'Oreal and Accenture, that gender-diverse leadership is both possible and profitable.

While the pursuit of profitability might not—and should not—be a company's sole objective, it is important to understand the key considerations that drive business and ultimately influence companies to change their culture. There is no question that diversity has become a business imperative. To advance their efforts, proponents of gender-diverse leadership would do well to remember to lead with the bottom line: gender diversity pays.

Robin Cohen *is a principal at McKool Smith in New York and head of the firm's insurance recovery practice. She focuses on representing insureds in complex insurance coverage matters.* ***Laura Franco*** *is an executive vice president and general counsel for CBS in New York.* ***Ryan Hargrave*** *is a principal at McKool Smith in Dallas. She focuses her practice on complex commercial and intellectual property litigation matters.*