More Women in the Workplace: Is There a Payoff in Firm Performance?

In the past few decades, the number of women in the workforce has increased dramatically. Many academics and practitioners now claim that embracing gender diversity is the right way to do business. But is this true? Does gender diversity impact firm performance? Indeed, is there some ideal level of female participation? And does that level depend on the industry?

These intriguing questions were tackled for the first time by a team of eight researchers led by Dwight D. Frink of the University of Mississippi. In a recently published article, the team reported on two studies, each involving hundreds of organizations, that examined how firm performance varied with the percent of female employees in the company. Frink and his colleagues predicted that performance would be best when about half the employees were women. This did turn out to be the case in some industries, but not all.

At this point, some may wonder why gender diversity and firm performance should be connected in the first place. Actually, there are good reasons to think gender diversity might hurt performance as well as good reasons to think it might help. In both cases, however, the impact of gender diversity is felt through work groups. In short, if diversity hurts work group performance, then the ultimate effect will be poorer firm performance overall. Likewise, if diversity helps group performance, then organization performance will ultimately improve.

So why might gender diversity hurt group performance? Frink and his colleagues give two reasons. First, gender differences might cause employees to pay more attention to differences between "us" and "them" within the organization. Second, we tend to get along best with people who are similar to ourselves—"birds of a feather flock together." For both these reasons, gender diversity might decrease group solidarity, make it harder for group members to communicate clearly and openly, and increase conflict within the group. All these problems should hurt group effectiveness and, ultimately, firm performance.

On the other hand, gender diversity may help group performance. Different types of people see the world in different ways. Having divergent perspectives can be helpful when groups are trying to come up with creative ideas or solve complex problems. In fact, research on top management teams has typically found that firm performance increases when the senior management group is more diverse (e.g., with respect to tenure, functional background, and race/ethnicity).

Overall, gender diversity might help performance while a lack of gender diversity might cause problems. Indeed, firms with few women, especially in senior management ranks, are more likely to embrace stereotypical gender roles. And the women in such firms typically have little power. As a consequence, these firms may be less attractive to women, costing firms access to the resources that female employees could have brought to the table.

Based on these arguments, Frink and his colleagues predicted that gender diversity would
have a positive impact on firm performance. Specifically, they predicted that performance would be maximized when women comprised about half of a firm's workforce. Departures from a 50-50 split in either direction would decrease diversity and, as a result, lead to lower firm performance.

Frink and his colleagues tested this prediction in two studies. In the first study, personnel officers from 291 U.S. companies reported on their firms' gender distribution, size, and sector (services vs. goods). They also rated their firms' market performance on several dimensions, such as profitability and growth in sales. On average, these companies had 624 employees, 49 per cent of whom were women. As predicted, there was an overall positive effect of female participation on firm performance. More importantly, firm performance increased with female participation up to a maximum at 50 per cent, after which it decreased. These results were not affected by organization size or industry sector.

The second study involved a random sample of 410 publicly traded firms in five industry sectors and covered the period from 1978 through 1992. Frink and his colleagues used a variety of reports and databases to obtain workforce and financial information about these firms, which were much larger than the companies included in Study 1. On average, the Study 2 firms had total assets of $534 million and nearly 28,000 employees. Female participation was lower than in Study 1, with women comprising about 32 per cent of the workforce on average in Study 2 firms. Productivity (total revenue per employee) and profitability (net income before interest and taxes) were used to gauge firm performance in Study 2.

Frink and his colleagues found that productivity was unrelated to gender diversity. But they did find a direct relationship between the per cent of female employees and firm profitability. As the percentage of women in the company increased, so did profitability. Indeed, profitability was highest at intermediate levels of female representation. In essence, these results are consistent with the pattern found in Study 1.

That said, the Study 2 results also varied with industry sector. Specifically, the predicted effect for female participation (i.e., that firm profitability was highest when the workforce was roughly 50 per cent female) was found only for firms in the service/wholesale/retail sector. In the other four industry sectors (heavy manufacturing, light manufacturing, financial, and utility), no consistent relationship between gender diversity and profitability emerged.

Why didn't firms whose workforces were equally split between males and females have the best performance across all industry sectors? Frink and colleagues offer two possible explanations. First, if some units are made up mostly of men and others are composed mostly of women, then a firm could be diverse at the organizational level, but not at the group level. This may be more likely to happen in certain industry sectors than others. And since improved group performance is the vehicle by which gender diversity boosts firm performance, then the lack of diversity at the group level means that no positive firm effects can occur.

A second possible explanation is based on the notion that the benefit of diversity varies with the task. Remember that one important argument for the value of gender diversity is that it
creates a broader range of perspectives. These perspectives could prove quite useful when
groups have to solve tough problems or make creative decisions. But a diversity of
perspectives won't be very helpful if the group is focused on tasks involving physical skills.
This is exactly the context in many manufacturing plants. In manufacturing, the physical talents
required to do the work may be much more important than a diversity of perspectives. Also,
manufacturing firms may have more gender segregation by jobs than firms in other industries
(e.g., with male managers, female office staffs, and male line employees). Clearly, more
research is needed to discover how gender diversity can improve firm performance, as well as
factors that may limit—or increase—its impact.

So what are the major implications of this research for top managers? Perhaps the clearest
implication is that firms in the service/wholesale/retail sector should attempt to maximize the
gender diversity of their workforces. For firms in all sectors, however, it's important to
remember that the direct impact of gender diversity is at the group level. That means
managers should strive for a balance between men and women in units where having diverse
perspectives might be especially helpful. These units could include the human resources
department (which deals with all types of applicants and employees), the marketing
department (which deals with all types of customers), and top management (which deals with
all types of environments and must make key decisions).

Nevertheless, this research also underscores the complexity of the link between gender
diversity and firm performance. In essence, that relationship appears to be, well, diverse. For
instance, outside of the service/wholesale/retail sector, the results were not clear-cut, with no
uniform relationship found between gender diversity and firm performance. Clarifying these
relationships in different industry contexts will require more research. Indeed, how gender
diversity relates to firm performance may vary a great deal and may depend, at least to an
extent, on a variety of factors (e.g., industry context and task requirements). Put simply, one
size doesn't fit all when it comes to the impact of gender diversity. And that presents
managers, as well as researchers, with some important food for thought.


--David A. Kravitz

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