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Gender-Diverse Companies Thrive Only Where Diversity is Embraced

by Sean Silverthorne

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Researchers have produced murky, conflicting results about whether gender-diverse companies perform better than those managed mostly by men. **Letian Zhang** offers new insight that explains why.



Do gender-diverse companies make more money than businesses run primarily by men? If research says they perform better, that could bolster the argument that women should have more access to top positions in organizations. But previous studies have produced conflicting results. Why?

We put this question to Harvard Business School Assistant Professor Letian Zhang, who studies organizational theory and strategy with a focus on social inequalities and status hierarchies. He explores the issue in a recent paper scheduled to be published in the journal *Organization Science*.

Instead of following the usual methodology of studying organizations in a particular industry or geography, Zhang went wide and deep. He developed a longitudinal sample of 1,069 leading public firms in 35 countries and 24 industries. His chief finding: The social context around companies matters. That is, gender-diverse firms tend to thrive only in parts of the world that embrace gender diversity, like Europe.

Q1. You mention in the paper that most research on diversity and performance tends to focus on a specific industry or country—and the results of those studies have not been consistent. Can you describe the approach you took here and what you hoped to achieve by casting a wider net?

Letian Zhang: I decided to explore the relationship between diversity and performance using a cross-national and cross-industrial approach. Existing work on diversity and performance tends to take on a micro approach, focusing on the dynamics of one specific context. But the conflicting findings from past studies suggest that we may want to go beyond the scope of one industry or country to identify broader trends that may be missed in too narrow a scope.

Moreover, institutional theory has long suggested that organizations are embedded in the broader normative and regulatory environment and that the broader societal context has important influences on dynamics within organizations. Thus, in this study, I decided to draw from neo-institutional theory and apply the question of diversity and performance to a global context.

Q2: In brief, what did you learn? How much of diversity and performance is consistent across study areas, and how much is driven by context?

Zhang: We learned that the social context matters, a lot! The effect of gender diversity on performance is highly correlated with a country or an industry's normative acceptance of gender diversity. In countries where gender diversity has been highly accepted (e.g. European countries), gender diversity is positively correlated with firm performance, as measured by market value and revenue. But in contexts where it is not well accepted (e.g. parts of Asia and South America), gender diversity has little or even negative correlation with firm performance.

Granted, we cannot make a causal claim because we do not have an identification strategy, but this study gives us strong preliminary evidence that the effect of diversity may vary across countries and industries in systematic ways.

Q3: What's the message here for political or business leaders who are trying to get their arms around these issues?

Zhang: For business leaders, this paper provides some preliminary evidence that diversity is positively correlated with productivity in contexts where gender diversity is valued. This is presumably because this kind of context creates a safe environment for women to contribute their ideas freely and therefore encourage the flow and exchange of ideas, increasing team performance.

In addition, this paper also suggests that investors are highly susceptible to the influence of social norms: They are more likely to reward those practices that are aligned with the social norm and to penalize those that are not. In this way, an organization that values gender diversity signals to investors that it embraces a norm that is valued in the larger society.

Read the paper:

An Institutional Approach to Gender Diversity and Firm Performance

[About the Author]

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