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Gender Equality in Decision-Making Positions: The Efficiency Gains

Women are under-represented in decision-making positions worldwide. However, gender equality and diversity are recognised to have beneficial effects on organisations, institutions and the overall economy. This article provides evidence that removing the glass ceiling – the invisible barriers which prevent women from reaching upper-level positions – may produce not only more equality but also substantial efficiency gains.

According to the World Economic Forum in 2016, only 59% of the gender gap in economic opportunities has been closed around the world. At the current rate of change, it will take another 170 years to close it.

Policies to accelerate the process towards economic gender equality and to promote women’s empowerment are at the centre of the debate in many countries around the world. Gender equality is a top priority, not only because equality between men and women is itself an important development goal, but also because women’s economic participation is “a part of the growth and stability equation”. As women represent over half of the population, and have talent, human capital and productivity equal to men, the global economy would benefit from boosting women’s participation in the labour force. The absence of women from positions of leadership is at odds with the strategy of exploiting talent to promote business and performance. This is particularly relevant in times of modest economic growth.

In developing countries, gender equality and development are intertwined: more gender equality creates the conditions to boost economic development and contributes to economic growth, while more development leads to more gender equality. In developed countries, women are typically more educated than men, they represent a crucial positive value for the economy and they contribute substantially to economic growth. More women in the labour market translates into a substantial increase in GDP. Moreover, a virtuous circle may begin when more women work: the demand for services causes consumption to increase, leading to the creation of more jobs, for both men and women. Finally, women’s participation in the labour market may play a positive role with regard to fertility and household well-being.

When we move from labour market participation to women’s representation in decision-making positions, the gender gaps are exacerbated. Even in countries in which women participate in the labour market in high numbers, only a minority make it to the highest positions.

However, the beneficial effects of gender equality and diversity are even clearer when we concentrate on decision-making positions. Much of the past literature has concentrated on the benefits of diversity: having both men and women involved in decision-making broadens the perspectives, increases creativity and innovation, diversifies the pool of talents and competences, reduces conflicts, improves the process of decision-making, and may better represent the firm’s various shareholders. Moreover, a better corporate image emerges when the leadership is gender balanced. The female leadership style also contributes to the benefits of diversity: women are better able to deal with difficult personal relationships, they pay closer attention to people’s needs, they are inclined towards the prevention and solution of conflicts, they more readily share views with other people and make efforts to reach agreements, and they monitor and give feedback more intensively.

This article provides evidence that there are efficiency gains from removing gender gaps and promoting gen-

3. Ibid.
8. N. van der Walt et al., op. cit.
nder equality in decision-making positions. First, promoting women into top positions would represent a dramatic change to the status quo dominated by male representatives. As competent and talented women are abundant, this change would produce a better selection process, yielding positive effects on the quality of representatives. Evidence of this mechanism will be provided below, both in the context of business and politics. Second, women contribute to better outcomes and improved performance of institutions and organisations. The relationship between gender and economic performance is a controversial one, and inconclusive. Causal studies will be discussed below which show that including women in decision-making is associated with better economic performance. Third, women in decision-making positions may contribute to the definition of a new agenda for the organisation, including items which are typically neglected by men. For companies this can include a shift towards less risky decisions, or towards sustainability and environmental policies with longer time horizons. For policy-makers this can mean more investment in education and social needs.

The article is organised as follows: the next three sections will discuss the efficiency gains from gender equality in decision-making positions under the three dimensions (quality, outcomes and performance, and a new agenda), showing evidence from both business and politics. A short conclusion then follows.

**Quality**

A major concern when promoting gender balance in decision-making positions is that there are not enough women who are qualified to assume top positions. Thus, having more women in decision-making roles may translate into a generally lower quality of representatives. In particular, the introduction of mandatory gender quotas, which force a gender-balanced composition, risks promoting less qualified women, who very likely will perform worse than the perhaps more qualified men they replace. Opponents of gender quotas in fact argue that quotas are contrary to the ideal of a meritocracy. The issue of quality is thus a crucial one.

However, these feared negative effects are not convincing. On the contrary, having both men and women in decision-making positions may increase the quality of representatives. This happens through several channels. First, women in developed countries are typically highly educated. The reason why women are nonetheless under-represented may not be their lack of competence or qualifications, but rather the presence of statistical discrimination, i.e. that individuals are judged based on the average characteristics of a group rather than on their individual ones. As a consequence, although qualified women are available, they are often not taken into consideration in the promotion and evaluation process. Discrimination not only leads to unequal outcomes, but it also creates efficiency losses, including a waste of talent and a lack of incentives to invest in human capital by and for the discriminated group, ultimately culminating in an inefficient allocation of resources. When affirmative action measures force companies to actively seek out women, the most competent women are appointed and the overall quality could actually increase. By reducing the inefficiency losses associated with discrimination, these measures may generate efficiency gains.

Second, opening the competition to women may also have a positive selection effect: better candidates will be selected if the pool of candidates is enlarged to include women as well as men and competition is tougher. Third, a gender-balanced composition of representatives may induce a re-thinking of the entire group of representatives. If women are highly qualified, the standard of quality also increases for men, leading to overall quality increases. Fourth, it is recognised that women are less susceptible to corruption, more responsible and absent less often. Finally, having a more gender-balanced leadership may induce more women to become more competitive in nature and pursue similar positions, thereby further enlarging the talent pool. Thus, a virtuous positive circle of quality may begin.

The relationship between gender equality and quality of representatives is not easy to establish, because it suffers from the typical endogeneity concern: does the presence of women increase institutional quality, or does the quality of the institutions promote the presence of women? Recent studies use the introduction of gender quotas – an exogenous increase of women’s empowerment – to test the causal impact of women’s empowerment on quality. These studies challenge the traditional view that women’s empowerment may have negative consequences on quality. A positive relationship emerges both in the context of business and politics through the theoretical channels discussed above. In politics, a recent paper analyses the temporary adoption of gender quotas in municipal elections in Italy in
1993-1995. The quota requires that neither sex could represent more than 2/3 of the total in candidate lists. A quasi-experimental set-up emerged, as some municipalities voted in that period and some did not, resulting in a natural treatment group – municipalities that voted with the gender quotas – and a control group – municipalities that did not. Using a difference-in-differences estimate, the paper shows that gender quotas have positive effects on the quality of the elected politicians, as measured by years of schooling. Quotas lead to more women being elected, and women are on average more educated than men, and at the same time fewer lower-educated men are elected. A similar result showed that the introduction of gender quotas in Swedish local elections led to “the crisis of the mediocre man”.

The introduction of mandatory gender quotas on the boards of directors of listed companies in Italy provides a similar opportunity for comparison. Board gender quotas were introduced in July 2011 and implemented from August 2012. There was a gradually increasing target: in the first elections after August 2012, boards needed to appoint at least 20% of each gender, while in the second and third elections the target was 33%. The measure was temporary, and it expired after three board elections. Sanctions were substantial and culminated in the final dissolution of the board. The paper collected 4,627 CVs of board members (men and women) elected in the years 2007-2014 to obtain information on age, gender, state of birth and residence, type of board, position within the board (president, vice-president, CEO, administrator/advisor, auditor), education level (university and graduate level), university, field of education, and kinship with other members of the board.

The comparison of each firm before and after the introduction of board gender quotas showed that women’s empowerment (exogenously determined by the introduction of gender quotas) increased the quality of board members. In fact, new members were more educated than old ones and existing ones, while this trend was not present before the quotas. The effect is particularly strong for women, but it appears also for men: after the introduction of gender quotas, more men with a graduate level of education were elected to the boards. Also, the average age of board members decreased after the reform. It is difficult to understand whether a reduction of the average age is a sign of more or less quality, since older members are obviously more experienced than younger ones, but it is also more likely that older members were appointed because of their network, or that they were confirmed without a transparent selection process.

These results are particularly meaningful in the Italian context, where female appointments before the quotas were mainly driven by family representation on the board (often of women with lower levels of education who were also less engaged than men in running the business), rather than based on merit. The gender quota law has improved the overall selection process by opening the field to women, who are revealed to be comparatively highly educated, and by leading to the selection of better qualified men (i.e. the less educated men exit the board). Women’s empowerment is associated with more competition, resulting in representatives with a higher average quality.

Outcomes and performance

Does the presence of both men and women in decision-making positions improve the performance of companies? The existing literature provides mixed results. Again, gender quotas are an interesting framework with which to isolate causal effects. The introduction of boardroom gender quotas in Norway in 2004 has been thoroughly researched. Gender quotas are associated with a negative impact on the stock market: firm value decreases, because changes are costly and less experienced people enter the board. We also observe a reduction in profits, because companies hire fewer workers. There are also doubts regarding the idea itself that women are more risk averse than men and thus women’s empowerment is associated with decisions that are less risky, which could in turn have a positive impact on the overall performance.15 The Italian case provides different evidence: using an instrumental variable identification strategy, where the introduction of board gender quotas is an instrumental variable for the share of women on boards, Ferrari et al. show over a short observation period that gender quotas are not associated

with weaker performance, measured by the number of employees, profits, ROA, Tobin's Q and assets. When in fact short-term outcomes are considered, for example stock market returns, positive effects of a balanced leadership emerge. Gender quotas reduce the variability of stock prices, and thus they are associated with fewer risks. This is consistent with women being more risk averse than men.

Moreover, while there was no negative reaction in the stock market at the announcement of the law, the event study covering each board election of companies in the period 2011-2014 shows better returns at firms whose board elections had quotas.

A new agenda

A third important beneficial change associated with gender equality is the emergence of a new agenda, i.e. a new direction for firms or movements into previously unexplored policy ground. Gender equality in decision-making positions is important to guarantee that some items (which may have a positive economic impact) make it onto the agenda. In public policy decisions, we know that women leaders tend to pay more attention to social issues, welfare, health and education than men do. Expenditure in education is particularly relevant for growth-enhancing effects. Research trying to assess the causal role of women in setting the policy agenda and the consequent effects on economic outcomes is however scarce and mainly limited to developing countries. For developed countries, the (little) existing evidence is inconclusive. One study found that female policy-makers in Switzerland change the composition rather than the total size of public expenditures, re-orienting resources towards investments in health and environmental issues. Another found that having a female mayor in the United States does not change policy outcomes such as the size of local government, the composition of municipal spending, employment or crime rates.

More research is needed to understand the role of women in decision-making and their effect on policies. As women have a longer time horizon, we expect for example a gender-balanced leadership to be associated with better environmental and sustainability performance. As climate change is a major challenge for the future, women may play an important role in implementing climate action plans, thus contributing to the overall sustainable growth of the economy.

Conclusions

Gender equality in decision-making has positive economic consequences. This article has focused on the efficiency arguments which justify the promotion of gender equality. Not only is diversity beneficial in itself, but when women are highly qualified, more responsible and less corruptable than men, this causes efficiency gains to emerge. The result is higher quality institutions and organisations, a positive effect on economic outcomes and performance, and a new policy agenda. Measures which reduce discrimination help to increase efficiency. We have provided several examples from business and politics. However, as causal effects of gender equality on efficiency are not easy to identify, more research is needed in this direction.

16 G. Ferrari et al., op. cit.