

A Presentation by Richard Nesbitt to the Canadian House of Commons' Standing Committee on the Status of Women.

Economic Security of Women

February 9, 2017

I am pleased to have the opportunity to participate in the Canadian House of Commons' Standing Committee on the Status of Women inquiry into the Economic Security of Women. Today I will share some of my research undertaken at the Rotman School of Management, University of Toronto. The work is the research for a book, titled *Ascent*, being published this year by Wiley which is co-authored by Barbara Annis and myself on how to improve our companies by promoting women more aggressively and consistently into leadership positions and on boards of directors. Barbara Annis is a well-known expert in the field of gender diversity and I am proud to have had the good fortune to work with her.

### **The Business Case for the Advancement of Women**

For decades, the burden for women achieving parity in leadership, whether in business, education, or government, has been placed squarely, and wrongly, on the shoulders of women alone. There have been few if any expectations specifically placed on men and what men can and should do to support and champion the advancement of women into positions of leadership.

Nevertheless, we are witnessing a growing realization on the part of men—in companies across the globe—that sharing leadership with women produces superior financial performance.

Virtually every study conducted since the 1980s on the financial performance of companies with women on their boards and on their executive teams have proven it to be true. And there are many male leaders today who are aware of the economic value. What the vast majority are not aware of are their roles in this value creation.

If you want your business to perform at its peak, you must hire and promote women alongside men into management and elect them to your board of directors. How we can possibly be doing the best for our businesses if we hire and promote from only one half of the population? This question has been out there forever, including back when women were not even considered full citizens. Asking this question has not led to the experience most women and many men want, which is a full place for women alongside men in management and on boards. Other authors have tried to argue that women have superior skills (at least in certain areas) and this is the reason they should succeed in business. How is that argument working in support of change? Not so well it seems.

## Superior Financial Performance

### Women on Executive Teams Correlate to Higher Profits

1981 - 2000

19-year study of 215 Fortune 500 companies showed positive correlations between the balance of men and women leaders and profitability

The 25 best firms with women in leadership out-performed their industry medians on all three measures of profitability:

- 34% higher profit margin
- 18% higher asset value
- 69% higher stockholder equity

Source: Adler, Roy D (2001). Women in the Executive Suite Correlate to High Profits

We need to make a case that is provable based on evidence from an overwhelming number of experts in the field—a case that matters to those in positions of power. Who are they? Why men, of course. This enrollment is the challenge that many who have tried to create change have been unable to bring about.

### **Diversity at the Top: Correlates with Better Performance**

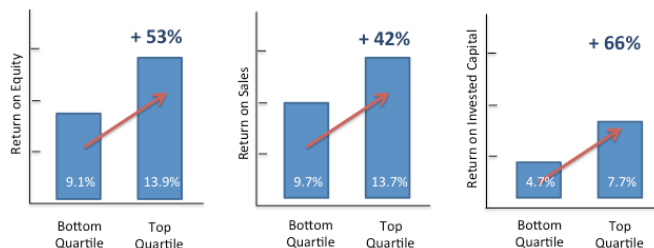
For over twenty years, a growing body of research has demonstrated that companies that embrace diversity in general—and gender diversity at the highest levels of companies in particular—enjoy superior corporate performance. The evidence is globally relevant. It applies as much to China as to the United States and as much to Canada as to the United Kingdom or, for that matter, any country on this planet.

Acting to achieve optimal corporate performance, or as some statutes require, “acting in the best interests of the corporation,” requires boards and management to adjust the balance in their firm in order to achieve the right mix of men and women in leadership roles.

Men still dominate senior management and boards, with women sometimes representing little more than a token presence. There is no question that women feel “left out” and frustrated, as is suggested by the title of a recent Harvard Business Review article, “Women in Management: Delusion of Progress.” However, if you consider that the aim is a fundamental change in the way men and women interact with each other at work, we can see progress continuing globally.

## Women on Boards Improve Performance

2001 - 2004

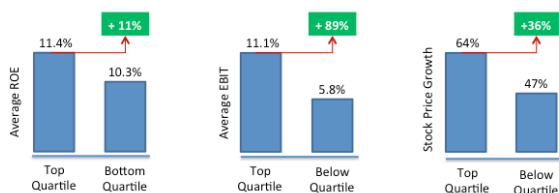


Source: Catalyst Research and the Chubb Corporation, 2007

## Gender Diversity in Top Management = Growth

2003 - 2005

McKinsey Study of 89 European companies with capitalization greater than €150 million



Source: McKinsey &amp; Company 2010 Study of the Amazon Euro Fund Database

In our research we have assembled dozens of papers that research the impact of gender diversity on boards and in management on the performance of companies. In all but 2 papers out of dozens we reviewed, the conclusion was clear. The addition of women to boards and management teams of companies that traditionally were male dominated significantly improves the financial performance and also improves innovation, environmental performance and the ability to manage companies through stressful situations. The 2 outlying papers were not negative but instead were neutral. They did not find a positive or negative impact of adding gender diversity. One paper was from Indonesia and one from South Africa. They were over relatively short periods of time. All of the other papers were uniformly positive about improved performance.

## **The Key to Progress is Men Working with Women**

The leaders of most businesses today are men. There is no question that men have built amazing corporations, achieved tremendous feats of production, developed new technologies in agriculture and consumer products, and globalized the world, thereby lifting millions out of poverty across the globe. These achievements have resulted in the wealth of the world increasing nearly continuously for centuries.

Of course many women also played important roles but it took societal change to begin to realize their potential and that progress has been slow. The fact is that their organizations would function and perform even better if they combined the talents of women and men in order to lead their organizations into the future.

Men have played important roles in all of the significant developments involving bringing women into positions where they can achieve the full realization of their potential. Men were the ones who created the legislation to give women the right to vote and it was men who voted in favor of that legislation. How do we know? It had to be men; women had no right to vote at that time! How about the millions of men who supported the equal rights amendment in the United States? And how about the business clubs that have voted to end the decades long process of excluding women? Of course it was men who made these changes.

Today there are many men who are committed to the concept that women are able to lead in any capacity and that bringing more women into leadership roles will improve their organization.

There are increasingly more men who do get it and others who are acting on it. Yet, as we look across the landscape today and in our near 30 years of experience with leadership in companies across the globe, we can generally place male leaders into one of three types or groupings when it comes to men's attitudes toward advancing women in leadership.

### (1) The Ones Who Get It and Are Acting on It

There are male leaders today who get it and are acting on it. Their stories dot this chapter and are found throughout this book. When leaders become aware of the economic power of men and women leading together—most especially when they see the results of women in leadership—their mindset changes, the culture shifts, and the organization as a whole begins to behave more productively and effectively.

### (2) Those Who Believe in It but Don't Know What to Do

'Believers' recognize the value of women in leadership but don't know what to do or even realize that they need to be involved. They're comfortable in their environment. They don't realize that nothing will change unless they themselves act on it. These male leaders are in organizations

whose leadership still doesn't view gender diversity as a strategic imperative, and diversity efforts often give way to other priorities.

### (3)Those Who Don't Get It or Don't Care to

The men in this category are generally not interested in the subject of women in leadership. They don't see it as part of their critical path to success. Their focus is on what they consider "strategic priorities" and they generally treat gender diversity as a distraction and nonissue, often to their own detriment. Unfortunately, a large number of male leaders share this mindset, but not as large a number as the men who believe and want to see change

### **Picking the best candidate remains vital to success**

Women and men are obviously two different groups in society. Their unique identity begins from the moment of birth when they begin to build diverse experiences. Women and men may choose to get different tools through training. Or they may get the same tools. Even though men dominate certain professions, in every profession there are successful women.

Discrimination in society is usually based on the group to which you belong. We saw in an examination of quotas in Norway that a Chairman felt board members should have certain training, and this is what excluded women from the board candidate list. When the facts were examined, the male Board Directors did not all have the training their Chair felt was essential. However the Chair's requirement was applied more rigidly to women candidates. This is the reason every leader must check the "plumbing". Check the systems by which you make choices relating people. Check for bias in the wiring of the requirements and check for bias in their application.

No one has ever said that we can just start picking employees at random and this will result in a better outcome for boards and management teams. But looking for diverse candidates that bring the ability to contribute will pay off more than sticking with the same criteria. An unfortunate fact is that the graduating class from most MBA schools today is only 30% women. Recruiting teams going to university campuses we were looking for 40 to 50% gender diversity. This makes it very difficult to achieve this task given the pool is already gender under represented. But cast your net wider. The graduates of the undergraduate commerce programs are 57% women. Why not hire these graduates and invest a little of the money saved in training?

Furthermore, who says you need to stick with only business school graduates. Women are succeeding in a variety of professions outside business. Remember, your board is already overweight with businessmen. Why not look in government or politics or health care or the arts.

There are many successful women in every field you could imagine. If they lack a specific skill then provide training, just like you would for a man.

### **It may all start with the board of directors**

We have seen throughout the research findings that the addition of women to Boards of Directors improves the performance of the firms. How does a Board do that? Boards have lots of power but are limited in how they can exercise that power. They pick the CEO, approve strategies presented by management and approve corporate change such as mergers and acquisitions. They also approve capital budgets, compensation, and perfunctorily approve large contracts and regulatory submissions. We call all of this corporate governance.

Boards are important to the ongoing success or failure of a company. There is no substitute in today's modern economy for boards being given ultimate and overall responsibility for the governance of companies. However that should not stop us from trying to improve the performance of the board. Let's stay on this theme. Let's walk through how boards do that.

#### **a. BOARDS CHOOSE THEIR OWN GENDER COMPOSITION**

Boards choose their own composition. Of course, the slate of Directors that the Board proposes must be approved by a majority of shareholders. The slate recommended by the board is rarely not approved. In the case of gender choice of Director candidates, this has always been the choice of the Board itself. In today's configuration, most Boards themselves have decided that the right composition should include mostly men.

#### **b. BOARDS CHOOSE THE GENDER OF THE CEO**

One of the most important functions of a Board is to hire the Chief Executive Officer. There are many criteria that boards go through to determine the next CEO. In most circumstances the board has many years to plan for this succession. Even where CEOs die, resign or are terminated, proper corporate governance dictates that the Board has a ready list of internal and external candidates from which to choose. The gender of the CEO is clearly within the control of the board, or will be when it's next time to change.

#### **c. BOARDS DIRECTLY OR INDIRECTLY INFLUENCE THE GENDER COMPOSITION OF THE TOP MANAGEMENT TEAM ("TMT")**

Ultimately, the CEO hires the top management team. Sometimes the Board reserves the right to approve hiring specific candidates to the top management team. Boards, therefore, control not just their own composition but also the composition of the top management team in a firm.

#### **d. BOARDS HAVE GREATER FUTURE CHOICE OF NEW BOARD MEMBERS FROM EXPERIENCED TMT WOMEN**

Top management teams are themselves a significant source of new Board members. As Boards influence the gender composition of the TMT to be more balanced between women and men they will create more candidates for Board membership. This, in turn, will feed back to the boards themselves which choose their own gender composition. More female and male candidates will mean better choice and quality of Directors on Boards.

Many studies examine the importance of gender diversity on Boards. These studies have led to a view that a more diverse Board will produce better corporate governance. Can we measure the value that corporate governance generates for stakeholders? It probably generates quite significant benefits if done properly but we do not yet have the ability to fully measure all of the benefits. However, we can look forward and we know that adding one woman to an all-male board will improve performance. We also know that increasing gender diversity up to parity between women and men in management teams improves performance. The cost of substituting qualified women for men on boards and on management is zero and more gender diversity improves performance.

#### **What chance do you think there is of a management team being gender diverse if the board is not also gender diverse?**

Human beings follow role models. We have been taught to do this since we were children. What more relevant role model could top management teams have than the Board of Directors? A board composed exclusively of men or mainly men says very clearly to the top management team that men alone constitute the right pool of candidates for selection to top management. Board members are people who have made it. They have had distinguished careers and are now fit to govern a public company.

It is theoretically possible, of course, that a CEO will choose a gender diverse top management team regardless of the composition of the Board. But the available data suggests that this is rarely done. With human nature designed to follow and respect leaders, it is unlikely a CEO would make a change on their own. However, some do and that's why we have men today effecting change in their organizations. The question is: how do we get all CEOs to take this path?

The more gender diverse the board of directors becomes, the more likely it is that CEOs will respond and hire more women in management. In turn, the top management team of women and men will similarly respond to the signal sent to them by the Board and CEO that gender diversity is important to their company. If this is true then we should be able to find a correlation between

the gender diversity of board members and the gender diversity of top management teams, and that's exactly what we find in Canada's leading companies.

### **Case Study – Canada's S&P/TSX 60 Companies**

The S&P/TSX 60 index includes the largest companies by capitalization traded on the Toronto Stock Exchange. The 60 companies represented in the index are a cross section of Canada's largest public companies across all industries. The makeup of the companies in the index parallels the Canadian equity markets and is strongly weighted to Mining, Oil and Gas and Financial Services.

Lots of work is going into getting more women on the boards of public companies. We wondered whether a correlation exists between certain variables such as women in top management and measures such as Earnings Per Share or total revenue, all of which are available as public data. In pondering this question, our hypothesis was that the greater the correlation between these variables and women in management, the more likely it is that the company has a specific policy regarding the hiring of women. If the factors do result in more diverse management and boards then the studies conclude that the performance of the company will improve as a result of these practices.

Very little quantitative data exists to enable this analysis. It is very rare for a company to tell you how many women are in their management structures. It is even rarer for them to tell you how that changes over time.

12 years of data (2002 to 2014) was obtained from the Clarkson Centre at Rotman School of Management on three key variables, for which we record our thanks to them.

- Gender of the Board Chair
- Gender of the CEO
- Women and men on the board of directors

In order to complete the regression analysis, we also needed to know the women and men on top management teams for the 60 companies in the S&P/TSX each year back to 2002. These were produced year by year from company reports and filings. Some companies took extra steps and helped when the names did not convey the gender clearly. (There are many other factors which merit consideration but proper data is not yet available. Further research may be required, as they say in academia.)



The scarcity of females in either CEO or the Chair roles for these 60 companies placed a limit on the analysis. This limits the usefulness of these variables in determining the correlation of these factors (number of CEO or Chairs) with the number of women on the top management team. However, the good news is that we do have data on the number of women on boards and the number of women in top management teams for these 60 companies.

Finally the composition of the index changes over time. To handle this complication we took the 60 companies as they existed at the end of 2014 and used these same companies data going back 12 years. If the company was less than 12 years old I used only the data available from the company's existence.

### **Conclusion – A strong correlation exists!**

There is a strong positive correlation between the between the percentage of women on a company's Board of Directors (with a lag of one year) and the percentage of women in their Top Management Team, or TMT. This finding calls for a "Eureka" moment. We now have a mathematical relationship between board gender composition and the gender composition of the top management team. More women on boards should lead to more women in TMT one year later. So all the work going into adding women on to boards is not just a hunch that it is the right thing to do.

We also looked at whether we could find a linear regression in the data. We could not find one. In other words there is not a simple formula that says do more of one thing and you will be gaining more of the other thing. This implies that the relationships that arise from gender diversity may be quite complex. For example, what if the effect of women directors on changing the composition of the TMT is weak until there is a critical mass of women directors on the board? Then the power to influence TMT composition grows for a time while the percentage of women on the board goes up.

At some point this effect may be fully exhausted (say, for example, at 50% of the board) and adding more women directors will not further impact the composition of the TMT. This could be called a parabolic relationship. This is just speculation, mind you. We will need a lot more data and more research to know exactly how it will work.

For the S&P/TSX 60 companies, we will start to receive more information over time. This data will come as a result of the Ontario Securities Commissions' new regulations for public companies. It will open a world of new possibilities to find relationships that companies will be able to put to work to improve the gender diversity of their leadership.

## **Actions Proven to Promote Gender Diversity and Organizational Improvement**

Change at this societal level is tough and will take a truly committed effort. We know it is possible as a few firms are already doing it and reaping the benefits. Here are the actions that have shown will improve a company's performance through gender diverse leadership and governance:

### ***1. Public Support of Diversity***

### ***2. Fix the “Plumbing”***

*Look for the following:*

- Systemic bias in benefits programs.
- Uncompetitive or unacceptable maternity leave benefits and practices.
- Incorrect mandates and lop-sided gender composition of graduate intake teams.
- New hires from both outside the firm and promotions to new roles within the firm must formally document the candidates considered including by gender.
- Broaden the source of new graduates and other new employees to include other disciplines and new employees who have a record of achievement and effort.
- Incorrect mandates and lop-sided gender composition of promotion committeesConduct of management must show the appropriate respect for all employees.
- Ongoing training of management to ensure that unintentional or intentional bias is recognized and eliminated from the conduct of managers.
- Celebrate role models on a gender diverse basis. Make certain male and female role models exist for all to see.
- Succession planning must be conducted in a gender diverse environment and with expectation that candidates will be gender diverse.

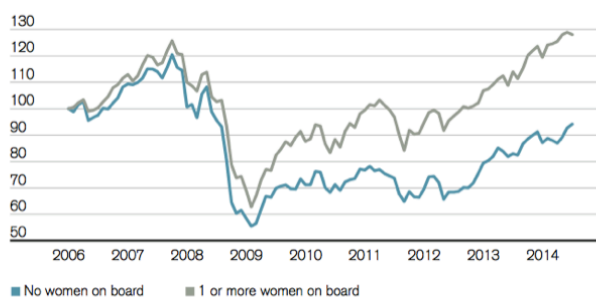
### ***3. Board of Directors to Achieve Gender Balance***

### ***4. Appoint a Gender Diversity Officer with Real Power***

### ***5. Measure Company Performance and Take Action Where Needed.***

### ***6. Publicly Report Progress at all Levels***

Global Performance of Companies  
With One or More Women on the Board



Source: Credit Suisse Gender 3000 - Market Cap > \$10 Billion

## Conclusion

It is up to men to work with women to achieve this improvement in the way we run our businesses. It is up to men in positions of power to ensure the addition of more women on boards and on the management teams of their organizations. It is up to men to become engaged with women to improve their organizations. The business case is clear and the time when we need more qualified leaders is now.

The next ten years will show tremendous progress for gender diversity as gender awareness becomes the next critical leadership trait. We're on the crest and beginning to see the effects of that gender balanced leadership on the productivity and financial performance of companies—a crest that will carry over onto the global economy and in governments across the globe.

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