REPORT

The Business Case for Gender Equity

April 2025

In Partnership with oxera

Contents

1. Introduction

This literature review is the first output of 'Equal Futures', a new intersectional campaign by Business in the Community (BITC) focusing on achieving greater gender equity at work, now and into the future. As the UK's leading responsible-business network, BITC, in partnership with economics and finance consultancy, Oxera, has conducted a comprehensive review of the evidence on the 'business case' for gender diversity and equity in commercial and business environments.

The review highlights how action on the gender and wider inclusion agenda is integral to business success, particularly in emerging areas such as climate change and technological acceleration.

The review was prompted by an understanding that, while few would challenge the ethical or social case for greater inclusion at work, there remains scepticism about the commercial benefits particularly in regards to gender—i.e. the specific, quantifiable ways in which adopting positive equality, diversity and inclusion (EDI) policies affects business performance.

Such scepticism can act as a brake on efforts to drive greater inclusion at work, whereas evidence shows it is much needed, as the UK remains a country where someone's gender has a significant impact on their experience of the working world.

Throughout this report we use several key terms defined in the Glossary at the end of the document.

This report presents a systematic review of the academic and corporate literature (henceforth 'the literature') to critically assess the impacts of gender diversity and equity on businesses' commercial performance.[1] In doing so, it seeks to fulfil three purposes:

1. To bring together the key findings from the literature in a way that is accessible for business leaders and other interested parties
2. To examine the impacts of gender diversity and equity at all levels of the business. Even though much of the focus in recent years has been on improving gender diversity and equity at the board and C-suite level, this review looks at the effects throughout the whole business

[1] Literature was sourced from key academic economics journals, as well as journals of other related disciplines, including management, sociology and psychology. Papers were also identified using platforms including Google Scholar and JStor.

3. To assess the impacts of gender diversity and equity on several aspects of business performance, including recruitment costs, retention and resilience through to long-term commercial risks.

Box 2.1 Why gender inclusion matters

Women and other marginalised genders face a persistent pay gap, are less likely to hold positions of power, are more likely to hold 'insecure' roles, and face a greater risk of gender-based harassment and discrimination.

Furthermore, some marginalised groups of women face additional barriers. For example:

- Black women experience a larger pay gap
- Transgender women report higher levels of harassment at work
- Disabled women are more likely to be in insecure work

The flipside of this is that large commercial gains are available from remedying this inequality. One study found that a 5% increase in the total number of women in employment in the UK could boost gross domestic product (GDP) by £125bn per annum.[2]

At the management level, a notable study found a 26% difference in return on invested capital between companies with higher female board representation compared to those with none.[3]

Thus, addressing these disparities is not just an ethical imperative, but also a strategic economic opportunity.

Source: Oxera

[2] PricewaterhouseCoopers (2024), 'PwC Women in Work 2024', accessed 29 August 2024.
[3] Barsh, J. and Yee, L. (2011), 'Unlocking the full potential of women in the US economy', McKinsey & Company, accessed 27 August 2024.

The intention here is not to state that women are more effective than men at driving commercial performance; rather, the review highlights and considers gender diversity and equity, including its benefits. The review does not imply that there are intrinsic differences between women and men, but it acknowledges that men and women face different structural barriers and have different lived experiences. They therefore may have differences in observed traits, which can affect the value for businesses.

However, there is evidence to suggest that having a higher proportion of women brings commercial benefits. For example, research indicates that women on average have higher emotional intelligence, which in turn improves the performance of staff managed by women.

While the focus is on the impact of gender diversity and equity on businesses' commercial performance, many of our findings are applicable to EDI more generally. Finally, this review is relevant to any business aiming to improve its performance, through greater revenues or higher efficiency, and so the findings are intended for the private, public and third sectors.

2. The status of gender diversity and equity

In recent years, there has been some progress when it comes to achieving gender diversity and equity in the working world. A 2023 UK report found that the percentage of board seats occupied by women in the UK has increased consistently since 2018, from 28% to 40%.[4]

Despite this progress, there is still some way to go to improve gender diversity and equity. Women and other marginalised genders still typically earn less than men. The UK's gender pay gap (the difference between the median salary for men and women) stood at 7.7% as at April 2023 and is widest for people over 40.[5] Women also hold fewer senior positions than men,[6] are over-represented in insecure work, and report high levels of harassment and discrimination in the workplace.

For women from multiple marginalised groups, the disparity is even greater. For example, research indicates that there are bigger barriers for women of colour, with not a single Black female CEO leading a FTSE 100 company.[7] Additionally, research by McKinsey highlights that, although two-thirds

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[4] Spencer Stuart (2023), 'Diversity: 2023 UK Spencer Stuart Board Index', accessed 27 August 2024.
[5] Office for National Statistics (2023), 'Gender pay gap in the UK: 2023', 1 November.
[6] For example, one study found that just 29% of C-suite roles in the UK are held by women, despite them occupying 48% of entry-level positions. See McKinsey (2024), 'Women in the Workplace 2024: The 10th-anniversary report', September 17.
[7] Equality Group (2023), 'FTSE 100 CEO Diversity Data 2023', accessed 29 August 2024.

of the 80 UK companies with a higher-than-average diversity have increased female representation, only half have managed to enhance ethnically diverse representation effectively.[8]

This emphasises that, even among companies making progress, the intersection of gender and ethnic diversity presents unique challenges,[9] indicating that there is a substantial gap in female employment across various levels of the UK workforce. Where businesses seek to address this, there can be large commercial gains—a study by PwC found that a 5% increase in the number of women in employment in the UK could boost GDP by £125bn per annum.[10]

On a global scale, research from The McKinsey Global Institute estimates that a scenario in which women achieved complete gender equality with men could increase global output by more than one-quarter relative to a business-as-usual scenario.[11] This report and others by McKinsey have faced some criticism, for example the fact that the results could be explained by stronger commercial performance leading to greater gender diversity and not the other way around. However, the many academic studies have controlled for this scenario. For example, Ali, Kulik and Metz (2011) find that higher gender diversity at earlier points in time is associated with better commercial performance in the future, which makes it likely that gender diversity has a positive impact on business performance and not the other way around.[12]

3. Commercial success

There is a large body of literature that finds a positive association between gender diversity, equity and business performance through an expanded customer base and greater profit margins compared to competitors.[13]

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[8] Dixon-Fyle, S., Gegotek, K., Holt, T., Olanrewaju, T. and Olufon, D. (2023), 'Race in the UK workplace: The intersectional experience', McKinsey & Company, accessed 27 August 2024.
[9] Dixon-Fyle, S., Gegotek, K., Holt, T., Olanrewaju, T. and Olufon, D. (2023), '[Race in the UK workplace: The intersectional experience](#)', McKinsey & Company, accessed 27 August 2024.
[10] Pricewaterhouse Coopers (2024), op. cit.
[11] See Noland, M., Moran, T. and Kotschwar, B.R. (2016), 'Is Gender Diversity Profitable? Evidence from a Global Survey', *Peterson Institute for International Economics Working Paper*, 16:3.
[12] Ali, M., Kulik, C.T. and Metz, I. (2011), 'The gender-diversity performance relationship in services and manufacturing organisations', *The International Journal of Human Resource Management*, **22**:7, pp. 1464–1485.
[13] Herring, C. (2009), 'Does diversity pay?,' Race, gender, and the business case for diversity', *American Sociological Review*, 74:2, pp. 208–224.

This section explores the evidence on how gender diversity is linked to increases in business performance before turning to the mechanisms through which this occurs. From the literature, we have identified several ways in which gender diversity and equity improve commercial performance.

The impact of gender diversity on commercial performance

Companies that prioritise an inclusive workplace culture are more innovative. A study by Deloitte found that companies that prioritise inclusivity are six times more likely to develop innovative ideas, and eight times more likely to achieve better business outcomes than companies that have not done so.[14]

We want to understand whether businesses that have greater levels of innovation and performance attract greater gender diversity, or whether greater gender diversity leads to better commercial performance. There is evidence to suggest the latter. Ali, Kulik and Metz (2011) found that higher gender diversity at earlier points in time is associated with better commercial performance in the future, which makes it likely that gender diversity has a positive impact on business performance and not the other way around.[15]

Gender diversity at senior leadership levels of the business has been found to improve commercial performance.[16] McKinsey found that, in the UK, a 10% increase in gender diversity among the senior executive team corresponds to a 3.5% increase in earnings before income and taxation (EBIT).[17] While there has been some criticism that this finding is not replicable, the finding that gender diversity is linked to stronger commercial performance is repeated throughout the literature. For example, Noland, Moran and Kotschwar (2019) conducted a global study across 22,000 businesses.

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[14] Bourke and Dillon (2018), op. cit. The study refers to an inclusive culture in relation to gender alongside other factors. This culture is defined based on the interplay between four key elements that contribute to individuals feeling respected, valued, safe and empowered. Due to the lack of transparency in how the data is analysed and conclusions are drawn, we cannot verify the exact magnitude of the results, but this illustrates the potential scale of the impact.
[15] Ali, M., Kulik, C.T. and Metz, I. (2011), 'The gender-diversity performance relationship in services and manufacturing organisations', *The International Journal of Human Resource Management*, 22:7, pp. 1464–1485.
[16] This does not imply that the impact of gender diversity on commercial performance is greater at board level than at other levels of the business, such as middle management or entry level. However, we note that there is a lack of evidence on the extent to which increased gender diversity at other levels of the business brings commercial benefits, and we suggest this as a topic for further research. We have also not come across any literature which compares the impact of gender diversity at board level against gender diversity at other levels of the business. As such, we are not aware of any evidence that gender diversity has a greater impact at board level than at other levels of the business.
[17] Hunt, Layton and Prince (2015), op. cit.

They found that organisations with 30% female leaders experience a 15% increase in net revenues compared to similar businesses with only male leaders. [18]

Similarly, in the USA, another study found that having a greater proportion of female leaders contributes to business productivity, collaboration, organisational dedication and fairness.[19] Further research conducted in 72 countries found that having a female chair or CEO has a positive impact on the performance of financial institutions[20] Meanwhile, examining SMEs in the Spanish technology sector, a further study found that organisations with more women in leadership positions experience higher levels of innovation and enhanced operational capacity.[21]

While much of the literature suggests that businesses' commercial performance improves as gender diversity increases, other papers suggest that diversity is not always sufficient to improve commercial performance.

Joecks, Pull and Vetter (2013) found that greater gender diversity at the board level increases business performance, but only when the proportion of women on the board reaches 30%.[22]

Similarly, while having one or two female board members has no effect on a business's commercial performance, having an equal number of men and women on the board leads to substantially better commercial performance than having no women on the board.[23]

This suggests that the benefits of gender diversity may not be achieved under all circumstances, particularly when the proportion of women is small, and that there may be a 'tipping point', beyond which having a greater proportion of women has positive commercial impacts.

Whereas a larger body of literature indicates a link between gender diversity and business performance, less evidence is available on the impact of specific groups of women, including women who are Black, Asian, mixed race, or in another way ethnically diverse. A report from McKinsey found that less than half of the companies monitor performance metrics that combine both race and

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[18] Noland, Moran and Kotschwar (2016), op, cit.
[20] Strøm, R.Ø., D'Espallier, B. and Mersland, R. (2014), 'Female leadership, performance, and governance in microfinance institutions', *Journal of Banking & Finance*, 42:1, pp. 60–75.
[20] Strøm, R.Ø., D'Espallier, B. and Mersland, R. (2014), 'Female leadership, performance, and governance in microfinance institutions', *Journal of Banking & Finance*, 42:1, pp. 60–75.
[22] Joecks, J., Pull, K. and Vetter, K. (2013), 'Gender diversity in the boardroom and business performance: what constitutes a "critical mass?"', *Journal of Business Ethics*, 118:1, pp. 61–72.
[22] Joecks, J., Pull, K. and Vetter, K. (2013), 'Gender diversity in the boardroom and business performance: what constitutes a "critical mass?"', *Journal of Business Ethics*, 118:1, pp. 61–72.
[23] Campbell, K. and Mínguez-Vera, A. (2008), 'Gender diversity in the boardroom and business financial performance', *Journal of Business Ethics*, 83:3, pp. 435–451.

gender.[24] This indicates a gap in research relating to the impact of women from multiple marginalised groups.

Additionally, while this research indicates the impact of gender diversity on business performance, it also examines the balance between women and men. There is substantially less literature on the impacts of gender diversity in a more holistic sense, including other marginalised gender, such as non-binary and transgender individuals.

Although this review focuses primarily on gender diversity, the conclusions drawn in this section are also applicable to racial diversity, which has been shown to increase both the short-term productivity and the long-term performance of businesses.[25]

Staff engagement

Gender diversity and equity improve commercial performance through increased staff engagement. A large body of research indicates that female leaders can enhance the motivation and performance of their female employees, which includes through more efficient allocation of labour, and recruitment and retention strategies.[26]

Effect on staff performance through efficient allocation of labour

Having more women in top management roles can positively influence the performance of female employees at different levels in the business—known as the 'trickle-down effect'.[27] This is because evidence shows that female leaders are better able to understand and identify the true skillsets of their female employees. As a result, they are better placed to assign them to roles or tasks where

[24] Field, E., Krivkovich, A., Kügele, S., Robinson, N. and Yee, L. (2023), 'Women in the Workplace 2023', September, McKinsey & Company, accessed 19 July 2024.
[25] See, for example, Richard, O.C., Murthi, B.P.S. and Ismail, K. (2007), 'The impact of racial diversity on intermediate and long-term performance: The moderating role of environmental context', *Strategic Management Journal*, 28:12, pp. 1213–1233.
[26] Adams, R.B. (2016), 'Women on boards: The superheroes of tomorrow?', *The Leadership Quarterly*, 27:3, pp. 371–386; and Eagly, A.H. and Carli, L.L. (2003), 'The female leadership advantage: An evaluation of the evidence', *The Leadership Quarterly*, 14:6, pp. 807–834.
[27] Mayer, D.M., Kuenzi, M., Greenbaum, R., Bardes, M. and Salvador, R. (Bombie) (2009), 'How low does ethical leadership flow? Test of a trickle-down model', *Organizational Behaviour and Human Decision Processes*, 108:1, pp.1–13.

they can add greater value, resulting in a more efficient allocation of labour (and thereby reducing costs).[28] [29]

Box 4.1 The trickle-down effect

A better representation of women at a senior management level can increase the number of women at a lower management level. This is known as the trickle-down effect.

Source: Oxera

Female-led businesses are more likely to have a higher percentage of women in management roles[30] and good promotion prospects for female employees.[31] This demonstrates how increased gender diversity at the leadership level can positively influence gender diversity at different levels in an organisation.

[28] The theory that female leaders will enhance the performance of female employees is supported by the theory of homophily, which posits that individuals tend to form connections with those similar to themselves. See Lazarsfeld, P. and Merton, R.K. (1954), 'Friendship as Social Process: A Substantive and Methodological Analysis', *Freedom and Control in Modern Society*, 18:66, p. 22.
[29] Gender affinity (a subset of homophily) suggests that same-gender leaderships yield higher effectiveness. See Gagliarducci, S. and Paserman, M.D. (2016), 'Gender Differences in Cooperative Environments? Evidence from the U.S. Congress', *The Economic Journal,* 132:641, pp. 218–257. In this context, the effectiveness of such leadership is typically assessed through subjective evaluations reported by employees or their colleagues, who act as proxies for otherwise unobservable worker performance. See Chiniara, M. and Bentein, K. (2016), 'Linking servant leadership to individual performance: Differentiating the mediating role of autonomy, competence and relatedness need satisfaction', *The Leadership Quarterly*, 27:1, pp. 124–141.
[30] See, for example, Ng, E.S. and Sears, G.J. (2017), 'The glass ceiling in context: the influence of CEO gender, recruitment practices and business internationalisation on the representation of women in management', *Human Resource Management Journal*, 27:1, pp. 133–151.
[31] Cook, A. and Glass, C. (2013), 'Women and Top Leadership Positions: Towards an Institutional Analysis', *Gender, Work & Organization*, 21:1, pp. 91–103.

As a result of the trickle-down effect, organisations with greater gender diversity can increase their productivity and overall performance. Flabbi, Macis, Moro and Schivardi (2019) used data from the Italian manufacturing sector which indicated that the presence of female executives improves the efficiency measures of a business, including sales per worker, value added per worker, and overall business productivity.[32] In addition, the authors demonstrate that having female executives leads to an increase in pay for women at the higher end, contributing to reduce the gender pay gap.[33]

This is important given that, for many businesses, women comprise a substantial proportion of the workforce, although overall they comprise a much lower proportion of companies' executive management teams. As a result, it is important for firms to be able to make the most of the female labour force. While the female employment rate in the UK was 72% in 2023 (compared to 78% for men),[34] women make up just 13.7% of executive director roles in the UK.[35]

Overall, most of the literature in this area focuses on the impact of gender diversity by comparing women as a group to men as a group, highlighting a gap in understanding how women from multiple marginalised groups can influence commercial performance through the trickle-down effect.

Effect on staff performance through improved motivation

There is evidence to suggest that female leadership improves commercial performance through positive role models in the workplace. Having role models that employees can relate to can allow them to feel motivated, to demonstrate positive behaviours and to set ambitious goals, which overall can improve productivity.

This can increase commercial performance, as research has shown that female employees exhibit more motivation and dedication to their roles when there are female leaders in a company, since they believe they are more valued.[36] This is particularly important for employees from marginalised or under-represented groups. Evidence suggests that senior staff of a specific marginalised gender can substantially increase the motivation of people of that gender throughout the organisation.[37]

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[32] Flabbi, L., Macis, M., Moro, A. and Schivardi, F. (2019), 'Do Female Executives Make a Difference? The Impact of Female Leadership on Gender Gaps and Firm Performance', *The Economic Journal*, 129:622, pp. 2390–2423.
[34] Francis-Devine and Hutton (2024), op. cit.
[34] Francis-Devine and Hutton (2024), op. cit.
[35] Marren, C. and Bazeley, A. (2022), 'Sex and Power 2022', January, The Fawcett Society.
[36] See, for example, Bilimoria, D. (2006), 'The Relationship Between Women Corporate Directors and Women Corporate Officers', *Journal of Managerial Issues*, 18:1, pp. 47–61; and Daily, C.M. and Dalton, D.R. (2003), 'Women in the boardroom: a business imperative', *Journal of Business Strategy*, 24:5.
[37] Morgenroth, T., Ryan, M.K. and Peters, K. (2015), 'The Motivational Theory of Role Modelling: How Role Models Influence Role Aspirants' Goals', *Review of General Psychology*, 19:4, pp. 465–483.

Box 4.2 The importance of role models

Having a positive and relatable role model in the workplace can lead to higher career success for employees. Female representation at leadership level can also lead to greater motivation and dedication for female employees.

Source: Oxera

In addition to its impact on women, role modelling is found to have a particularly strong positive impact on marginalised groups more widely. Bagès and Martinot (2011) and BarNir, Watson and Hutchins (2011) found that role models have considerably smaller effects for groups that are not marginalised. For example, role models have less of a pronounced effect on men, who are largely positively stereotyped. The literature has often documented the stereotype that men tend to have high expectations of performance regardless of whether they have role models or not.[38]

These findings suggest that all marginalised groups, including women belonging to multiple marginalised groups, and other marginalised genders, may benefit from having senior representatives whom they can identify with and look up to in the workplace.

The literature in this area focuses on the impact of gender diversity and female role models at the board level. There is therefore a gap when it comes to assessing the impact on staff motivation through increased gender diversity at lower levels of an organisation.

Pipeline for future talent at management levels

Having greater gender diversity throughout the business has been found to increase commercial success by providing a pipeline for future talent to reach higher levels of the business. Equally, if

[38] Bagès, C. and Martinot, D. (2011), 'What is the best model for girls and boys faced with a standardized mathematics evaluation situation: A hardworking role model or a gifted role model?', *British Journal of Social Psychology*, 50, pp. 536–543; and BarNir, A., Watson, W. E. and Hutchins, H. M. (2011),'Mediation and moderated mediation in the relationship among role models, self-efficacy, entrepreneurial career intention, and gender', *Journal of Applied Social Psychology*, 41, pp. 270–297.

gender diversity is not achieved at lower levels of the business, it is less likely that enough qualified women will be available for executive and C-suite leadership roles in the future.[39]

These businesses may subsequently lose out on the commercial benefits of gender diversity at higher levels of the business. As such, closing the talent gap at middle management and entry levels is likely to have long-term benefits for organisational success.[40] This is particularly relevant due to the current lack of women in middle management positions—known as the 'broken rung' on the leadership ladder. McKinsey found that there is a large gender disparity among lower and middle-management levels, with women making up 48% of all-entry hires but only 38% of first-level managers.[41]

Similarly, an Oxera analysis of data from organisations that applied for the Times Top 50 Employers for Gender Equality award (which are likely to be strong performers in gender diversity and equity) reveals that, although the proportion of women in management roles has been increasing, it remains below 50% for the majority of these organisations.[42]

While better gender diversity at lower levels of the business can enhance future performance by fostering diversity at higher levels, it is also important to recognise that increased gender diversity in senior positions can positively influence the performance of staff at lower levels of the organisation

Effects on staff recruitment and retention

There is some evidence to suggest that having female leaders can have a positive impact on staff recruitment and retention in a business. This can influence commercial performance by reducing the costs associated with recruiting and training employees. It can also enhance commercial performance by facilitating the hiring of higher-quality candidates, irrespective of gender.

In terms of recruitment, the literature suggests that the presence of female leaders can have a positive impact on commercial performance through a more gender-neutral approach to hiring decisions. Experiments by Rice and Barth (2015) revealed that women are significantly less

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[45] Emerson, M.S. (2002), 'The Benefits of Promoting gender Diversity in Leadership', Professional Development| Harvard DCE, accessed 29 August 2024.
[40] Emerson, M.S. (2002), 'The Benefits of Promoting gender Diversity in Leadership', Professional Development| Harvard DCE, accessed 29 August 2024. This paper indicates that the long-term talent gap caused by the failure to promote women, including those belonging to multiple marginalised groups, into entry- and mid-level management roles virtually guarantees that there will be a lack of qualified women for executive and C-suite leadership roles in the future.
[41] Field et al. (2023), op. cit.
[42] Oxera analysis of BITC data on Times Top 50 applicants. As these organisations have self-selected to apply for the Times Top 50 award, they are likely to be top performers in gender equality.

influenced by gender stereotypes and demonstrate more equitable decisions in hypothetical hiring decisions.[43]

Noland, Moran and Kotschwar (2016) carried out surveys across 91 countries and found that female leadership reduces gender discrimination in employee recruitment and retention. [44] As a result, more female involvement in recruitment can lead to increased female representation at lower levels of management.

Box 4.3 Gender-neutral recruitment

Female leadership reduces gender discrimination in recruitment as women display a more gender-neutral approach to hiring decisions. This can lead to increased gender diversity and better commercial performance since it means that the best candidates are not overlooked based on their gender.

Source: Oxera

Gender-neutral recruitment is also linked with business performance, although the effect of this is not straightforward. On the one hand, anonymous recruitment has been found to enable companies to guarantee they are selecting the best candidates for job vacancies.[45] This reduces any unconscious biases that may influence hiring decisions, by removing characteristics such as gender.[46] On the other hand, anonymous recruitment has been challenged on the basis that, by hiding characteristics, such as gender or race (which lead candidates to face structural barriers) and

[43] Rice, L. and Barth, J.M. (2015), 'Hiring Decisions: The Effect of Evaluator Gender and Gender Stereotype Characteristics on the Evaluation of Job Applicants', *Gender Issues*, 33:1, pp.1–21.
[44] Noland, M., Moran, T. and Kotschwar, B.R. (2016), 'Is Gender Diversity Profitable? Evidence from a Global Survey', Peterson Institute for International Economics Working Paper, 16:3.
[45] Vivek, R. (2022), 'Is Blind Recruitment an Effective Recruitment Method? Critical Literature Review', *International Journal of Applied Research in Business and Management*, 3:3, pp. 56–72.
[46] If businesses select employees based on characteristics that are not relevant when it comes to performance, given the employees' skills, such as gender, this will lead to less weight being placed on characteristics that are important to performance, and will therefore lead to a worse quality of candidate being selected.

just presenting candidates' achievements may hide the barriers that have been overcome by one candidate and not the other.[47]

More research is needed to understand the impacts of these two effects on businesses' long-term commercial performance. We note that a case for positive discrimination (also referred to as 'positive action' or 'affirmative action') of women can also be made, especially if it means that it will lead to more gender diversity in the long term, through role modelling and the efficient allocation of labour.

Having a higher proportion of women in leadership roles has also been associated with better retention of employees. Ferreira et al. (2021) studied the effects of board gender composition in France and found that, following the implementation of a gender quota, the tenure of female directors increased significantly. This was because the quota led to a change in hiring practices which allowed firms to tap into a deeper talent pool of female candidates.[48] [49]

It is particularly important for businesses to be aware of this, considering that, according to one report, female directors are currently leaving their roles at the highest rate ever observed, with a multi-country study finding that two female directors are currently leaving for everyone female director who gets promoted.[50]

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[47] For a discussion of the advantages and challenges of anonymous recruitment, see Business in the Community (2024), 'Factsheet: Anonymous recruitment: opportunities and challenges', January.
[48] Ferreira, D., Ginglinger, E., Laguna, M.-A., Skalli, Y. (2021), 'Closing the Gap: Board Gender Quotas and Hiring Practices', December.
[49] The effects of gender quotas on commercial impact are not straightforward and are explored further in section 3.6. For example, while gender quotas can improve female representation (which in turn supports the role-model effect, see section 3.2.2), they are not necessarily effective as they are bringing more women to boards based on mandated rules and not their other abilities. This can make women feel less qualified as they believe they are on the board only due to their gender, which can have negative consequences for employee engagement. This can in turn mean that the trickle-down effects described in section 3.1 do not materialise. For example, a study from Norway showed that the benefits of gender diversity and equity, such as gender representation and a reduced pay gap, were strictly limited to the board level, and under-representation and wage disparities persisted at all other levels. See Bertrand, M., Black, S.E., Jensen, S. and Lleras-Muney, A. (2014), 'Breaking the glass ceiling? The effect of board quotas on female labour market outcomes in Norway', IZA Discussion Paper No. 8266.
[50] Field et al. (2023), op. cit.

Box 4.4 Gender quotas

A gender quota is a measure aimed at increasing female representation at certain levels of an organisation to achieve more gender-balanced participation. It establishes a defined proportion of places to be filled by women and/or men.

Source: Oxera

Overall, the literature in this area focuses on the impact of gender diversity on recruitment and retention strategies in terms of number of women compared to men. This indicates that there is a gap when it comes to understanding the impact of women belonging to multiple marginalised groups on hiring strategies and commercial performance.

Enabling better decision-making

Greater gender diversity and equity also increase revenue by fostering greater diversity of thought and experience, which enables better decision-making.

First, the diversity of thought and experience created by a gender-diverse workforce enables greater understanding of a gender-diverse customer base. Second, this diversity of thought and experience increases overall performance and innovation. Third, gender diversity and equity at board level can improve monitoring and oversight.

Improved understanding of the customer base

Greater gender diversity has been shown to improve commercial experience by enabling businesses to gain a better understanding of the diverse needs of their customers, particularly those with characteristics similar to those of the team. Having a better understanding of the customer base can lead to better product development and marketing, and higher sales of products, boosting businesses' revenues and commercial performance.[51]

[51] Pascucci, F., Savelli, E. and Gistri, G. (2023), 'How digital technologies reshape marketing: evidence from a qualitative investigation', *Italian Journal of Marketing*, pp. 27–58.

Box 4.5 Better understanding of a diverse customer base

Greater gender diversity in the workplace can lead to a better understanding and reach of a broader customer base. As a result, having greater female representation is linked to a better understanding of female customers. This can boost commercial performance through having a positive impact on the development and marketing of products, and consequently on sales.

Source: Oxera

Gender-diverse teams allow for a better understanding of female customers since different genders may have different behaviours and characteristics. [52] Diversity is vital for developing products, marketing strategies, and services that attract a broader audience.[53]

One study found that, while gender diversity notably benefits performance, the scale of this varies across industries. For example, gender diversity has a strong impact on the service industry, where a good understanding of the customer base is particularly important.[54]

These findings apply not only to gender diversity but to diversity more broadly. Having ethnically diverse teams can generate higher revenues by enabling better understanding of customers from different ethnicities within the customer base.[55]

[52] Cox, T.H. and Blake, S. (1991), 'Managing Cultural Diversity: Implications for Organizational Competitiveness', *Academy of Management Perspectives*, 5:3, pp. 45–56.
[53] Bogdan, V., Popa, D.-N., Beleneşi, M., Rus, L. and Scorțe, C.-M. (2023), 'Gender Diversity and Business Performance Nexus: A Synoptic Panorama Based on Bibliometric Network Analysis', *Sustainability*, 15:3, p. 1801.
[54] Ali, Kulik and Metz (2011), op. cit. The authors find that the effect of gender diversity on commercial performance is less pronounced within the manufacturing sector, which benefits less from understanding of the customer base and has greater potential for social conflict between the genders, reducing the positive impact of gender diversity on performance through understanding of the customer base. Nonetheless, the authors find that, even in the manufacturing industry, gender diversity has some positive impact on performance.
[55] Cox and Blake (1991), op. cit.

Improved performance and innovation

A team's performance is enhanced when its members have varied functional expertise due to their diverse knowledge and experience.[56] Additionally, having ethnically diverse viewpoints in teams encourages the exploration of unconventional alternative ideas, which enhances creative thinking through continual exposure to diverse perspectives.[57]

There is a large amount of evidence indicating that increased gender diversity brings benefits by expanding the diversity of thought and expertise at board and senior management levels specifically.[58]

Female directors have been found to be more likely than male directors to bring in new expertise to benefit the business. [59] This includes bringing in new areas of expertise at the highest level of the business, consequently improving governance. Kim and Starks (2016) analysed the expertise that new female board members bring, compared to their male counterparts in the US. They found that including additional women on the board brings a much greater increase in expertise than is achieved by including additional men; for example, when the skill levels of male and female board members are quantified, they found that one in two new female board members brought a new skill compared to one in three new male board members.[60] Kim and Starks (2016) demonstrated that this is partly because men and women on average bring different skillsets.[61] This not only enriches the

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[56] Harrison, D.A. and Klein, K.J. (2007), 'What's the difference? Diversity constructs as separation, variety, or disparity in organizations', *Academy of Management Review*, 32:4, pp. 1199–1228.
[57] Nemeth, C.J. (1986), 'Differential contributions of majority and minority influence', *Psychological Review*, 93:1, pp. 23–32.
[58] As with the findings discussed in section 3.1, this does not imply that the impact of gender diversity on commercial performance is greater at board level than at other levels of the business, such as middle management or entry level. However, there is a lack of evidence on the extent to which increased gender diversity at other levels in the business brings commercial benefits through diversity of thought and expertise. We therefore suggest this as a topic of further research.
[59] Kanadlı, S.B. and Kakabadse, N. (2019), 'Diversity of Boards', *Encyclopaedia of Sustainable Management*, pp. 1–9.
[60] Kim, D. and Starks, K. (2016), 'Gender Diversity on Corporate Boards: Do Women Contribute Unique Skills?', *American Economic Review*, 106:5, pp. 267–271. Specifically, by quantifying the skillsets of male and female board members, they found that female board members bring 0.53 new skills compared to 0.32 for male board members.
[61] By way of example, the authors identified that most boards with more male directors lack expertise in R&D, human resources, risk management, sustainability, and political or government roles. They also found that four out of these five attributes are more likely to be possessed by female directors in the sample examined. We note that the reasons for the differences in the expertise of male and female board members are unclear, but that they may result from a range of factors, including differences in social norms and lived experiences faced by men and women. The authors also found that this effect is driven by the fact that the female board members they examined had on average a greater range of expertise than men. Specifically, the authors found that in the sample examined, which was based on data from the SEC's 2009 Proxy Disclosure Enhancements and included the 5,113 listed directors of companies in the S&P SmallCap 600 Index, female board members had a greater range of overall expertise than their male counterparts. While it is unclear why this is the case, it could be that female directors, due to societal biases, are less likely to be promoted to board level. The women who do make it to board level are therefore likely to be an extremely high calibre of candidate with a broad and diverse skillset.

skills pool but also enhances the board's capacity to provide effective oversight and strategic guidance across a broad range of issues.[62]

It is possible that businesses with strong commercial performance are more likely to promote women to board positions, rather than gender diversity at board level being the cause of improved performance. However, Dezsö and Ross (2012) found that female representation in top management improves business performance bringing increased diversity of knowledge, which the authors refer to as 'informational and social' benefits. Their findings indicate that this representation leads to improvements in future business performance, suggesting that gender equality increases business performance, rather than the other way around. Moreover, they found that the benefits of gender diversity are the greatest in highly innovative businesses, which demonstrates that gender diversity may boost commercial performance by enhancing innovation.[63]

Furthermore, diversity across a range of characteristics can increase revenues through increasing diversity of thought and experience.[64] Evidence suggests that employees who are women from multiple marginalised groups bring even greater benefits to revenues through diversity of thought and experience. For example, Mickey and Smith-Doerr (2022) found that individuals from multiple marginalised groups bring unique perspectives that significantly shape innovation. These experiences contribute uniquely to problem-solving and creative processes.[65] This is echoed by Cook and Glass (2014), who found that executives who are ethnically diverse often bring distinct job-relevant backgrounds compared to their white counterparts, which includes differences in job history, education, tenure, and unique perspectives and experiences. The authors concluded that these differences in experience lead to stronger company governance.[66] The findings of Harrison and Klein (2007) highlight the benefits not only of the value of gender diversity but also of diversity more broadly, emphasising its overall value for businesses.

Improved monitoring and oversight

Businesses with a greater proportion of women at board level have also been associated with greater levels of accountability. Adams and Ferreira (2009) found that female directors are more likely to hold CEOs accountable for business performance—for example, these female directors are

[62] Kim, D. and Starks, K. (2016), op. cit.
[63] Dezsö, C. and Ross, D. (2012), 'Does female representation in top management improve firm performance? A panel data investigation', January, in *Strategic Management Journal*, https://doi.org/10.1002/smj.1955.
[64] Bogdan, V., Popa, D.-N., Beleneşi, M., Rus, L. and Scorțe, C.-M. (2023), 'Gender Diversity and Business Performance Nexus: A Synoptic Panorama Based on Bibliometric Network Analysis', Sustainability, 15:3, p. 1801.
[65] Mickey, E.L. and Smith-Doerr, L. (2022), 'Gender and innovation through an intersectional lens: Re-imagining academic entrepreneurship in the United States', *Sociology Compass*, 16:3.
[66] Cook and Glass (2014), op. cit.

more aware to changes in stock price.[67] Furthermore, the authors note that having more female directors is likely to be associated with greater equity in executive compensation. But while these seem to be positive outcomes of having more female directors, Adams and Ferreira (2009) noted that wider context, notably the strength of shareholder rights, can interact with these findings, with greater representation of women being most effective when there are limited shareholder rights.[68]

Differences in leadership and management styles

Gender diversity—specifically the presence of more women in male-dominated industries—has been associated with increased business performance because of differences in the leadership and management styles displayed by women compared to men.

According to the literature, these differences relate to specific characteristics, such as higher levels of emotional intelligence, that are more prevalently observed in women which can have an impact at various management levels.[69] It also relates to differences in leadership styles that can have a positive impact on board dynamics and decision-making.

Emotional intelligence in management

Several studies have examined the differences between men and women when it comes to the ability to express and control emotions and understand and respond to the emotions of others. This is known as emotional intelligence.

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[67] Adams, R. and Ferreira, D. (2009), 'Women in the boardroom and their impact on governance and performance', *Journal of Financial Economics*, 94:2, pp. 291–309.

[68] Ibid. The paper did not find that this led to better commercial performance in this case. This may be partially attributed to the fact that the paper studies the effect of a gender quota rather than gender diversity that has increased through other efforts, the effects of which are not straightforward (see section 3.6).

[69] Improved commercial performance through this mechanism results from having a greater proportion of women specifically, rather than from gender diversity itself, as greater emotional intelligence and transformational leadership has been linked specifically with women, rather than with overall diversity. We are not implying through this section that there are intrinsic differences between women and men, but rather that these differences may result from differences in lived experiences.

Box 4.6 Emotional intelligence

Emotional intelligence is the ability of people to understand and manage their emotions, as well as recognise and influence the emotions of those around them.

Source: Oxera

Emotional intelligence plays an important role in driving successful business performance. A leader who is emotionally intelligent is aware of their own behaviour and how they influence their team, which fosters better staff interactions and engagement.

There are numerous studies which link the level of emotional intelligence of managers at all levels to business financial performance.[70] For example, higher emotional intelligence in managers can significantly boost work performance, job satisfaction and the happiness of employees. This can both directly affect business outcomes through increased productivity and reduced employee turnover,[71] as well as indirectly boosting business revenue by enhancing customer interactions and satisfaction.[72]

There is evidence that women tend to exhibit higher emotional intelligence in the workplace than their male counterparts. For example, from an analysis of top-performing American legal businesses Smith (2020) found that an increase in the proportion of female employees by one percentage point was associated with an increase in the one-year revenue growth rate of the business by 0.4 percentage points. Additionally, the author reported that every one percentage point increase in female partners correlated to an 0.5% increase in the one-year revenue growth rate of the business and a 0.8% increase in the two-year revenue growth rate. This was attributed to female employees having higher emotional intelligence and soft skills on average, which are critical to effective

[70] Callea, A., De Rosa, D., Ferri, G., Lipari, F. and Costanzi, M. (2019), 'Are More Intelligent People Happier? Emotional Intelligence as Mediator between Need for Relatedness, Happiness and Flourishing', *Sustainability*, 11:4, p. 1022; and Karimi, L., Leggat, S.G., Bartram, T. and Rada, J. (2018), 'The effects of emotional intelligence training on the job performance of Australian aged care workers', *Health Care Management Review*, 45:1, p.1.
[71] Krekel, C., Ward, G. and De Neve, J. (2019), 'Employee Wellbeing, Productivity, and Business Performance', Saïd Business School.
[72] Doğru, C.(2022), 'A Meta-Analysis of the Relationships Between Emotional Intelligence and Employee Outcomes', *Organizational Psychology,* 13.

management.[73] Similarly, research from Korn Ferry (2016) revealed that women are 86% more likely to consistently demonstrate emotional self-awareness and 45% more likely to consistently show empathy than men.[74]

However, while numerous studies link women to higher levels of emotional intelligence compared to men, many of these papers find that the link between gender emotional intelligence is dependent on a person's environment.[75] This is because it is shaped by lived experiences, which an individual develops over time. Research suggests that it is also dependent on a combination of social roles, situational norms and gender roles.[76] It is therefore possible that greater representation of women in a previously male-dominated environment leads to higher levels of emotional intelligence, due to the diversity of experiences and backgrounds that the female employees bring. However, further research is needed on this topic.

Overall, the literature on the link between gender diversity and emotional intelligence focuses on the comparison of common leadership traits in women compared to those of men. As such, there is limited evidence on whether the same can be said for women from multiple or other marginalised groups.

Differences in leadership styles at board level

The literature on the impact of gender diversity at board levels finds that not only do female leaders improve decision-making, but they also bring a positive leadership style that can inspire others. This is known as transformational leadership and can have a positive impact on board dynamics and governance.

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[73] Smith, J. (2020), 'Does Gender Diversity Impact Business Performance? An Examination of Law Businesses and Revenue Earned', *University of North Carolina*.
[74] Korn Ferry (2016), 'New Research Shows Women Are Better at Using Soft Skills Crucial for Effective Leadership and Superior Business Performance, Finds Korn Ferry', accessed 19 July 2024.
[75] Bosson, J.K., Buckner, C.E. and Vendello, J.A. (2021), *The Psychology of Sex and Gender*, Sage Publications, p. 330.
[76] Fischer A, LaFrance M (2015). "What Drives the Smile and the Tear: Why Women Are More Emotionally Expressive Than Men", 1 January, in Emotion Review. 7 (1): 22–29. doi:10.1177/1754073914544406.

Box 4.7 Transformational leadership

Transformational leadership is a style of leadership that aims to encourage and inspire employees to embrace change needed to shape the future success of a company. Transformational leaders have a strong sense of corporate culture that supports employee ownership and gives employees more opportunities to be creative and innovative.

Source: Oxera

Several papers have found that female leaders often use transformational approaches more frequently than their male counterparts.[77] This is associated with fostering collaboration, mentorship, and a supportive work environment.[78] These papers therefore suggest that female leaders are more likely to inspire and motivate teams to drive successful outcomes in line with an organisation's mission.[79]

However, other studies have pointed out that some of the observed differences in leadership styles between genders are marginal and may not apply universally across all contexts or industries.[80] This is because gender stereotypes at board level can misrepresent evaluations of women's leadership, particularly when their behaviour deviates from traditional gender norms.[81] For example, women displaying agentic behaviour (whereby they place emphasis on doing and achieving) by demonstrating more dominant or assertive mannerisms are often judged more harshly,[82] and face

[77] Eagly, A.H., Johannesen-Schmidt, M.C. and van Engen M.L. (2003), 'Transformational, transactional, and laissez-faire leadership styles: A meta-analysis comparing women and men', *Psychological Bulletin*, 129:4, pp. 569–591; Eagly, A.H. and Johannesen-Schmidt, M.C. (2001), 'The Leadership Styles of Women and Men', *Journal of Social Issues*, 57:4, pp.781–797; and Eagly, A.H. and Johannesen-Schmidt, M.C. (2007), 'Leadership style matters: The small, but important, style differences between male and female leaders', *Handbook on women in business and management*, pp. 279–303.
[78] Eagly and Carli (2003), op. cit.
[79] Daly, L. (2023), 'How women in leadership can drive business performance', Alliance MBS, accessed 23 July 2024.
[80] Eagly, Johannesen-Schmidt and van Engen (2003), op. cit.
[81] Eagly, A.H. and Karau, S.J. (2002), 'Role congruity theory of prejudice toward female leaders', *Psychological Review*, 109:3, pp. 573–598.
[82] Rudman, L.A. and Glick, P. (2001), 'Prescriptive Gender Stereotypes and Backlash Toward Agentic Women', *Journal of Social Issues*, 57:4, pp. 743–762

backlash that hinders their leadership progression.[83] This may lead to bias in board selection with preference given to women who exhibit more communal traits, such as displaying gentle, sensitive, and nurturing characteristics. This may potentially affect the interpretation of leadership impacts. Furthermore, while there is a difference in leadership styles between women and men, limitations in data, selection biases, and issues with causal inference call for further research in order to thoroughly assess the benefits of board diversity.[84]

Overall, the literature in this area focuses almost entirely on the impact of gender diversity by examining the role of women in the context of male-dominated businesses. There is therefore a gap when it comes to understanding the impact of women who belong to multiple marginalised groups and how their leadership styles contribute to commercial performance.

Effects on company culture

Increased gender diversity can also affect commercial performance by helping shape the organisational culture of a business. The literature in this area focuses on how women at board level can affect company culture. In general, leadership is a key driving force in shaping and setting the tone for company culture.

Box 4.8 Company culture

Company culture is a set of values, beliefs, attitudes, and behaviours that employees and management share. Companies with a positive culture tend to have higher employee retention rates, as they are more enjoyable places to work in.

Source: Oxera

Company culture can be directly affected by the personalities and actions of top management. Effective leaders can foster a strong company culture by bringing together like-minded individuals

[83] Ibid.
[84] Adams (2016), op. cit.

with a shared sense of purpose and community. This leads to increased productivity, innovation and higher employee retention rates.[85]

Company culture is typically measured by several factors, such as business adaptability, consistency and mission. Businesses that score higher on adaptability were found to have significantly higher revenue growth and market valuations.[86]

With this established, it presents an indirect route through which gender diversity can lead to better commercial outcomes for businesses. A study by Luanglath, Ali and Mohannak (2019) based in Australia found that more gender diversity among top management teams can increase creativity and innovation within the organisation, which boosts employee productivity. Additionally, they reported that the presence of women in leadership roles can also foster an organisation's social performance, including equitable workplace practices and enhanced employee engagement, all of which have a positive effect on company culture.[87]

Increased gender diversity at board level has also been found to enhance board oversight and help resolve conflicts of interests, resulting in managers making decisions that benefit shareholders and contributing to a stronger company culture. Gender diversity at board level and the effects on company culture are particularly pronounced when there are at least three female directors—this is linked to the theory of critical mass (see section 4.7.1).[88]

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[85] Boyce, A.S., Nieminen, L.R.G., Gillespie, M.A., Ryan, A.M. and Denison, D.R. (2015), 'Which comes first, organizational culture or performance? A longitudinal study of causal priority with automobile dealerships', *Journal of Organizational Behavior*, 36:3, pp.339–359.
[86] O'Reilly, C.A., Caldwell, D.F., Chatman, J.A. and Doerr, B. (2014), 'The Promise and Problems of Organizational Culture: CEO Personality, Culture and Firm Performance', *Group & Organization Management*, 39:6, pp.595–625.
[87] Luanglath, N., Ali, M. and Mohannak, K. (2019), 'Top management team gender diversity and productivity: the role of board gender diversity', *Equality, Diversity and Inclusion: An International Journal*, 38:1, pp. 71–86.
[88] Wongsinhirun, N., Chatjuthamard, P. and Jiraporn, P. (2023), 'Corporate Culture and Board Gender Diversity: Evidence From Textual Analysis', *SSRN Electronic Journal*.

Effect on reputational risks

Gender diversity can reduce the exposure of businesses to reputational risks.

Box 4.9 Reputational risks

Reputational risks are threats or dangers to the good name or standing of a business or entity. Such risks can occur directly, as a result of the actions of the company, or indirectly, due to the actions of employees.

Reputational risks can result in substantial harm, including loss of revenue and business, or loss of confidence from the board and stakeholders responsible for the corporate governance.

Source: Oxera

Avoiding reputational risks allows businesses to improve their commercial performance by enabling them to avoid fines and financial penalties as well as reputational damage. For example, gender diversity at board level improves both the corporate social responsibility (CSR) scores of businesses and their broader reputations, as captured by the Fortune World's Most Admired Companies List.[89]

Au, Tremblay and You (2022) found that having an additional female director on a company's board is associated with a 22% decrease in workplace sexual harassment.[90] Additionally, Chen, Gramlich and Houser (2017) found that greater gender diversity at the board level reduces unnecessary reputational risk exposure based on negative association with tax avoidance, as firms with greater gender diversity at board level are more cautious about taking aggressive tax strategies that could

[89] Bear, S., Rahman, N. and Post, C. (2010), 'The Impact of Board Diversity and Gender Composition on Corporate Social Responsibility and Firm Reputation', *Journal of Business Ethics*, 97:2, pp.207–221.
[90] Au, S., Tremblay, A. and You, L. (2022), 'Does board gender diversity reduce workplace sexual harassment?', *Corporate Governance*, 31:5, pp. 718–736.

lead to reputational risk.[91] However, Chen, Gramlich and Houser (2017) also found that greater gender diversity at the board level encourages firms to engage in additional risk relating to valuable investment projects.[92]

Reducing exposure to reputational risks has a tangible financial impact on businesses. Having a positive corporate reputation is increasingly translating into a positive impact on their value.[93] For example, one study found that operational risks with a reputational element led to stock prices falling by more than half the amount that they would for an operational risk alone.[94]

While much of the literature indicates that gender diversity at the board level reduces businesses' exposure to reputational risks and consequently improves their commercial performance, there is less evidence on how gender diversity at other levels of the business affects reputational risks. Further research is required on the impact of women with multiple marginalised characteristics on the exposure of businesses to reputational risks.

When does gender diversity not lead to improved business performance?

There are cases where increased gender diversity has been found, on its own, not to be sufficient in improving business performance or in some narrow circumstances can harm business performance. This demonstrates the importance of not only improving gender diversity but of reaching equity on gender.

Critical mass theory

Some evidence indicates that gender diversity alone is not sufficient to have a positive impact on commercial performance until a certain proportion of employees are female—hence supporting the critical mass theory.

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[91] Chen, L.H., Gramlich, J. and Houser, K.A. (2017), 'The Effects of Board Gender Diversity on a Firm's Risk Strategies', *SSRN Electronic Journal*, 59:2. The authors also indicated that an increase in female presence on the board leads to higher exposure to necessary financial risks.
[92] Chen, L.H., Gramlich, J. and Houser, K.A. (2017), op. cit.
[93] Gatzert, N. (2015), 'The impact of corporate reputation and reputation damaging events on financial performance: empirical evidence from the literature', *European Management Journal,* 33:6, pp. 485–499.
[94] Perry, J. and de Fontnouvelle, P. (2005), 'Measuring Reputational Risk: The Market Reaction to Operational Loss Announcements', *SSRN Electronic Journal*.

Box 4.10 Critical mass theory

Critical mass theory refers to the number of individuals needed to affect policy and drive change. For example, women are less likely to have an impact when they are a minority of board directors; whereas once they reach a high enough proportion, they can exert significant influence on corporate discussions.[95]

Source: Oxera

Critical mass theory suggests that employees or board members who are in the minority in terms of their traits, and who would normally benefit the business by expressing diverse opinions, might be suppressing these views.[96] This is illustrated by Campbell and Mínguez-Vera (2008), who found that having a small proportion of women on the board has no impact on businesses' commercial outcomes, while having an equal number of men and women on the board improves these outcomes.[97]

The evidence above suggests that increasing gender diversity alone is not necessarily sufficient to improve commercial performance. Furthermore, simply increasing the number of women in an organisation does not guarantee better business results, but contextual factors such as corporate culture, existing diversity levels, and the management and perception of diversity within the organisation are all critical in shaping the effectiveness of gender-diversity initiatives.[98]

To improve their commercial performance, businesses need not only to increase the number of women in their employment, but also to ensure that women are treated fairly and equitably—in other words businesses need to improve gender diversity and gender equity.

[95] Joecks, Pull and Vetter (2013), op. cit.
[96] Rose, C. (2007), 'Does female board representation influence business performance? The Danish evidence', *Corporate Governance: An International Review*, 15:2, pp. 404–413.
[97] Campbell and Mínguez-Vera (2008), op. cit.
[98] Kochan, T., Bezrukova, K., Ely, R., Jackson, S., Joshi, A., Jehn, K., Leonard, J., Levine, D. and Thomas, D. (2003), 'The effects of diversity on business performance: Report of the diversity research network', *Human Resource Management*, 42:1, pp 3–21.

Social conflict theory

While gender diversity has generally been found to improve commercial performance through the effects discussed in this section, some literature indicates that it can also lead to social conflict. The effects of such conflict are more likely to arise when men and women are not treated equitably, and when men are treated as the dominant group.[99]

Some research on social conflict theory finds that increasing the gender balance when gender diversity is low improves business performance through diversity of thought and expertise. However, increasing diversity from high levels up to a 50/50 gender balance has only a small impact on business performance. This is because the first few individuals of a gender bring large benefits by adding large amounts of new thought and experience, whereas increasing gender diversity when it is already high has a more limited impact as the benefits of diversity of thought and experience are counterbalanced by increased social conflict.[100] However, we note that these findings are industry-dependent (see below) and have not been found to exist in all contexts, so these findings should be treated with caution by leaders.

Box 4.11 Social conflict theory

Social conflict theory is the theory that groups with different characteristics, such as different genders, may come into conflict with each other, which can hinder progress, including commercial benefits.

Source: Oxera

Other researchers suggest that diversity of thought and experience (which improves performance) and social conflict (which reduces performance) are dependent on the industry. Ali, Kulik and Metz (2011) found that, in the service industry, the benefits of gender diversity on business performance

[99] Lumen online courses, 'Theoretical perspectives on gender', accessed 29 August 2024.
[100] See, for example, Skerry, P. (2002), 'Beyond sushiology: does diversity work?', *Brookings Review*, 20:1, pp 20–24; Tsui, A.S., Egan, T. and O'Reilly, C. (1991), 'Being Different: relational demography and organizational attachment', *Academy of Management Proceedings*, 1991:1, pp 183–187; and Ferrary, M. and Deo, S. (2019), 'Gender Diversity and Business Performance: What Organizational Layer Matter?', *Academy of Management Proceedings*, 2019:1, p.12923.

strongly outweigh the disadvantages all levels of diversity, as the industry relies on the interaction between customers.[101]

The manufacturing sector also benefits from increased gender diversity, but there is a level at which the benefits of diversity of thought and experience are counterbalanced by the impacts of social conflict.

Interestingly, the research also suggests that the benefits of diversity are strongest when the first few women are added to the business, and weaker thereafter. This contradicts the critical mass effect. The contexts in which each of these effects applies is a subject that warrants further research. However, as with the critical mass effect, the effects of the social conflict theory indicate that it is not always enough just to increase gender diversity within a business; in fact, what is needed is gender equity.

Gender quotas

Another case where gender diversity has a mix of factors that affect business performance is in gender quotas, which require that a certain proportion of women be employed in a company or on a board. Gender quotas can have positive, negative and neutral effects on business performance depending on the circumstances in which they are applied.[102]

On the one hand, gender quotas can improve commercial performance by counteracting the effect of gender biases towards men. They can help break the 'glass ceiling' that prevents productive and highly skilled women from reaching leadership positions.[103] In some cases, gender quotas can counteract existing gender biases in recruitment to make selection more meritocratic. A study by Comi et al. (2017) showed that the application of gender quotas in Italy led to the selection of female board members who were more highly qualified than the average board member, but had less experience, yet they increased the boards' expertise and businesses' revenues.[104] More broadly, ensuring a greater proportion of women on the board brings diversity of thought and expertise and the benefits of the role-modelling effect.

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[101] Ali, Kulik and Metz (2011), op. cit.
[102] Comi, S., Grasseni, M., Origo, F. and Pagani, L. (2017), 'Where women make the difference: the effects of corporate board gender quotas on businesses' performance across Europe', Department of Economics, Management and Statistics working papers.
[103] See, for example, European Commission (2012), 'Proposal for a Directive of the European Parliament and of the Council on improving the gender balance among non-executive directors of companies listed on stock exchanges and related measures', November 14.
[104] Comi, S., Grasseni, M., Origo, F. and Pagan, L. (2017), 'Where women make the difference. The effects of board gender quotas on firms' performance across Europe', July, Department of Economics, Management and Statistics working paper series', University of Milan, Bicocca, No. 367- July 2017.'

As well as positive potential effects on businesses' and short-term performance, gender quotas can have a longer-term impact on performance by encouraging women to apply to the business, demonstrating the trickle-down effect.[105] Therefore, gender quotas can improve both short- and long-term outcomes, as the business can choose from a greater pool of talent in the future.

Having a higher proportion of women on boards can also lead to better attendance of both male and female board members. It also leads to better monitoring and oversight, although this does not always boost commercial performance.[106]

At the same time, gender quotas do not always have a positive impact on businesses' performance, with the literature finding a mixture of negative effects.[107] While gender quotas can improve female representation (which in turn supports the role-modelling effect), they are not necessarily effective as they are bringing more women onto boards based on mandated rules and not their other abilities. This means that women may feel less qualified as they may believe that they are only on the board due to their gender. For example, in a study from Norway, Betrand et al. (2014) showed that the benefits were strictly limited to the board level, with under-representation and wage disparities persisting at all other levels.[108] This suggests that gender diversity alone is not sufficient to improve business performance, and it must be complemented by gender equity to have an overall positive impact.

4. Business resilience to long-term risks and opportunities

Beyond the direct impact of gender diversity on commercial performance, such diversity has been shown to lead to better management of long-term commercial risks and opportunities.

This section focuses on the effect of gender diversity on two major challenges that businesses face:

1. the impact of climate change and broader environmental, social and governance (ESG)[109] issues (covered in section 5.1)

[105] Périlleux, A. and Szafarz, A. (2021), 'Women in the boardroom: a bottom–up approach to the trickle-down effect', *Small Business Economics*.
[106] Adams and Ferreira (2009), op. cit.
[107] Comi, S., Grasseni, M., Origo, F. and Pagan, L. (2017), 'Where women make the difference. The effects of board gender quotas on firms' performance across Europe', July, Department of Economics, Management and Statistics working paper series', University of Milan, Bicocca, No. 367- July 2017.'
[108] Bertrand et al. (2014), op. cit.
[109] Companies are expected to report on these three areas, with the aim of capturing all non-financial risks and opportunities linked to their day-to-day activities.

2. the ‘fourth industrial revolution’ of artificial intelligence (AI) (covered in section 5.2).

The literature indicates that businesses with greater gender diversity are better placed to face the risks and opportunities associated with these two issues. This is an important finding, as tackling these challenges is likely to be a major factor in determining a company’s long-term commercial success.

Impact of gender diversity and equity on business performance in relation to climate change and ESG issues

This section explores the evidence on how gender diversity is linked to better business performance in relation to climate change and ESG issues. It begins by summarising the link between a company’s climate performance and its commercial performance.

The link between climate and ESG performance and commercial performance.

In recent years, there has been increased attention on climate and broader ESG challenges, and it is widely understood that addressing these issues is a key part of ensuring long-term commercial success.[110] This is already borne out in financial markets, where businesses with better climate and ESG credentials are increasingly outperforming their peers. For example, Khan et al. (2016) found that businesses with top sustainability ratings are associated with an annualised outperformance of 2.93% in stock returns.[111]

In 2024, Morgan Stanley reported that more than half of individual investors were planning to increase their allocations in sustainable investments and more than two-thirds believed that strong ESG practices led to higher returns.[112]

The focus on climate performance and ESG issues is driven by government targets and interventions and by changing consumer preferences.

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[110] Henisz, W., Koller, T. and Nuttall, R. (2019), ‘Five ways that ESG creates value’, November, *McKinsey Quarterly*.
[111] Khan, M., Serafeim, G. and Yoon, A. (2016), ‘Corporate sustainability: first evidence on materiality’, *The Accounting Review*, 91:6, pp. 1697–1724.
[112] Institute for Sustainable Investing (2024), ‘Individual investors’ interest in sustainability is on the rise’, Morgan Stanley.

Box 5.1 Shift in consumer preferences

Consumers are increasingly concerned about the environmental impact of what they buy. There is evidence that many are making their purchase decisions based on how ethical products are, buying from businesses with better climate and ESG practices, for example.[113] McKinsey found that products associated with ESG claims averaged 28% cumulative growth in the five years leading up to 2023, while other products achieved only 20%.[114] As a result, businesses face a commercial imperative to improve their climate credentials to meet the changing preferences of their customers.

Source: Oxera

Impact of gender diversity on climate performance

Given the link between climate and ESG performance and commercial success, this section looks at the impact of gender diversity in this area. There is a large body of literature that indicates that gender diversity and equity are positively associated with better company environmental performance.

In general, the impact of gender diversity on climate and ESG performance is particularly pronounced at the board level, where business objectives are clearly determined.[115] However, there

[113] Norton Rose Fulbright (2022), 'ESG increasingly a top priority for consumer-facing businesses', December, accessed 29 August 2024.

[114] A 2020 survey of consumer sentiment in the US conducted by McKinsey found that more than 60% of respondents said that they were willing to pay more for a product with sustainable packing, while another related study by NielsenIQ found that 78% of US consumers considered a sustainable lifestyle important. See Frey, S., Bar Am, J., Doshi, V., Malik, A. and Nobel, S. (2023), 'Consumers care about sustainability—and back it up with their wallets', 2023, last accessed 11 October 2024.

[115] Gaio and Gonçalves (2022) found that, based on a sample of European public businesses (excluding the UK), every standard deviation increase in the percentage of women on boards and management positions corresponded with a 10% increase in ESG scores. Gaio, C. and Gonçalves, T. (2022), 'Gender diversity on the board and businesses' corporate social responsibility', *International Journal of Financial Studies*, 10:15.

is also evidence that gender diversity at other levels of seniority has a positive impact on climate and ESG performance.

While boards shape a company's environmental approach, it is the managers who select the strategy suitable to achieve any climate or ESG objectives.[116] A 2022 study by Altunbas et al., based on a sample of 2,000 listed businesses in industrialised economies from 2009 to 2019, found that a 1% increase in female managers corresponded with a 0.5% decrease in CO_2 emissions.[117] Additionally, they found that businesses with greater gender diversity at the management level[118] reduced their CO_2 emissions by about 5% more after the Paris Agreement than businesses with more male managers. Businesses with a higher proportion of women in management teams also tend to have higher ESG scores, which reflects that they are better at addressing environmental, social and ethical issues in their supply chains.[119]

In addition to gender diversity at the board level, there is a wide body of literature that examines the effect of female CEOs specifically on climate and ESG performance. In a study based on companies listed on the London Stock Exchange, Al-Shaer, Zaman and Albitar (2024) found that businesses with a female CEO are significantly more likely to receive high ESG scores and perform well on individual measures of ESG. Additionally, they found that CEOs who were younger and CEOs hired externally are more likely to promote ESG measures.[120]

Similarly, Yahya (2023), in a study based on listed companies in Nordic countries between 2010 and 2021, found a positive relationship between the presence of a female CEO and the company's environmental and social scores, but not governance scores.[121] This was particularly prominent when a female CEO replaced a male CEO.

In these cases, it is possible that companies with better climate and ESG performance attract more female workers, resulting in greater gender diversity and equity, rather than greater diversity leading to better climate and ESG results. However, much of the research also provides evidence for the

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[116] Altunbas, Y., Gambacorta, L., Reghezza, A. and Velliscig, G. (2022), 'Does gender diversity in the workplace mitigate climate change?', European Central Bank Working Paper.
[117] Altunbas et al. (2022), op. cit. The authors find this result to be robust after controlling for institutional differences, including patriarchal and hierarchical cultures and religions.
[118] As defined by having more than the median percentage of female managers.
[119] Gaio, C. and Gonçalves, T. (2022), 'Gender diversity on the board and businesses' corporate social responsibility', International Journal of Financial Studies, 10:15.
[120] Al-Shaer, H., Zaman, M. and Albitar, K. (2024), 'CEO gender, critical mass of board gender diversity, and ESG performance: UK evidence', *Journal of Accounting Literature*.
[121] Yahya, H. (2023), 'Female leadership and ESG performance of businesses: Nordic evidence', *Corporate Governance*.

mechanisms through which gender diversity leads to improved climate performance. This indicates that gender diversity improves climate performance, and not the other way around.

There is a gap in the evidence when it comes to the impact on climate performance of women with marginalised identities such as ethnicity or disability, so further research is needed in this area.[122]

Mechanisms through which gender diversity affects climate performance

This section takes a closer look at the mechanisms through which gender diversity can affect climate and ESG performance.

There are two main ways through which increased gender diversity (in terms of the number of women compared to men) can lead to better climate performance:

1. Women have greater awareness of climate and ESG issues.[123] Having a higher proportion of women in the workforce is associated with better performance in the context of climate and ESG because women have, on average, more experience relating to these issues and are more conscious of the importance of these issues.
2. Women have skillsets that are positively aligned with tackling climate and ESG issues. Research has found that women have several skillsets that are associated with better performance on climate and ESG issues. These include traits such as higher levels of risk aversion, less overconfidence, and more conservative behaviour compared to their male colleagues.[124] Women are also more likely to work closely with stakeholders to prioritise ESG strategies, driven by greater communal qualities.[125]

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[122] This has been highlighted in a recent article on sustainable finance—see Ukonu, C. (2024), 'Are we overlooking the untapped potential of women of colour in sustainable finance?', World Economic Forum.

[123] See, for example, Franke, G., Crown, D. and Spake, D. (1997), 'Gender differences in ethical perceptions of business practices: a social role theory perspective', *Journal of Applied Psychology,* 82:6, pp. 920–934; Gaio and Gonçalves (2022), op. cit.; Boukettaya, S. and Omri, A. (2021), 'Impact of Board Gender Diversity on Corporate Social Responsibility and Irresponsibility: Empirical Evidence from France, *Sustainability*, 13:9, p. 4712; Kim, E. (2022), 'The effect of female personnel on the voluntary disclosure of carbon emissions information', *International Journal of Environmental Research and Public Health*, 19:20, 13247.

[124] Yahya (2023), op. cit.; Altunbas et. Al. (2022), op. cit..; Baixauli-Soler, J., Belda-Ruiz, M., Sanchez-Marin, G. (2014), 'Executive stock options, gender diversity in the top management team and business risk taking', *Journal of Business Research*, 68:2, pp. 451–463.

[125] Al-Shaer, Zaman and Albitar (2024), op. cit.; Boukettaya and Omri (2021), op. cit.; Alonso-Almeida, M., Perramon, J. and Bagur-Femenias, L. (2017), 'Leadership styles and corporate social responsibility management: Analysis from a gender perspective', *Business Ethics,* 26:2, pp. 147–161.

These two mechanisms both suggest that having a greater proportion of female employees is associated with better climate performance. We now summarise the literature on both mechanisms in turn.

Women have greater awareness of climate and ESG issues

Research finds that women, on average, have stronger awareness and expertise relating to climate and ESG issues.[126] Such awareness is attributable to differences in ethical perspectives between men and women.[127] Having a more gender-diverse workforce can therefore lead to ESG issues being highlighted and addressed that might have otherwise been overlooked.[128]

Studies from the USA find that this effect is particularly relevant at the board level, where female board members are more likely to have sustainability expertise.[129] However, even when measured for the workforce, having a greater number of female employees is associated with increased concern for climate change at the company level.[130]

Furthermore, of the numerous measures of diversity examined, including ethnically diverse employees, gender diversity was found to have one of the strongest associations with climate awareness. Greater climate awareness and concern can lead to better climate performance, as more consideration will be given to the environmental impact of day-to-day decisions.[131]

Women are also found to hold different ethical standards, such as being more concerned by issues relating to climate and ESG.[132] For example, a 2022 study found that women are more inclined to

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[126] See, for example, Franke, G., Crown, D. and Spake, D. (1997), 'Gender differences in ethical perceptions of business practices: a social role theory perspective', *Journal of Applied Psychology,* 82:6, pp. 920–934; Gaio and Gonçalves (2022), op. cit.; Boukettaya and Omri (2021), op. cit.; Kim (2022), op. cit.

[127] Franke, G., Crown, D. and Spake, D. (1997), 'Gender differences in ethical perceptions of business practices: a social role theory perspective', *Journal of Applied Psychology,* 82:6, pp. 920–934; Gaio and Gonçalves (2022), op. cit.; Boukettaya and Omri (2021), op. cit; Kim (2022), op. cit.

[128] Boukettaya and Omri (2021), op. cit.

[129] Based on a study of companies in the S&P SmallCap 600 Index. See Kim and Starks (2016), op. cit. As part of this study, each director's expertise was categorised into 16 functional types, including sustainability. After taking in account individual director characteristics, including age, tenure, share ownership and membership on other public boards, the authors used probit regression analyses to examine the probability of individual directors possessing different skills.

[130] Ciocirlan, C. and Pettersson, C. (2012), 'Does workforce diversity matter in the fight against climate change? An analysis of Fortune 500 companies', *Corporate Social Responsibility and Environmental Management,* 19:1, pp. 47–62.
Based on a sample of 94 Fortune 500 companies, the authors assessed the extent to which the companies measured their carbon footprint, made efforts to reduce their climate impacts, supported climate policy initiatives, and publicly disclosed their climate efforts. Additionally, the authors controlled for business characteristics, including but not limited to business size, revenues and net profit, as well as the average climate change index for competitors.

[131] Ciocirlan and Pettersson (2012), op. cit.

[132] Boukettaya and Omri (2021), op. cit. Additionally, the authors noted that, based on the social role theory, women on average show greater compassion and are more empathetic across different cultures. A separate meta-analysis by Franke,

counter climate change and address ESG issues, since, relative to men, they are more likely to consider overall societal wellbeing and the interest of a wider range of stakeholders. This is in part attributed to the fact that women are likely to be more negatively affected by climate change than men.[133]

Women have skillsets that are positively aligned with tackling climate and ESG issues

In addition to being more aware of climate issues, research indicates that women are more likely to have other skills, not directly related to sustainability expertise, that help them to make good decisions regarding climate and ESG issues. Women, on average, exhibit higher levels of risk aversion, less overconfidence and more conservative behaviour than their male colleagues. The association between women and greater risk aversion is well evidenced.[134] A 2015 study from the USA, for example, demonstrated that companies with gender-diverse top management teams bore less risk than those with all-male top management teams.[135]

Women are also less likely to be overconfident and have a greater perception of risk.[136] Altunbas (2022), based on data for around 2,000 listed companies in industrialised economies over the period 2009–19, found that female managers take better account of the environmental implications of their decisions and are particularly averse to climate risk.[137] As a result, female managers may reduce the environmental impact of their implementation strategies more than their male counterparts.[138]

Crown and Spake (1997), based on 61 distinct studies of gender differences in evaluations of business practices, identified differences in the moral and ethical standards between the genders, with women being more concerned by issues relating to climate and ESG. See Franke, G., Crown, D. and Spake, D. (1997), 'Gender differences in ethical perceptions of business practices: a social role theory perspective', *Journal of Applied Psychology,* 82:6, pp. 920–934.

[133] This is because women are seen to be disproportionately affected by environmental destruction due to their traditional roles and are more vulnerable in face of natural disasters. See Altunbas, Y., Gambacorta, L., Reghezza, A. and Velliscig, G. (2022), 'Does gender diversity in the workplace mitigate climate change?', European Central Bank Working Paper; and Gicheru, M., Mwenda, M., Omwami, D. (2024), 'Gender and climate change: the role of women in climate change processes', *Asian Journal of Geographical Research*, 7:1, pp. 13–23

[134] Including by Barber and Odean (2001), who used data from a large discount brokerage business on household investments and examined, as measures of confidence, self-reported versus actual experience, as well as frequency of trade and return. On the former, they found that women generally self-reported less experience, while men self-reported more; on the latter, they found that men traded more frequently than women, which also lowered the return that they [the women? The men?] generated. Barber, B. and Odean, T. (2001), 'Boys will be boys: gender, overconfidence, and common stock investment', *The Quarterly Journal of* Economics, 116:1, pp. 261–292,

[135] Baixauli-Soler, Belda-Ruiz and Sanchez-Marin (2014), op. cit.

[136] Barber and Odean (2001), op. cit.; Baixauli-Soler, J., Belda-Ruiz, M., Sanchez-Marin, G. (2014), 'Executive stock options, gender diversity in the top management team and business risk taking', *Journal of Business Research*, 68:2, pp. 451–463.

[137] Altunbas, Y., Gambacorta, L., Reghezza, A. and Velliscig, G. (2022), 'Does gender diversity in the workplace mitigate climate change?', *European Central Bank Working Paper*.

[138] See Baixauli-Soler, Belda-Ruiz and Sanchez-Marin (2014), op. cit.; and Altunbas et al. (2022), op. cit.

In addition to risk aversion, women are found to be associated with other qualities to enable them to better address issues in ESG. In particular, women are more likely to consider external and internal stakeholders to be of similar importance, and are motivated to balance all stakeholder groups.[139] As a result, women are associated with greater communal qualities and this makes them more likely to work closely with stakeholders to prioritise ESG strategies.[140] Greater gender diversity is found to have the greatest impact on climate performance through this route at the management level, since managers are ultimately responsible for achieving any ESG objectives determined by the board.[141]

Mixed results and critical mass

There are instances when the positive effects of gender diversity on business outcomes in relation to climate and ESG matters may not be upheld. This is because the presence of more women on company boards is often insufficient unless there is a critical mass of female directors that can drive change. This means that the presence of women on company boards will influence ESG performance only once a critical mass of female directors is achieved. Additionally, the impact on ESG activities as a result of both female CEOs and gender-diverse boards are further diluted when companies experience poor financial performance.[142]

It is also possible that other factors can obscure the effect of gender diversity on climate performance.[143] For example, the influence of female directors on sustainability outcomes might be limited due to gender barriers, including discrimination and stereotyping. Environmental regulations may also limit the impact of gender diversity on environmental outcomes.[144] Consequently, having gender diversity at the board level may have only limited effect on ESG outcomes.[145] The effect of gender diversity on climate performance may therefore be context-dependent and more research is needed to explore this area.

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[139] Alonso-Almeida, Perramon and Bagur-Femenias (2017), op. cit.

[140] Al-Shaer, Zaman and Albitar (2024), op. cit.; Boukettaya and Omri (2021), op. cit; Alonso-Almeida, Perramon and Bagur-Femenias (2017), op. cit.

[141] Altunbas et al. (2022), op. cit.

[142] Al-Shaer, Zaman and Albitar (2024), op. cit.;

[143] Yahya (2023), op. cit. While this study identified a positive relationship between female CEOs and ESG performance, no statistically significant relationship was found when examining the role of a female chairperson. The author attributes this to the environmental regulatory standards in Nordic countries, which require strict compliance that goes beyond any gender characteristic differences in leadership.

[144] For example, a 2014 study based on 3,895 businesses globally found that, when looking at businesses in North America, having a higher percentage of female employees improved environmental scores. But this was not always the case for the other regions examined. See Segarra-Ona, M., Peiro-Signes, A., Mondejar-Jimenez, J. and Ceballos-Santamaria, G. (2014), ‘Are companies environmental scores affected by diversity of policies and women’s presence? An overview of environmental conditionants’, *Environmental Engineering and Management Journal*, 13:10, pp. 2425–2430.

[145] Galbreath, J. (2011), ‘Are there gender-related influences on corporate sustainability? A study of women on boards of directors’, *Journal of Management & Organisation*, 17:1, 17–38.

Impact of gender diversity and equity on resilience in the context of AI

Resilience to AI is a channel through which increased gender diversity can support businesses' commercial performance. This section outlines the important role that AI is likely to play in shaping commercial outcomes, and the benefits that gender diversity and equity are likely to bring.[146]

The importance of AI for commercial performance

Commonly termed the fourth industrial revolution, AI is increasingly becoming an engine of productivity and economic growth, driving efficiency by improving decision-making. AI can also spawn the creation of new products and services, markets and industries, boost consumer demand and generate new revenue streams.[148]

Box 5.2 Applications of AI to businesses

There are a number of AI technologies that businesses may adopt. McKinsey Global Institute has identified five categories (computer vision, natural language, virtual assistants, robotic process automation, and advanced machine learning) and predicts that, by 2030, 70% of companies will have adopted at least one type, though less than half will absorb all five.

AI is used across a range of applications, including HR information systems, spreadsheet software, learning platforms.[147]

Source: Bughin, J., Seong, J., Manyika, J., Chui, M. and Joshi, R. (2018), 'Notes from the AI frontier: Modeling the impact of AI on the world economy', McKinsey Global Institute, 4 September.

By the end of 2023, it was estimated that 22% of organisations had integrated AI systems across their technology products, and 33% engaged in some implementation of it,[149] with this number

[146] While this review draws on the academic literature, as AI is a more recent factor in the workplace, there is less academic literature discussing the links between gender and AI. This section therefore draws to some extent on research from industry, as well as articles and case studies.
[147] IBM (2024), 'The most valuable AI use cases for business', accessed 4 October 2024.
[148] McKinsey & Company (2023), 'The economic potential of generative AI: The next productivity frontier', accessed 3 October 2024.
[149] CompTIA (2024), op. cit.

expected to increase substantially in the coming years. Through the combined effects of this, the development and utilisation of AI may represent 3.5% of global GDP, equivalent to a nominal value of $19.9 trillion in 2030.[150]

Efficient reallocation of displaced labour force

While AI is likely to have several positive impacts, one of the more negative impacts is the displacement of jobs, with women being, on average, 21% more exposed to job loss resulting from AI, despite there being more men in the workforce.[151] This is partly driven by the fact that women are more likely to be employed in jobs which involve routine cognitive tasks, and less likely to be in managerial roles, which are less at risk from automation. [152]

In the UK Women make up 66% of administrative and secretarial roles, and 90% of part-time administrative and secretarial roles, which are highly susceptible to AI,[153] with one source predicting that 52% of job losses for women are likely to happen in this sector.[154]

Having more women whose jobs are at risk from AI is likely to lead to greater displacement of women compared with men, and consequently to greater increases in the pool of unemployed women compared with men. Alongside the negative consequences, this also leads to opportunities for businesses, which can benefit from this displaced labour force.

Indeed, early literature shows that technology changes that lead to a displaced labour force tend to result in temporary adjustments to the labour force, rather than net displacements, as workers are shifted from less productive to more productive jobs over the medium term.[155] **This can also be observed at the level of individual businesses—for example, IKEA has reallocated displaced workers to higher-productivity positions.**

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[150] IDC (2024), 'Artificial Intelligence Will Contribute $19.9 Trillion to the Global Economy through 2030 and Drive 3.5% of Global GDP in 2030', accessed 3 October 2024.
[151] Kenan Institute (2023), op. cit.
[152] See Milanovic, K. (2024), 'Artificial Intelligence and the Labor Market', 19 March, SciencesPo, accessed 3 October 2024.
[153] Francis-Devine and Hutton (2024), op. cit.
[154] Madgavkar, A., Manyika, J., Krishnan, M., Ellingrud, K., Yee, L., Woetzel, L., Chui, M. Hunt, V. and Balakrishnan, S. (2019), 'The future of women at work: transitions in the age of automation', 4 June, McKinsey Global Institute.
[155] Belfer, N. (1949), 'The theory of the automatic reabsorption of technologically displaced labour', *Southern Economic Journal*, 16:1, pp. 35–43.

Box 5.3 IKEA's successful reallocation of labour

Following its launch of 'Billie', an AI bot that handles customer queries, IKEA has been training its call-centre workers to become interior design advisers since 2021. While Billie has grown to handle 47% of customers' queries to call centres, IKEA has trained 8,500 call-centre workers.

According to Ulrika Biesert, global people and culture manager at Ingka Group, the parent company of IKEA, the company is 'committed to strengthening co-workers' employability [...] through lifelong learning and development and reskilling, and to accelerate the creation of new jobs.' While there is increased usage of AI at the group, there is no reduction in headcount.

Source: Reid, H. (2023), 'IKEA bets on remote interior design as AI changes sales strategy', Reuters.

In addition, recent studies looking at the impact of technology on the labour force suggest that businesses that have adopted AI saw greater increases in their employment of labour compared to those that have not.[156] This suggests that displaced female workers will not be lost from the workforce, but rather moved into different jobs where they are more productive.

As the AI revolution frees up more women workers, businesses that can reallocate them into suitable positions, and choose to do so, are likely to benefit from a second wave of benefits from reallocating them into new positions. Moreover, businesses that currently have greater gender diversity at the management level are likely to see greater benefits from the newly liberated labour pool. This is

[156] For example, Dixon, Hong and Wu (2021) study the relationship between robot investments and total employment using a sample of Canadian businesses from 1996 to 2017. They find that robot investment is positively and significantly linked to increases in total employment. To quantify this, with robot capital making up only 0.05% of factor share, a 1% increase in robot investment is expected to result in a 0.015% increase in total employment within business. Dixon, J., Hong, B. and Wu, L. (2021), 'The robot revolution: managerial and employment consequences for businesses', *Management Science*, 67:9, pp. 5301–5967.
Similarly, Koch, Manuylov and Smolka (2021) studied panel data of Spanish manufacturing businesses between 1990–2016 and found that businesses that adopted robots between 1990 and 1998 increased the number of jobs by more than 50% in 1998–2016, while those that did not adopt robots reduced their number of jobs by more than 20%. Koch, M., Manuylov, I. and Smolka, M. (2021), 'Robots and Businesses', *The Economic Journal*, 131: 638, pp. 2553–2584.

because businesses with a greater proportion of women in leadership positions can better match female employees to roles that are suited to them.[157]

With businesses facing significant labour market pressures in coming years due to an ageing population, the ability of businesses to make use of the available labour pools will be an important driver of business performance. In the UK, nearly one in seven people expected to be aged over 75 by 2040.[158]

Benefiting from unbiased AI

AI is increasingly being used in many business functions, including recruitment and training.[159] While it can bring a number of benefits to these processes, AI can also be subject to biases resulting from either the data that it is trained on, or the coders who develop it. Without a human check on certain processes, AI can magnify existing societal biases, leading to a lack of diversity going forward.

In recent years, there has been an increase in machine-learning systems which amplify discrimination, such as sexist hiring practices, racist criminal justice procedures, predatory advertising and the spread of false information.[160]

The risk of faulty AI for diversity and inclusion outcomes has been recognised by UK government agencies, including the Department for Science, Innovation and Technology, which notes that 'these technologies also pose novel risks, including perpetuating existing biases, digital exclusion, and discriminatory job advertising and targeting'.[161]

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[157] Flabbi, L., Macis, M., Moro, A. and Schivardi, F. (2019), 'Do Female Executives Make a Difference? The Impact of Female Leadership on Gender Gaps and Firm Performance', *The Economic Journal*, 129:622, pp. 2390–2423.
[158] Government Office for Science (2016), 'Future of an Ageing population', July.
[159] Department for Science, Innovation and Technology (2024), 'Responsible AI in Recruitment guide', 25 March.
[160] IPI Global Observatory (2023), 'Addressing Gender Bias to Achieve Ethical AI', accessed 3 October 2024.
[161] Department for Science, Innovation & Technology (2024), op. cit.

Box 5.4 Facial identification algorithms which perform worse for minorities

Facial recognition algorithms are one application of AI where gender biases have been identified, which result from a lack of female and ethnically diverse representation in the datasets. For example, Joy Buolamwini, a computer scientist and founder of the Algorithmic Justice League, identifies that, for the task of identifying the gender of a face, AI systems performed substantially better on male faces than female faces, and for faces of white people compared to ethnically diverse people. They found that error rates were less than 1% for lighter-skinned men and 35% for darker-skinned women.

Source: Buolamwini, J. (2019), 'Artificial Intelligence Has a Problem With Gender and Racial Bias. Here's How to Solve It', 7 February, *Time*, accessed 27 August 2024.

Box 5.5 Gender discriminatory algorithms in practice

A report by the BBC (2018) found that an algorithm used for recruitment by Amazon, which considered CV submissions, was found to penalise CVs that included the word 'women'. While it was reported that the algorithm's recommendations were in use only briefly before being shut down and were never relied on solely, this case highlights with clarity the significant issue posed by AI systems trained using biased data.

Furthermore, in 2023 a group of non-governmental organisations (NGOs) filed complaints against Meta to the human rights commissions in both the Netherlands and France following research that found gender discrimination in Facebook's job adverts function. The research discovered that 97% of those who were shown a job advert for a receptionist in the Netherlands were women, while 79% of those targeted with a job advert for a chef were men.

Source: BBC (2018), 'Amazon scrapped 'sexist AI' tool', 10 October, accessed 30 August 2024. Global Witness (2023), 'Facebook accused of gender discrimination, new research finds bias in advertising algorithm', 12 June, accessed 4 October 2024.

A study for the Berkeley Haas Centre for Equity, Gender and Leadership which analysed 133 AI systems across different industries found that 44% of them showed gender bias and 25% exhibited both gender and racial biases.[162]

In a context in which companies are increasingly using AI in business, from recruitment purposes to training, they are increasingly facing commercial risks from biased AI. The use of biased AI can cause companies to make inefficient hiring decisions. If AI used in hiring exhibits gender biases, this means that it uses gender as a variable in its decision-making and is therefore less likely to select a female candidate. By deciding based on gender, rather than skills and characteristics which determine job performance, the AI system may not select the candidate most suited for the job, an inefficient decision which can lead to lost revenue.

[162] See UN Women (2024), 'Artificial Intelligence and Gender Equity', May 22, accessed 27 August 2024.

Additionally, over time, this is likely to result in a majority male organisation, which can lead the **company to miss out on the benefits of gender diversity.**

As well as having direct commercial impacts, the use of gender biased AI could have reputational impacts on a business, which might reduce consumers' willingness to buy its products, and therefore affect its performance. A survey of over 350 US and UK businesses that suffered from biased AI found that more than half lost revenue (62%), customers (61%) and employees (43%), or incurred legal fees from litigation (35%).[163]

That said, many of the negative commercial impacts of biased AI can be mitigated by making AI more inclusive, including working with more diverse coders and a more diverse dataset.[164] Many businesses are developing their own AI systems, in the form of large language models (LLMs), which are increasingly used in functions across businesses from recruitment to training.[165] For businesses that are not developing their own LLMs, AI may still be tailored or finetuned to their specific company context.[166]

Box 5.6 Large language models

An LLM is a computational model capable of language generation or other natural language processing tasks. As language models, LLMs acquire these abilities by learning statistical relationships from vast amounts of text during a self-supervised and semi-supervised training process.

Source: Oxera

Many of the biases in AI that result in the negative impacts discussed above are driven by issues at the business level, including lack of gender balance in the design and development of AI, lack of

[163] See concentric (2024), 'How Algorithmic Bias in Artificial Intelligence Hurts Business and How to Protect Yourself', July 5, accessed 28 August 2024.
[164] See, for example, Gichoya, J.W., Thomas, K., Celi, L/A., Safdar, N., Banerjee, I., Banja, J.D., Seyyed-Kalantari, L., Trivedi, H., Purkayastha, S. (2023), 'AI pitfalls and what not to do: mitigating bias in AI', *British Journal of Radiology*, accessed 3 October 2024.
[165] Davenport, T. and Alavi, M. (2023), 'How to train generative AI using your company's data', July 6, *Harvard Business Review*, accessed 27 August 2024.
[166] Ibid.

gender balance in technology leadership positions, and lack of transparency and accountability which leads AI systems to be trained on unbalanced datasets.[167]

Businesses can mitigate bias in AI by ensuring that AI systems are trained on a diverse dataset of employees. When LLMs are developed or tailored for companies', gender biases can develop because of a lack of diversity in the data on which the models are trained. Cowgill et al. (2020) analysed 8.2m algorithmic predictions from 400 AI engineers and found that biased predictions by the AI were mostly caused by biases in the training data.[168]

Consequently, businesses that are developing or tailoring AI systems based on data from their own workforces run the risk that it will be biased. For example, AI trained on data from businesses with a majority male workforce may demonstrate gender bias against women. By contrast, a business that is performing well on EDI is less likely to develop these biases.

Businesses can also ensure a greater gender balance in the development of technology by ensuring that gender-diverse colleagues are involved in the development. Biases in AI are influenced by the characteristics of the people, including coders, who interact with it. A report by the United Nations Educational, Scientific and Cultural Organization (UNESCO) found that human interaction with AI substantially reduces the extent to which there is negative content about women and LGBTQ+ individuals, but does not remove biases in AI completely, due to the biases of the humans it interacted with.[169] Additionally, the demographic characteristics of coders can have substantial effects on the biases displayed by AI.[170]

Having coders with different demographic characteristics reduces the overall biases. This does not mean that marginalised groups like women are less biased than men; rather, it suggests that the biases of different groups act in different directions.[171] Therefore, diversity is important to reduce biases in AI.

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[167] PricewaterhouseCoopers (2024), 'How AI is being adopted to accelerate gender equity in the workplace', March 7, accessed 27 August 2024.
[168] Cowgill, B. Dell'Acqua, A., Deng, S., Hsu, D., Verma, N. and Chaintreau, A. (2020), 'Biased programmers? Or biased data? A field experiment in operationalising AI ethics', Proceedings of the 21st ACM Conference on Economics and Computation, Columbia Business School research paper, December 4, pp. 679–681.
[169] UNESCO, IRCAI (2024), 'Challenging systematic prejudices: an Investigation into Gender Bias in Large Language Models'.
[170] See Gichoya et al. (2023), op. cit.
[171] Cowgill et al. (2020), op. cit.

In summary, while AI can bring many large benefits to businesses, there are large commercial risks associated with the use of biased AI in businesses' operations, including lack of efficiency resulting from selecting candidates based on gender, as well as reputational risks.

However, these effects can be reduced by having more diverse datasets for AI to be trained on and a more diverse pool of coders. This can allow businesses to realise the benefits of AI whilst reducing the risks resulting from biased AI.

Benefiting from women's skillsets

Gender diversity can bring a greater diversity of thought and experience because men and women have different skillsets shaped by their differences in lived experience. Some literature has suggested that women are more likely to have some skills that are likely to be useful in the context of the AI revolution. One source suggests that, following the AI revolution, the skillsets required for jobs globally will change by up to 68%.[172]

Skillsets likely to see increased demand include interpersonal skills, such as team leadership, strategic leadership and collaboration, some of which are more prevalent among women than men, according to research.[173] As well as shifting the required skillsets within industries, the AI revolution may shift demand across different types of job. Some research suggests that the AI revolution will lead to more demand for jobs relating to healthcare. This may drive up the value of this skillset, creating further demand for female workers, who are more likely to have expertise in the healthcare sector.[174]

5. Conclusion

The findings of this literature review indicate that there is an undisputably strong commercial case for supporting gender diversity and equity. Gender diversity and equity increases commercial performance directly through several mechanisms: better decision-making, increased diversity of thought and experience; greater staff engagement; and the role-modelling effect.

In addition, having greater gender diversity and equity increases businesses' resilience in the context of the long-term commercial risks and opportunities that they face. It can improve the climate

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[172] Duke, S. (2023), 'Why we must act now to revive women's leadership prospects in an AI-driven workplace', World Economic Forum.
[173] Ibid.
[174] Madgavkar, A., Manyika, J., Krishnan, M., Ellingrud, K., Yee, L., Woetzel, L., Chui, M. Hunt, V. and Balakrishnan, S. (2019), 'The future of women at work: transitions in the age of automation', McKinsey Global Institute, 4 June.

performance of businesses, which is an increasingly commercial, as well as an ethical, concern, and enable them to access the full range of benefits brought by AI.

While this review discusses how gender diversity and equity specifically improves commercial performance, it has also highlighted how diversity across other characteristics leads to improved commercial performance. Many of the mechanisms through which gender diversity and equity improves commercial performance are also applicable in relation to those from marginalised groups.

While some research examines this issue from an intersectional perspective and finds that women belonging to multiple marginalised groups have a positive effect on commercial performance, we note that there is a gap in the literature relating to this question.

Similarly, there is a gap in the literature relating to the impact of gender diversity and equity more broadly, which includes individuals from other marginalised genders, such as non-binary people and the balance between cisgender and transgender people. Research is needed on these topics to understand the benefits of gender diversity and equity with a holistic and intersectional lens.

The findings of this review illustrate the commercial importance of gender diversity and equity for any organisations seeking to improve their commercial performance. This is pertinent for private sector organisations seeking to improve their commercial performance by increasing profits or efficiency, and for the public and third sectors seeking to improve their performance in order to best meet their objectives. The findings illustrate that, in most cases, gender diversity improves organisations' commercial performance. However, to ensure improvements in commercial outcomes, gender diversity alone is not enough. Gender equity is needed.

Glossary and scope

The following constitute a note on the scope and use of key terms in the review.

- **Gender diversity or equity:** gender diversity refers to an equitable representation of people from different genders. Gender equity goes beyond diversity and refers to fair treatment of people from different genders. Gender diversity is typically thought of as a pre-cursor to equity, but companies may be diverse without being equitable. The term inclusion is less clearly defined but may be used to similarly describe the 'stage beyond' diversity by numbers.[175]
- **An intersectional approach:** throughout the review, we take an intersectional approach. This means that we examine the issues from the perspective of marginalised groups such as Black, Asian, ethnically diverse women, Lesbian, Gay, Bisexual, Transgender and Queer (LGBTQ+) women, older women, disabled women and neurodivergent women.
- **Consider all genders:** throughout this review, we examine research that considers gender diversity and equity in the fullest sense—for example, beyond the binary of man and women, taking into account non-binary and transgender individuals.
- **Commercial benefits beyond the obvious:** the review takes a holistic approach to consider how the profile of employees affects a company's approach to risk and emerging challenges, such as AI and climate change.
- **Marginalised genders:** marginalised genders refer to gender identities and expressions that are systematically disadvantaged or rendered invisible within societal structures. This includes cisgender women, transgender women, transgender men and non-binary people, among many other marginalized gender identities.

[175] For example, the Chartered Institute of Personnel and Development (CIPD) defines inclusion as 'feelings of belonging, having a voice and being valued for your unique and authentic individual skills and abilities.' At an organisational level, inclusion involves valuing difference and allowing all employees the opportunity to develop, participate and use their voice, irrespective of their background. See CIPD (2019), 'Building Inclusive Workplaces: Assessing the evidence', September.

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