Increasing gender diversity to boost performance

A BRIEFING FOR FINANCE AND HR LEADERS
This paper presents the value of gender diversity in business.

It aims to help CFOs, senior finance professionals and HR professionals working alongside finance teams, to understand the value of gender diversity and make the business case for diversity to their peers.
Regulators around the world are increasingly taking action to encourage greater diversity within corporate entities and get more women on to the board of directors in the biggest and most successful companies. Thousands of women are working hard on becoming the female business leaders of the future, and we are proud to support their efforts at ACCA.

Businesses need to take action in response, not just to avoid breaching regulatory requirements, but because diversity is great for business. A September 2014 study by the Credit Suisse Research Institute found that companies where women accounted for over 15% of senior management achieved an average return on equity of 14.7% in 2013, compared with 9.7% by companies where women accounted for fewer than 10% of senior managers.

At ACCA, we’re proud that 64% of our employees are female, and 64% of our senior managers are women too. On International Women’s Day this year, we called for five changes that will support the millions of women and men working hard across the world to make it happen for diversity in business in 2015:

1. Christine Lagarde, managing director of the International Monetary Fund, has said that closing the gap between male and female pay is ‘a moral imperative’ and yet the latest Global Gender Gap Report from the World Economic Forum shows that we will not achieve gender equality in the workplace until 2095. There can be no excuses – we must close the pay and pension gap faster, or our daughters and our granddaughters will suffer the consequences.

2. What can be measured can be managed – and then changed for the better. Accountants are perfectly placed to shine the spotlight on gender inequality. Inequality is a genuine business risk, and should be treated as such. Better management of reporting statistics will help us seek out gender inequality at its source, and eradicate it.

1909
ACCA becomes the first professional accountancy body to admit a woman into its membership – Ethel Ayres Purdie

2014
51% of ACCA students are female
45% of ACCA members are female

Helen Brand
ACCA chief executive
3. Both women and men who have made it to the top need to commit to being mentors to the next generation. As we climb the career ladder, all of us will benefit from the talented, driven colleagues that we will help create by mentoring the next generation.

4. Nordic nations are the most gender-equal societies in the world. They are getting it right and reaping the benefits. Other countries need to mirror their best practice — from fair and equal access to education for girls, to equal political empowerment for women, to closing the gender gap for health and survival.

5. And lastly, looking ahead to 2020’s International Women’s Day, I hope that in five years’ time we can celebrate more change, more improvements and more developments that I can share proudly with my daughters who will be looking ahead to their working lives.

This report explains why we all need to focus on diversity and gender, and importantly how finance can take the lead in making change happen. As the report’s concluding recommendations show, we can all break down the barriers by establishing the diversity business case, setting clear targets, actively managing diversity, and above all being transparent. These are four actions that can make a change for the future, and four actions that ACCA stands behind wholeheartedly.
1. Introduction

WHY FOCUS ON GENDER?

This briefing looks primarily at gender diversity for a number of reasons. Women make up roughly half the population, so organisations that lack a gender balance are simply unrepresentative of the society in which they operate. Most regulatory action and research has so far been focused on gender diversity. It is also perhaps where employers can make the biggest initial progress: internal data on gender is typically more readily available than that on ethnicity or disability, for example.

This does not mean that gender is the most important, or only, aspect of diversity. Companies need to recruit and develop people from different ethnic groups, social and educational backgrounds, experiences, ages, etc. By tapping into the widest talent pool, employers can encourage innovative thinking, build relationships with a wider range of customers, and develop more resilient and global value chains, among other benefits. Many of the conclusions drawn in this briefing and suggested actions are applicable to all forms of diversity initiative, not just those aiming to increase the representation of women.

MAXIMISING HUMAN CAPITAL

The importance of human capital in generating business value is increasingly recognised, being one of the six capitals within the international integrated reporting framework (IIRC 2013). Companies seeking to create value over the short, medium and long term need both to manage and to report on their human capital and how they are developing and increasing it.

Enabling more diversity within the workforce, and managing that diversity effectively, is one way of maximising value from human capital. Research studies have found a link between more gender-diverse company boards and better financial performance. Diversity is therefore a business issue.

The importance of diversity for organisational success is also recognised by national governments and regional bodies, which are increasingly setting targets for companies – voluntary and mandatory – designed to increase female representation at senior levels. So whether triggered by regulation or competitive forces, action to increase gender diversity will be required of companies – if they are not taking steps already.

FINANCE CAN TAKE THE LEAD

The finance function has an important role to play in promoting and supporting diversity initiatives. CFOs can act as role models and use their ‘top table’ status to influence corporate diversity strategies and action by other functions.

Finance can make the business case for diversity and has an important role to play in managing diversity. Analysing diversity data and establishing governance of diversity initiatives are essential requirements for achieving real benefits.

The finance function itself has the opportunity to build diversity within its own team, taking advantage of the strengths of professional accountancy qualifications. Although female participation in the accounting and finance profession has grown strongly, there is still more progress to be made to increase the number of women reaching senior finance roles.
Mounting evidence shows that companies with more women in senior management perform better than those with fewer women, making diversity a strategic issue with bottom-line impact. Finance should therefore play a leading role in shaping, driving and monitoring diversity initiatives.

A company’s human resource is now seen as an important form of capital which, if managed effectively, plays a major part in business success. New developments, such as integrated reporting, are encouraging companies to focus on the links between human capital (among others) and financial performance, by measuring and reporting on HR key performance indicators relevant to the business strategy. Aspects of diversity management therefore fall naturally within the finance function’s remit. Indeed, as the business partnering concept and a more strategic role for the finance team continue to emerge, the ability for the finance function to drive diversity has been strengthened still further.

**DIVERSITY NEEDS MANAGING**

Applying finance skills to manage diversity is particularly important because more diversity of itself does not necessarily improve business performance. While some research studies have found that greater diversity is correlated with positive outcomes such as lower employee turnover and higher levels of innovation, others have found a correlation with negative outcomes such as lower levels of harmony, increased conflict and low morale. It is therefore the effective management of diversity that leads to business benefits. This can be done by:

- demonstrating the business benefits of diversity by using data and analysis
- establishing systems, processes and a culture that enable the expression of differing viewpoints
- providing training in how to work effectively in diverse groups, and
- setting out clear career progression criteria based on performance and potential.

When seeking to maximise human capital and the benefits of diversity, finance and accounting skills are therefore essential for:

- developing the business case for diversity initiatives
- identifying and analysing relevant diversity data
- integrating diversity data with other management analysis and reporting activity
- creating a governance structure that ensures the impacts of diversity initiatives are monitored and discussed at the highest level.

It is important to consider both hard data (such as headcounts and return on investment) and soft data (such as employee and customer feedback).

**CASE STUDY**

The value that finance teams can bring to analysing data relevant to diversity management has been highlighted by Nikki Walker, a diversity and inclusion (D&I) expert from consultancy More2Gain, in the ACCA report *Towards Better Diversity Management* (ACCA and ESRC 2014a). Walker advised a telecoms client to analyse customer satisfaction and spending data by the gender and age of its store employees. This revealed that employees gaining the best customer satisfaction scores and taking the highest spend were generally slightly older and often female. The company had assumed that technical experts (who were often male) would be most successful and had been prioritising their recruitment and promotion.

Walker comments: ‘The technical gurus were still important, but the stores also needed different kinds of people, perhaps older, perhaps different genders and perhaps different ethnicities – in order to be able to connect with their customers and drive more revenue to the bottom line. That’s the kind of analysis that makes business leaders understand why they need to invest in D&I!’
‘It’s important for female CFOs to feel supported. If your team succeeds, you succeed, and women can really instil that. In my own team I put a strong KPI emphasis on soft as well as technical skills, something that I think women do more than their male counterparts.’

BRENDA RADEMEYER, HEAD OF OUTSTATION FINANCE FOR UAE CARRIER ETIHAD AIRLINES (SPEAKING AT AN ACCA ROUNDTABLE EVENT IN DUBAI)

‘Any CFO searching for views that only echo their own shouldn’t be a CFO...The understanding that debate leads to better answers aligns with the ultimate finance goal of challenging the business.’

VANESSA WHITMAN, CFO, MARSH MCLENNAN (ACCA 2012)

‘Once you have respect for and an appreciation of differences, not necessarily thinking of one as better that the other, then you can really start working on getting the best out of people and situations wherever you are based.’

ROBERTO MELLO, CFO, GE HEALTHCARE CHINA (ACCA 2012)
DIVERSITY IS VITAL WITHIN THE FINANCE FUNCTION ITSELF

Today’s finance functions face increasingly complex and varied demands. Finance teams need a mix of technical capabilities, commercial understanding in order to support business operations, and people-management skills when working, for example, with outsourced functions or shared service centres. As businesses expand internationally and establish operations in other countries, knowledge of local regulations needs to be supported by an understanding of local culture.

CFOs themselves are now required to manage relationships with a wide range of colleagues and external stakeholders, from junior staff to the CEO, from third-party service providers to institutional investors. They need to master strategic, commercial and governance issues. This requires not only a huge breadth of skills and experience, but also the support of a finance function staffed by individuals with a diverse range of strengths and abilities.

As ACCA’s report, Building a Better Business Through Finance Diversity, argues (ACCA 2012): ‘In this new world we need a more meaningful definition of diversity in the finance function. This new definition of diversity includes diversity along gender, ethnicity and social lines, but also must be extended to capture the diversity of ideas, skills, capabilities that finance professionals from all ranges of backgrounds, experiences, cultures and geographies can bring.’

CASE STUDY

Alan Johnson, former chief auditor at Unilever, is a firm supporter of greater diversity in finance and audit functions. Interviewed by ACCA, he said: ‘I do believe you get a better result from bringing different cultures, different experiences, different angles, different thought processes, different challenges, in fact. I think it gives you a richer result and often a better result’ (ACCA 2012b). Johnson radically changed the membership of Unilever’s internal audit team, bringing in a wider range of nationalities and people from different disciplines, including marketing, manufacturing, the supply chain, logistics, IT, customer development, HR and legal. The third diversity dimension he introduced was that of gender. Johnson managed to increase the proportion of female audit managers to nearly 40%, despite the long periods required away from home. He says: ‘We just had to provide the environment that allowed them to pursue a career and have a settled, happy family life. That’s one of the challenges of managing diversity.’

Managing diversity is not easy. As Johnson notes: ‘The way I did it was to make sure we had clarity of purpose and vision. We targeted the people we wanted to bring in. We gave them a great start through our on-boarding programme. We nurtured them as they developed in their roles. We counselled them. It’s high HR management. It takes a lot of time. I spent easily 30% of my time just managing people, talking to people, travelling with them, and also understanding what goes on in their lives beyond work.’ Johnson had no doubt, however, that this was time and effort well spent in order to create and manage a more diverse internal audit team.
A FINANCE QUALIFICATION SUPPORTS DIVERSITY

Finance could be a key role model function within the business, leading the way in supporting the progression of women into senior roles.

ACCA research, captured in the report *Women in Finance: A Springboard to Corporate Board Positions?*, has found that women appear more successful in gaining executive positions when they have a financial background – and this financial expertise is more important for their career success than it is for male colleagues (Sealy and Doherty 2012). The research found that 45% of female executive directors in the FTSE 100 were financially qualified and 65% had a financial background. In comparison, 26% of male executive directors were financially qualified and 44% had a financial background.

So why does a finance qualification help women gain senior positions? There are a number of possible explanations.

- The finance qualification adds credibility – it provides an independent badge of expertise and ability recognised by senior executives, chairmen and recruitment consultants.
- Women with finance qualifications may gain greater confidence – and are potentially taken more seriously – because they can talk to male colleagues in ‘hard’, financial language.
- Finance careers have traditionally been relatively structured, with clearly defined roles, making them more accessible and attractive to women.
- Women who gain a finance qualification build their own network of professional and business contacts – which can open doors to future, senior positions.
- Accountancy qualifications are highly portable, enabling women to move more freely between organisations and potentially build portfolio careers.

Participants in ACCA research (Sealy and Doherty 2012) commented:

‘Finance is a brilliant way of getting on the playing field... It allows you to connect on a different level about business.’

(RECENTLY-APPOINTED FEMALE BOARD DIRECTOR)

‘Head-hunters and chairmen seem to think that it’s important to have P&L experience and they seem to, for some reason, emphasise that more when they’re looking at women, than when they’re looking at men.’

(RECENTLY-APPOINTED FEMALE BOARD DIRECTOR)
3. Making the business case for diversity action

Organisations need to develop a customised business case that reflects their particular strategic goals and stakeholders. As highlighted in recent research, the business case for diversity is no longer focused only on shareholder value; it also encompasses value to a wider range of stakeholders, the regulatory context and the global value chain (Özbilgin et al. 2014).

SHAREHOLDER VALUE

This approach to making the business case sits comfortably in the finance remit. It looks at factors such as the contribution of diversity to profitability, return on investment and the effective management of budgets. It draws on the concept noted above that human capital is a vital driver of business value, one that needs to be measured and managed.

Research by management consultancy McKinsey shows that companies with the highest share of women on their executive committees outperform companies with all-male committees by 41% in terms of return on equity, and by 56% in their operating results (EBIT margin) (McKinsey & Company 2010). McKinsey suggests that this could be because they exhibit some different leadership behaviours that complement those of men.

Having women in management roles in general – not just on the executive committee or board – has also been linked to better company financial performance. A study by the Credit Suisse Research Institute (2014) considered the gender mix in over 3,000 companies across the key senior management roles of CEO, CFO, Operations and Shared Services. It shows that companies where women accounted for more than 15% of senior management achieved average return on equity of 14.7% in 2013, compared with 9.7% achieved by companies where women constituted fewer than 10% of senior managers.

Investors are keen to benefit from higher-performing diverse companies. For example, in March 2013 Morgan Stanley launched the Parity Portfolio, an investment fund that only invests in companies with three or more women on their corporate board (Morgan Stanley 2015). The move followed the growing amount of research revealing ‘a correlation between gender diversity on corporate boards and company financial strength’.

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1. Earnings before interest and taxes divided by net revenue.
Increasing Gender Diversity to Boost Performance

Norway’s listed company quota for female board directors is 40%.


2.7 average number of women on European boards (up from 1.5 in 2008)


Stakeholder Value

Building a business case around stakeholder value moves beyond a profit focus to include the ‘triple bottom line’ of profits, people, planet. As well as recording profit-related indicators, organisations also measure employee turnover rates, satisfaction at work score, and customer satisfaction scores. Social and environmental measures are also incorporated.

“We need to...help business to understand that this is not about fairness, this is about talent. Gender bias, whether conscious or unconscious, gets in the way of female talent being hired, developed and promoted and that is a huge loss to our organisations. No business can afford to ignore 50% of the talent base without impacting on its profitability. In addition, the different perspectives that women bring into the decision-making process help to make the decisions more thoughtful and ultimately more robust.”

JANN BROWN, FINANCE DIRECTOR AND MANAGING DIRECTOR, CAIRN ENERGY, UK (QUOTED IN JANJUHA-JIVRAJ AND ZAMAN 2013)
REGULATORY CONTEXT

When considering the business case for diversity, regulation should be considered in the widest sense—including self-regulation, regulation by industry bodies, legal requirements and economic regulation. External regulation can have the most impact, however, and some sectors are coming under particular scrutiny. For example, regulators are starting to require some financial services and other ‘public interest’ firms to assess their corporate culture, with diversity forming a part of that assessment. Measuring compliance with regulation provides reassurance that the organisation is on track to achieving the anticipated benefits of diversity, while also avoiding negative impacts from regulatory fines or damaged reputation due to failure to meet expected diversity standards. Ultimately, if finance leaders do not take steps to encourage greater gender diversity, there is an increasing likelihood that regulation will be imposed from above.

‘The Companies Act in India has made it mandatory for listed companies to select at least one woman board member. This will certainly create an enabling environment for more women to climb up the ladder and assume leadership positions.’

RANJANA VAISH AGARWAL, FOUNDER PARTNER, VAISH & ASSOCIATES, CHARTERED ACCOUNTANTS, INDIA (QUOTED IN JANJUHA-JIVRAJ AND ZAMAN 2013)

GLOBAL VALUE CHAIN

Diversity and the potential benefits it brings can have the most significance for organisations that operate on a global basis. Whether designing and developing products for a global market or providing services to a global client base, global organisations with diverse employees will be better positioned to understand the needs of global customers, suppliers and the wider societies in which they operate. Global organisations try to create ‘transnational parity in diversity management’, identifying problem regions, processes and functions and transferring learning where they can (Özbilgin et al. 2014).

40% European Commission’s proposed minimum for representation of either sex among company non-executive directors by 2020

30% Target proposed by the Commonwealth Secretariat for minimum female representation in decision-making positions in the political, public and private sectors.

25% minimum female representation by 2015
Voluntary target for FTSE 100 UK companies
THE MANAGEMENT GENDER GAP

More women are being appointed to senior management and board positions than in the past, but there is a long way to go before boardrooms around the world contain equal representation of both genders.

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<thead>
<tr>
<th>Region</th>
<th>Country</th>
<th>Percentage</th>
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<tr>
<td>North America</td>
<td>US (S&amp;P 500)</td>
<td>19.2%</td>
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<td></td>
<td>Canada (S&amp;P/TSX 60)</td>
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<tr>
<td>Europe</td>
<td>Portugal (PSI-20)</td>
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<td>Norway (OBX)</td>
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<td>Asia Pacific</td>
<td>Japan (TOPIX Core 30)</td>
<td>3.1%</td>
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<td>India (BSE 200)</td>
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<td></td>
<td>Australia (S&amp;P/ASX 200)</td>
<td>19.2%</td>
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Source: Credit Suisse Research Institute (2014)
4. Barriers to diversity

Diversity may be a desirable goal, but there are many barriers to achieving more equal representation of women (and other social groups) in senior management positions. These include:

- lack of commitment to diversity initiatives around the business
- pressure to focus on short-term financial results
- failure to recognise and challenge one’s own ‘unconscious bias’ that influences the way one views other people and their potential (for example, assuming confidence equals ability or assuming all women will be the main childcare providers in their home)
- recruiting people like oneself (i.e. in one’s own image) and from one’s own network
- recruiting from limited talent pools, for example, graduates from the same universities
- promoting those who are cast in one’s own image
- referring to standards and criteria for recruitment and promotion that have traditionally been set by men
- lack of opportunities for flexible and part-time working
- failure to establish diversity champions empowered to initiate changes in policies and procedures
- lack of investment in training and mentoring
- ‘local context’ and ‘cultural norms’ used as reasons for inaction and complacency.

Having an awareness of the potential barriers is important for understanding the scale of the challenge involved when developing diversity initiatives. This is also why senior management commitment – ideally from the company CEO and chairman – is a must-have for any successful diversity initiative.

‘I have found that...female executives hesitate discussing flexible working, long maternity leave and sabbatical options for fear of losing position, being sidetracked for promotions, etc. It takes tremendous confidence in one’s own worth and the courage to speak up.’

SHEENA GANESH, FINANCE CONTROLLER, SHELL IRAQ PETROLEUM DEVELOPMENT (SPEAKING AT AN ACCA ROUNDTABLE EVENT IN DUBAI)

‘An enabling environment at work also means a commitment from senior leadership on gender diversity at senior levels, which has to come from a buy-in that having women in senior positions is beneficial to the firm.’

NAZ KHAN, CFO, ENGRO CORPORATION LTD, PAKISTAN (QUOTED IN JANJUHA-JIVRAJ AND ZAMAN 2013)

‘The relatively low number of successful female role models often compounds stereotypes and reinforces perceived difficulties in rising up the corporate ladder. The companies should pay significant attention and spend resources on recruiting, retaining and developing women leaders. It’s not only the right thing to do, it’s smart business. There is no one-size-fits-all approach to recruitment, retention and development.’

ALKA BATRA, MANAGING DIRECTOR, AEGIS JOBS PVT. LTD, INDIA (QUOTED IN JANJUHA-JIVRAJ AND ZAMAN 2013)
Diversity is without doubt an issue for finance leaders, and an evolving one. Organisations are increasingly talking about ‘diversity and inclusion’ – or even simply ‘inclusion’ – to reflect the need to create cultures in which everyone feels valued. The ultimate aim is to create an environment where everyone can achieve their potential and organisations can reap all the benefits associated with a more diverse workforce. So what should CFOs and their finance teams be doing?

**1. ESTABLISH THE BUSINESS CASE**

Incorporate increased shareholder value (e.g. through increased sales achieved by reaching a wider customer base), wider stakeholder value (including greater employee satisfaction) and a strengthened global value chain.

Include the downside risks of poor diversity (such as lost business, poor decision-making or regulatory costs).

Tailor your business case to the needs and interests of other senior executives to achieve maximum buy-in.

**2. SET TARGETS AND KPIS**

Set challenging targets for diversity: 40% of senior roles to be filled by women, for example.

Analyse financial and other data to establish links between diversity and performance.

Identify both hard (e.g. gender headcounts) and soft (e.g. employee satisfaction) diversity measures.

**3. MANAGE DIVERSITY**

Establish systems, processes and a culture that enable the expression of differing viewpoints.

Provide training in how to work effectively in diverse groups.

Set out clear progression criteria based on performance and potential.

Establish sound governance around diversity actions, for example, by including diversity KPIs in management reporting packs.

Set realistic expectations for diversity initiatives: ‘quick wins’ are unlikely.

**4. BE TRANSPARENT**

Report internally on diversity targets and measure performance against them.

Meet investor and regulator needs by reporting diversity information externally.

**5. Conclusion and next steps**


Egon Zehnder (2014), *2014 European Board Diversity Analysis.*


The World Economic Forum is building a repository of successful practices, where companies share their approaches to closing the gender gap. It covers six areas of action:

- leadership and company commitment
- measurement and target setting
- awareness and accountability
- Work environment and work-life balance
- mentorship and training
- responsibility beyond the office.

The repository can be accessed online at http://www.weforum.org/gender-parity/closing-gender-gap