Study: Firms with More Women in the C-Suite Are More Profitable

By Marcus Noland & Tyler Moran in the Harvard Business Review

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While successful female leaders have made headlines in recent years — Marissa Mayer, Sheryl Sandberg, and Indra Nooyi all come to mind — they remain the exception to the rule.

Yet in the U.S. women make up nearly 40% of MBA graduates and 40% of managers. In many countries they make up an equal or greater share of tertiary graduates and the professional and technical labor force. And worldwide they are catching up to men in levels of education and workforce participation. So why do women remain hard to find in the corporate boardroom and the C-suite?

In a new Peterson Institute for International Economics working paper, we present the results of our survey of nearly 22,000 firms globally. We found that in 2014 almost 60% of these firms had no female board members, just over half had no female C-suite executives, and fewer than 5% had a female CEO. But there was considerable variation among countries: Norway, Latvia, Slovenia, and Bulgaria had at least 20% female representation in board members and senior executives; only 2% of Japanese board members and 2.5% of Japanese C-suite executives were women. There was similar, though less dramatic, variation across sectors as well: financial services, health care, utilities, and telecommunications were relatively welcoming to female leadership, while fewer women were found at the top in basic materials, technology, energy, and industrial sectors.

We found that these figures matter to the bottom line. When we examined the profitable firms in our sample (average net margin of 6.4%), we found that going from having no women in corporate leadership (the CEO, the board, and other C-suite positions) to a 30% female share is associated with a one-percentage-point increase in net margin — which translates to a 15% increase in profitability for a typical firm.

However, it is not just a matter of getting women to the very top ranks of management. Our results indicate that the impact of having more women in the C-suite is bigger than that of having a woman on the board or as the CEO. In fact, we found that female CEOs neither systematically outperform nor underperform their male counterparts.

We believe that there are at least two channels through which more female senior leaders could contribute to superior firm performance: increased skill diversity within top management, which increases effectiveness in monitoring staff performance, and less gender discrimination throughout the management ranks, which helps to recruit, promote, and retain talent. Because gender-biased firms do not reward employees with responsibilities commensurate with their talent, they lose out to rivals that do not discriminate. Their lack of gender diversity affects the bottom line.

So how do we get more women into these upper ranks? The research underscores the need to encourage female advancement throughout the corporate structure, not just to the corner office. Our study found that women's success in corporate advancement correlates with some basic building blocks: high math scores, high rates of concentration in degree programs associated with management, and liberal parental-leave policies (including paternal leave). Success is also correlated with the relative absence of discriminatory attitudes toward female executives.

One approach that countries like Norway have taken to help women's corporate advancement is applying gender quotas to board membership. While we were unable to uncover any evidence on the impact of quotas for good or ill (though the statistical analysis may be too crude to discern such effects), our study found that having women on a board was statistically correlated with having more women in the C-suite. So if the presence of women on boards has a pipeline effect by encouraging more women to pursue senior executive positions, a quota system may warrant consideration, particularly if increased gender diversity in corporate leadership contributes to firm performance.

The quota policy has its critics. Some have claimed that the forced inclusion of women on boards will reduce board quality or effectiveness by stuffing boards with inexperienced, unqualified, or overstretched individuals. (This is the so-called "golden skirt" effect, in which a limited number of qualified women serve on multiple boards.) But certain measures could mitigate potential negative effects. The Netherlands, for example, initiated a temporary quota policy in 2013, though it lapsed last month. The thinking behind it was that women get a period of time to build up experience and network mechanisms, set up training for subsequent cohorts, and increase exposure to female corporate leaders. Once these foundations are in place long enough for a cadre of women to have been prepared for leadership, the quota can be removed.

However, while boards of publicly traded firms are an easy target for legislators who might champion something like a quota, our research suggests that pursuing policies to help women in the middle of their careers might be better than directly addressing board membership, that the real economic payoffs are from increasing gender diversity in the C-suite. And the results of policies that facilitate women rising through the corporate ranks more broadly — such as better education for girls, more supportive childcare policies, and more rigorous application of antidiscrimination laws in countries where such practices are ubiquitous — might well be larger and more sustainable than attempts to achieve diversity via fiat.

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