



# Valuing Diversity

The business case for gender equality  
during an economic downturn



## Introduction

In 2007, Close the Gap published a position paper on the relationship between actions to promote gender equality and profit.<sup>1</sup> That research concluded that there is a clear business case for individual companies to consider gender equality in their workforce. The evidence showed that equality and diversity considerations enable companies to increase their profitability by recruiting the best available talent from the widest possible talent pool. Also, firms which have more diverse management teams have better business performance than those with less diversity in management. Gender balance has also been shown to be crucial to good, that is to say profitable, corporate governance. Studies show a clear correlation between women's representation on corporate boards and financial indicators of business performance such as financial performance and shareholder value. Qualitative evidence from a range of companies in various sectors shows that family-friendly and 'flexible' policies help companies retain the best staff which, in turn, means better profit margins.

Since the publication of that research, two things have happened in the business world. One has been the global economic downturn that began in the US sub-prime mortgage markets and the other has been the increasing recognition that women's equality in the workplace is key to doing good business in the current economic climate.

This brief position paper outlines the main 'business case' arguments for action to close gender gaps in employment and reinvigorates them in light of the current economic downturn in Scotland. The evidence presented here suggests that the costs associated with action to promote gender equality are more than outweighed by the potential benefits to be gained from them in terms of the 'bottom line'. The performance enhancing potential of gender equality in the workforce, including equal pay, could prove to be of critical importance for individual companies to stay competitive in these hard times.

## Women as workers

The working age population in Scotland is set to decline in the next 20 years<sup>2</sup> meaning a shortfall of workers for Scottish business. Encouraging more women into the workplace would be one way to address this shortfall. Currently, women are just under half of the working age population in Scotland yet evidence shows that women represent more than half of the up and coming talent pool available to business. In 2006-07 59% of Scottish<sup>3</sup> graduates who obtained first

1. Thomson, E (2007) *The Relationship Between Actions to Promote Gender Equality and Profit: A Position Paper*. Close the Gap: Glasgow

2. General Registrar of Scotland mid-2006 Population Estimates and ONS 2006-based national population projections available at <http://www.gro-scotland.gov.uk/files1/stats/high-level-summary-of-statistics-population-and-migration/j926004.htm>

3. Futureskills Scotland Key Indicators website <http://www.keyindicators.org.uk/Default.aspx>



degrees were women.<sup>4</sup> It has been suggested that 70% of women with science engineering and technology qualifications are not working in these fields meaning a significant proportion of the potential workforce in these areas are being lost to employers. This represents a considerable loss to Scottish business overall. Employers could benefit from this untapped resource by encouraging women to apply to the male dominated areas in which they are qualified. In addition, one study showed that high achieving individuals prefer to work for more progressive companies so organisations with good equality practices can expect to recruit the best candidates.<sup>5</sup>

On the face of it, human resource arguments for gender equality could have less resonance in periods of recession than when labour markets are ‘tight’. However, evidence shows that gender diverse workforces are more effective and that gender equality in the workplace reduces costs to the employer associated with reduced turnover, employee absence and the risk of employee litigation under equality legislation.<sup>6</sup> The positive outcomes of gender equality in the workplace are not negated by economic recession therefore companies that are able to maintain a long term focus with respect to gender equality, and equal pay, can gain a significant advantage over their competitors. That said, evidence shows that the business benefits available to gender equitable companies extend also to a competitive advantage in product markets and better corporate performance, as well as making the most efficient use of human resources.

4. Statistics Publication

Notice Lifelong Learning Series:

Attainment in Higher Education and Destinations of Leavers 2006-07

5. See Wittenberg-Cox and

A Maitland (2008) *Why Women Mean Business: Understanding the Emergence of Our Next Economic Revolution* John Wiley and Sons: Chichester, England.

6. Ng, ESW and R Burke (2004) “Person-organisation fit and the war for talent: does diversity management make a difference?”

in *International Journal of Resource Management* Vol. 16 No. 7 pp 1195 - 1210

7. Opportunity Now (2001) *Equality and Excellence: The Business Case Opportunity Now*: London

8. The Female FTSE 2008 International Centre for Women Leaders, Cranfield Business School

9. See The McKinsey Quarterly (2008) *A business case for women* McKinsey & Company

## Women as managers

The ‘Female FTSE report’ indicates that in 2008, 22 FTSE 100 companies had no female representation on their corporate boards and that only 12% of FTSE 100 directorships were held by women.<sup>7</sup> The position paper published in 2007 highlighted a wealth of evidence indicating that the presence of women on corporate boards was connected to improved corporate performance. Since then, the evidence base for this claim has only gotten stronger.<sup>8</sup> Companies that are unconcerned about a lack of women in their senior management are therefore at a disadvantage compared to those that actively encourage a greater representation of women in corporate governance. Furthermore, there is evidence that capital markets and investment funds consider gender diversity to be an important investment criterion and rating agencies are developing tools to measure gender diversity.<sup>9</sup> Gender diversity and the promotion of equality in the workplace are also a key part of positive corporate image.



Gender diversity in management and in the workforce in general helps develop new ideas and ways of thinking<sup>10</sup> as men and women bring different perspectives to the table. The synergy of these skills and experiences drives innovation which, in the current economic downturn, could be a key source of competitive advantage, particularly in the creative industries and technology intensive sectors such as energy.

Gender balance in the boardroom has been associated with a range of good governance indicators but, of greater importance in the current economic climate, there is a clear connection between women senior managers, financial performance<sup>11</sup> and profitability.<sup>12</sup> Recent research from Catalyst in the US shows that companies with the highest representation of women on their top management teams delivered 53% higher return on equity and 42% higher return on sales than companies with the lowest.<sup>13</sup> This has been explained by the fact that having more women at senior positions extend the portfolio of skills at the top of an organisation and gives the company a better 'feel' for female customers.<sup>14</sup> Indeed, one of the key areas in which women can add to firms' competitiveness is helping them market their products to female customers, an increasing proportion of the customer base. Evidence shows that as more women move into the labour market, associated growth in disposable income means higher potential for sales.<sup>15</sup>

10. McKinsey & Company (2008) *Women Matter: Gender Diversity, a Corporate Performance Driver* McKinsey & Company

11. Opportunity Now Magazine Summer 2008

12. Catalyst (2004) Connecting Corporate Performance and Gender Diversity [www.catalystwomen.org](http://www.catalystwomen.org)

13. See Adler, R (2001) *Women in the Executive Suite Correlates to High Profits* Glass Ceiling Research Centre and Welbourne, TM (1999) *Wall Street Likes its Women: An Examination of Women in the Top Management Teams of Initial Public Offerings* Centre for Advances in Human Resources Working Paper No.99 – 07 Cornell University: Ithaca, New York

14. Catalyst (2007) The Bottom Line: Corporate Performance and Women's Representation on Boards [www.catalystwomen.org](http://www.catalystwomen.org)

15. Centre for Developing Women Business Leaders website 2006 [www.cranfield.ac.uk/som/ccdwbl](http://www.cranfield.ac.uk/som/ccdwbl)

16. Daly, K (2007) *Gender Inequality: Growth and Global Ageing* Goldman Sachs Global Economic Website available at <https://portal.gs.com>

17. Cunningham, J and P Roberts (2007) *Inside Her Pretty Little Head: A New Theory of Female Motivation and What It Means for Marketing* Cian Communications

18. Ibid

## Women as consumers

In the US, women make over 80% of purchasing decisions and in Europe they are behind over 70% of household purchases.<sup>16</sup> In the UK, women are expected to own 60% of all personal wealth by 2025 and there are now more female millionaires between the age of 18 and 44 than male.<sup>17</sup> Engaging more female customers could therefore be key to gaining market share in the current economic environment. Ensuring that firms have enough women within their own ranks is crucial to the development of an effective gender differentiated marketing strategy that allows businesses to tap into women's increasing wealth and purchasing power.

In the banking and finance sector, research suggests that sales can be improved with a more effective approach to marketing to women, a strategy that can best be implemented by female staff and managers from within companies themselves. A recent study by Accenture<sup>18</sup> shows that businesses in this sector can see an almost immediate increase in sales by taking into account the gender differences of their customers and actively marketing to



19. Accenture (2006)  
Banking for today's women -  
*'because they're worth it'*

women directly. In times of recession and economic uncertainty, smarter marketing is something that every business could gain from.

## Conclusions

The evidence shows that maintaining a focus on gender equality and equal pay makes good business sense and that companies who take action to promote gender equality show increased profitability. This derives not only from more efficient use of the underutilised human capital of women but also by enhancing companies' ability to market to women and capitalise on their increasing wealth and purchasing power, as well as reaping the rewards of increased innovation and good corporate governance that having more women in the workforce has shown to offer. Companies that can harness the benefits of equality can gain competitive advantage in the current economic downturn. Equality in hard times, therefore, is more important than ever.

Close the Gap is a partnership project working with those who can influence the gender pay gap and those who are affected by it. We recognise equal pay is a productivity issue as well as an issue of fairness and equality, and that narrowing the gender pay gap is good for business, even during a recession.

Close the Gap can support you to identify actions to increase gender diversity in your workplace. This includes:

- Confidential advice and assistance to employers carrying out equal pay reviews
- Identify ways your organisation can improve its diversity at management level
- Suggest actions to attract and retain skilled female employees to your company

To find out how other organisations have benefited from our support please visit our website [www.closethegap.org.uk](http://www.closethegap.org.uk).

To find out more about how we can help your organisation please email [info@closethegap.org.uk](mailto:info@closethegap.org.uk) or call us on 0141 337 8126.

# CLOSE THE GAP

Close the Gap is a partnership project working to close the gender pay gap in Scotland. The project is funded by the Scottish Government.

Partners include Scottish Government, Scottish Trades Union Congress, Equality and Human Rights Commission, Scottish Enterprise, and Highlands and Islands Enterprise.

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