



## The Bottom Line:



Connecting Corporate Performance  
and Gender Diversity

Executive Summary

## The Connection Between Gender Diversity and Financial Performance

The business case for gender diversity asserts that companies that develop and advance women will benefit for a number of reasons. Specifically, by accessing a large part of the available talent pool, as well as employing individuals who reflect a substantial consumer base, companies will benefit financially.

Because this argument suggests that diversity has a positive impact on the bottom line, it is not surprising that increasing numbers of companies devote considerable financial and human resources to developing and leveraging diversity. However, the link between gender diversity and organizational financial performance has not been demonstrated firmly. Because business leaders increasingly request this type of information from Catalyst, we have undertaken this critical and timely examination, which explores whether there is a demonstrable connection between gender diversity and organizational financial performance.

### KEY FINDINGS

- ◆ The group of companies with the highest representation of women on their top management teams<sup>1</sup> experienced better financial performance than the group of companies with the lowest women's representation. This finding holds for both financial measures analyzed: Return on Equity (ROE), which is 35.1 percent higher, and Total Return to Shareholders (TRS), which is 34.0 percent higher.
- ◆ Financial performance was also analyzed by industry, and in each of the five industries analyzed,<sup>2</sup> the group of companies with the highest women's representation on their top management teams experienced a higher ROE than the group of companies with the lowest women's representation.
- ◆ In four out of the five industries analyzed, the group of companies with the highest women's representation on their top management teams experienced a higher TRS than the group of companies with the lowest women's representation.
- ◆ Catalyst Award-winning companies financially outperformed others in the sample.

Using publicly available data, this study examines the link between gender diversity on top management teams and U.S. corporate financial performance between 1996 and 2000. We chose this period as it represents a time of considerable economic growth. It also is a period for which there exists consistent and reliable gender diversity information.

Catalyst used two measures to examine financial performance—Return on Equity (ROE) and Total Return to Shareholders (TRS)<sup>3</sup>—in the 353 Fortune 500 companies for which we have at least four years of data. We also examined the financial performance of several industries. We found that there is a connection between gender diversity and financial performance. It is important to note that we are exploring a link, but not demonstrating causation. In order to do the latter, we would need to rule out all other possible causes of good and poor financial performance, which is beyond the scope of this study.

<sup>1</sup> For the purposes of this report, corporate officers and top management teams are synonymous. Corporate officers—as Catalyst defines them in our census of corporate officers and top earners—have day-to-day responsibility for corporate operations, have the power to legally bind their companies, and represent their companies on major decisions.

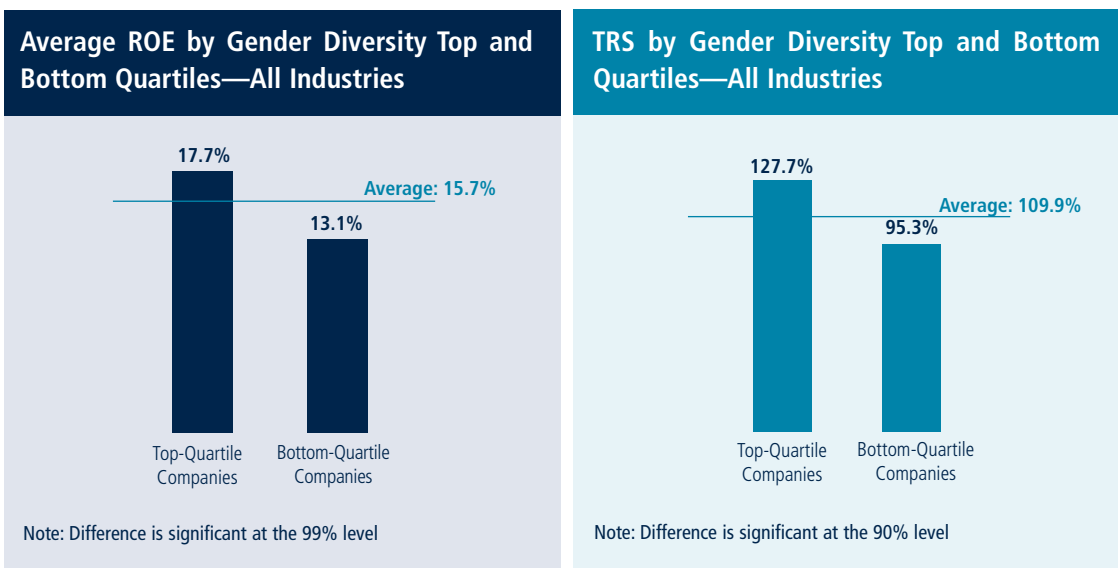
<sup>2</sup> Five industries in our sample have at least 35 companies, permitting separate industry analyses. The five industries are Consumer Discretionary, Consumer Staples, Financials, Industrials, and Information Technology/Telecommunication Services.

<sup>3</sup> ROE and TRS reflect two critical elements of returns to shareholders: ROE is an accounting-based measure that reflects corporate financial performance, and TRS is a value-based measure that reflects changes in stock price.

## The Study Sample

Catalyst assessed the gender diversity and financial performance of a sample of 353 Fortune 500 corporations for the period 1996 to 2000. Companies were divided into quartiles based on the gender diversity of their top management teams. The 88 companies with the highest gender diversity in their top management teams are referred to as “top-quartile” companies, and the 89 companies with the lowest representation are referred to as “bottom-quartile” companies.

The group of companies with the highest representation of women on their top management teams experienced better financial performance than the group of companies with the lowest women’s representation. For both ROE and TRS, on average, top-quartile companies financially outperformed bottom-quartile companies.<sup>4</sup> On average, top-quartile companies experienced a TRS that is 34.0 percent (or 32.4 percentage points) higher than the bottom-quartile companies. Similarly, top-quartile companies experienced an ROE that is 35.1 percent (or 4.6 percentage points) higher than the bottom-quartile companies.



## The Connection Between Gender Diversity and Financial Performance—by Industry

In all five industries analyzed, the top-quartile companies, on average, experienced a higher ROE than bottom-quartile companies.

In four out of the five industries (Consumer Discretionary, Consumer Staples, Financials, and Industrials), top-quartile companies experienced a higher TRS than bottom-quartile companies.

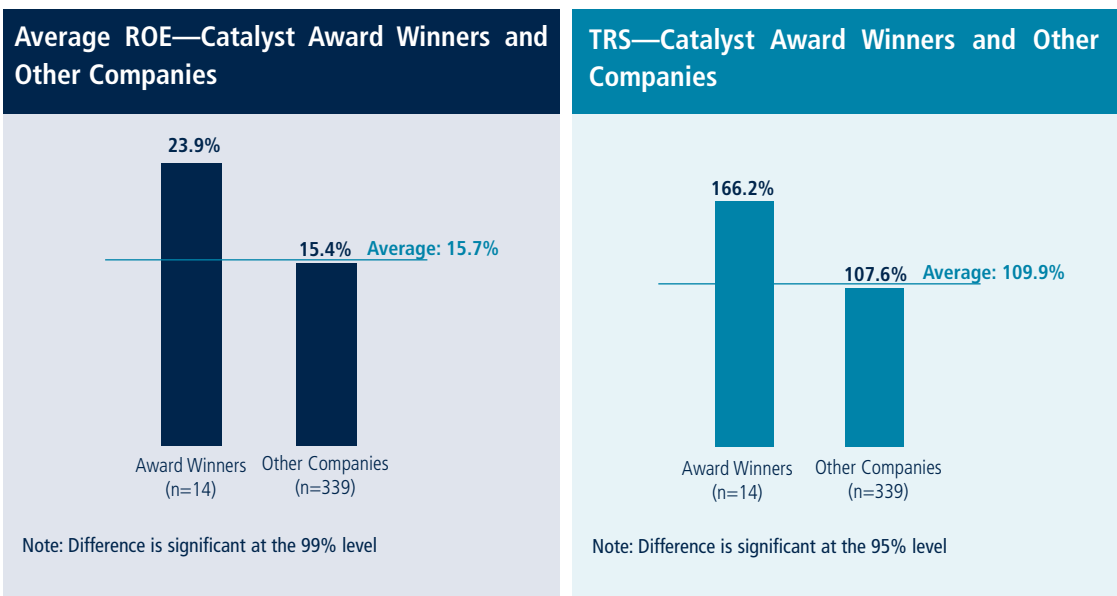
<sup>4</sup> There are significant industry differences in ROE and TRS, and we have adjusted for them. The adjustment ensures that findings are not skewed by one or a few uniquely performing industries.

## Catalyst Award Winners

This study also compared the financial performance of 14 companies that won the Catalyst Award between 1996 and 2003 and the other companies in our sample. Twenty-two companies won the Catalyst Award during this period, and we examined the financial performance of the 14 companies that were part of the overall study sample of 353 companies.<sup>5</sup>

The Catalyst Award honors innovative initiatives or efforts with proven results taken to address the recruitment, development, and advancement of managerial women; the effectiveness of these approaches is assessed by examining the representation of women at senior management levels, as well as critical accountability, leadership, and communication mechanisms. As a result, we believe that winning companies may experience a competitive advantage.

Catalyst Award-winning companies financially outperformed the 339 other companies in the sample. This finding holds for both financial measures: ROE and TRS.



## The Connection Goes Both Ways: Financial Performance and the Link to Gender Diversity

Having established that the group of companies with more gender-diverse top management teams financially outperformed the group with less diverse teams, we also confirmed that the connection holds in the other direction. Top financial performers have a higher representation of women on their top management teams. Again dividing our sample of 353 companies into quartiles—this time by financial performance measures (both ROE and TRS)—we analyzed the top-quartile (88 companies) and bottom-quartile (89 companies) financial performers.

Catalyst found that, on average, the Fortune 500 companies with the best financial performance had more women on their top management teams than lower-performing companies. This finding holds for both financial measures: ROE and TRS.

<sup>5</sup> The remaining eight companies were not included either because they were not part of the Fortune 500 or we did not have enough data.

## Gender Diversity Matters to the Bottom Line

With this study, Catalyst explored the link between the representation of women in top management and a corporation's financial performance. Specifically, on average, those companies that have higher women's representation on their top management teams financially outperformed those companies with lower women's representation. We controlled for industry and company differences to ensure that our findings were not influenced by a few uniquely performing industries or companies. These conclusions are strengthened further by confirming that the connection goes both ways. On average, top-performing companies have a higher representation of women on their leadership teams.

We are clear that there are a variety of possible determinants of good financial performance. These include creating an inclusive and supportive work environment, as well as innovation, efficiency, employee satisfaction, customer loyalty, and financial factors such as underlying business risk and financial leverage. The leadership team that is knowledgeable enough to leverage diversity is likely to be creating effective policies, programs, and systems, as well as a work culture, that maximize a variety of its assets and create new ones.<sup>6</sup>

Whatever compels excellent corporate financial performance, we now know that it is linked to gender diversity. In an increasingly competitive and globalized marketplace, even the most resourceful and innovative companies are advised to capitalize on the advantages of gender-diverse management teams. In short, this study further confirms the business case that Catalyst has put forth for the past 40 years: Gender diversity is indeed a characteristic of companies with excellent financial performance, and developing women managers and leveraging that talent by giving them a seat at the decision-making table is smart business.

<sup>6</sup> Ed Michaels, Helene Handfield-Jones, and Beth Axelrod, *The War for Talent*, Boston: Harvard Business School Press, 2001; Irene Goll, Rakesh B. Sambharya, and Louis A. Tucci, "Top Management Team Composition, Corporate Ideology, and Firm Performance," *Management International Review* Vol. 41 (2001/2): p. 109-129; Deloitte and Touche, *Human Capital ROI Study: Creating Shareholder Value Through People* (2002).

### Acknowledgments

We are indebted to the commitment and guidance of our advisory panel. We thank Professor Harvey Wagner, Kenan-Flagler Business School of the University of North Carolina at Chapel Hill, for his extensive work advising us on conceptual design, methodology, and interpretation of the data. We also are grateful for the comments and direction provided by: Dr. Barbara A. Gutek, Eller Professor of Women in Leadership, Eller College of Business and Public Administration, University of Arizona, particularly for her perspectives on organizational demography; and Dr. Paul J. Halpern, Toronto Stock Exchange Chair in Capital Markets and Professor of Finance, Rotman School of Management, University of Toronto, particularly for his advice on financial performance measures. We sincerely thank those at McKinsey & Company—Stephanie Coyles, Principal, Ameet Chande, Associate, and Sophie Weirich, Business Analyst—who laid the groundwork for this study and assisted us in the early stages of research design. We further are indebted to J. Randall White, Vice President, Corporate Affairs, Sara Lee Corporation, and Lesya A.E. Balych-Cooper, Vice President, Equity and Employee Engagement, BMO Financial Group, for reviewing the report draft and providing critical insights. Thank you to Catalyst's Board of Directors, Board of Advisors, Western Region Advisory Board, and Canadian Advisory Board for their support and guidance.

### About Catalyst

Catalyst is the leading research and advisory organization working to advance women in business, with offices in New York, San Jose, and Toronto. As an independent, nonprofit membership organization, Catalyst uses a solutions-oriented approach that has earned the confidence of business leaders around the world. Catalyst conducts research on all aspects of women's career advancement and provides strategic and web-based consulting services on a global basis to help companies and firms advance women and build inclusive work environments. In addition, we honor exemplary business initiatives that promote women's leadership with our annual Catalyst Award. Catalyst is consistently ranked No. 1 among U.S. nonprofits focused on women's issues by The American Institute of Philanthropy.

**The Bottom Line: Connecting Corporate Performance and Gender Diversity**  
is sponsored by BMO Financial Group

© 2004 Catalyst

Advancing women in business

NEW YORK

120 Wall Street, 5th Floor  
New York, NY 10005  
tel/ 212-514-7600  
fax/ 212-514-8470

SAN JOSE

2825 North First Street, Suite 200  
San Jose, CA 95134  
tel/ 408-435-1300  
fax/ 408-577-0425

TORONTO

8 King Street East, Suite 505  
Toronto, Ontario M5C 1B5  
tel/ 416-815-7600  
fax/ 416-815-7601

[www.catalystwomen.org](http://www.catalystwomen.org)

