



Dig deeper for the dividends of diversity

Drawing on studies on the impact of diversity on company performance, Dr Claudia Janczyk, Professor of Organisation Studies at ESCP Europe Business School, London, weighs up the business case for diversity overall

While companies become increasingly more sensitive to the topic of diversity, research results about the benefits of diversity have been mixed. For example, the McKinsey Women Matter report suggests that there is a business case for more women in top executive positions. For the UK, it quantifies the gender diversity dividend at 3.5% increase of EBIT for every 10% increase in gender diversity in senior executive teams. Another study, conducted by the Peterson Institute, a US think tank, and EY, found that increasing the number of women in top management in general boosts profitability. It found that a company with 30% female leadership could expect to add up to 6 percentage points to its net margin when compared with an otherwise similar business with no female leaders.

Other studies could not, however, confirm such a relationship. So what are the contextual factors influencing the overall benefits that diversity has? Diversity can mean a lot of things, which complicates the issue. Before converging on a quantitative approach – the more, the better – we need to differentiate what is meant by diversity, whether gender, nationality, age, sexual orientation or functional background.

All of these different types of diversity have been the subject of study. Results so far have been the most unanimous about functional diversity in the sense that a multitude of different perspectives based on different fields of expertise have been shown to significantly improve teamwork looking for innovative and creative solutions. However, even these desirable benefits come at a price as decision making has proven to be longer for functionally diverse teams. Also, the role of the team leader is crucial to turn the potential of more creative and innovative insights into viable solutions. Only team leaders who effectively give room to these differences in functional perspectives, encourage team members to build on each other's expertise and who ensure that issue-related conflicts do not turn into effective personal conflicts, are able to derive the benefits of cross-functional teams.

Gender diversity has seen much more contradictory results. To shed some more light on the conditions under which gender diversity has a positive impact, a recent meta-analysis has looked at hundreds of studies. Its findings confirm the positive impact of board gender diversity on accounting returns such as return on assets, return on equity, and return on invested capital. The findings are stronger in context with stronger shareholder protections such as in New Zealand, the US or Israel compared to Spain or China, which only have low shareholder protection. The reason is

that strong shareholder protections tend to strengthen corporate governance while weaker protections undermine governance mechanisms. Digging deeper, we can learn more about the underlying mechanisms at play: female board representation is positively related to two key board responsibilities: board monitoring and board strategy involvement.

Also, the relationship between female board representation and market performance measured as market-to-book ratio, stock performance and shareholder returns is only positive in countries with already greater gender parity such as in Nordic countries like Norway or Sweden but negative in countries with low gender parity such as Pakistan, Kuwait or India. Gender parity means countries where women have more equal access to resources and opportunities in terms of education, economic participation, employment and political empowerment. This then translates into female directors' greater human capital and the legitimacy that this capital provides, thereby enhancing the potential positive influence

by women directors on board processes and outcomes. Another contingency factor that needs to be pointed out is the critical mass for gender diversity. Studies typically point to 25-30% as a minimum threshold.

Nationality and cultural diversity has also seen mixed results in terms of benefits. Looking at the team level, it becomes again apparent that some key contingency factors do matter significantly.

Recent research points out that at the team level benefits of diverse nationality teams depend on two key factors: task interdependence and the leaders' cultural intelligence. Team leaders with higher cultural intelligence possess the skills to foster adequate team processes and thereby enhance diversity climate and performance of nationally diverse, more interdependent teams. Without such a leadership role, nationality diverse teams may not only not excel but turn into a rather bad memory for all members involved in spite of all initial good will.

While all these findings show that things are a bit more complex than just fostering a quantitative approach, they do enhance our understanding of what it takes to make diversity work. This implies digging deeper and pushing further for the anticipated diversity dividends to manifest. It does not mean that diversity does not work but it may point to the fact that you need to look at a few more things, such as the leadership qualities of your team leader or the overall team composition to reap these diversity benefits. The potential gains are very tangible, you just have to reap them. ■

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