European Project
on Equal Pay

Women in the Executive Suite Correlate to High Profits

Roy D. Adler, Ph.D.
Pepperdine University

An extensive 19-year study of 215 Fortune 500 firms shows a strong correlation between a strong record of promoting women into the executive suite and high profitability. Three measures of profitability were used to demonstrate that the 25 Fortune 500 firms with the best record of promoting women to high positions are between 18 and 69 percent more profitable than the median Fortune 500 firms in their industries.

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The glass ceiling issue is one of the most emotional managerial issues of the past decade. Although a great deal of anecdotal evidence exists, there has been very little empirical work to support even the most basic contentions concerning the issue. One of the areas most in need of evidence involves profitability. It is alleged that firms that have had a good track record of promoting women to the executive suite have found that practice to have been profitable, but there is little empirical evidence that the assertion is, in fact, true.

In order to test that assertion, we evaluated the record of 215 Fortune 500 firms concerning the inclusion of women in the executive suite for the 19-year period from 1980 to 1998. A point system was devised, and the top 25 firms for women were then evaluated on three different measures of profitability relative to the median Fortune 500 firms in their industries for 1998. All three measures demonstrated that higher scores were correlated to higher profitability.

Previous Studies

Since the mid-1980s, advocates for women have worked hard to convince the business world that women are as capable as men in high executive positions, and that their inclusion in the executive suite would contribute greatly to the success of a company. The pioneering book in this area was Morrison et al.'s *Breaking the Glass Ceiling*, which brought the term "glass ceiling" into the lexicon in 1987. This work was based on interviews with 76 executive women, and was qualitative in nature.

Other books followed. John Naisbitt argued that the presence of women in upper levels of the organization would be beneficial, and Driscoll and Goldberg used in-depth interviews to examine the lives of senior women executives. Helgesen argued that women have a largely untapped advantage in leadership style and that women's leadership styles transform organizations, but none of these excellent books reported quantitative evidence of profitability.

The *Fact-Finding Report of the Glass Ceiling Commission* was a report of the perceptions of women in the workplace, and did not attempt to connect the presence of high-ranking women executives to profitability for their corporations. Furchtgott-Roth and Stolba provided a guide to the economic progress of women and, since 1985, the advocacy group Catalyst has issued over 30 excellent research reports on various aspects of progress for women, but none of them have addressed the issue of profitability with empirical evidence.

There are at least three reasons why the study was not attempted earlier. First, there have been only a handful of firms with women in upper level positions, so that it was difficult to make a valid statistical comparison between the very small number of firms with influential women and the huge number of firms without them. Expanding the base number of women-friendly firms was not easy because it was very difficult to learn which firms had women in the executive suite at levels just below the very visible positions of President or CEO. Finally, although longitudinal data is widely regarded as the most solid, it is not often done because the data is very difficult and time consuming to collect.

Fortune 500 Data

Our study took advantage of a very large base of Fortune 500 data we collected for the period 1980 to 1998. The study began in 1992, when each Fortune 500 firm was invited to supply us with data about the number of women in their top 10 executive positions, the next 10 executive positions, and the Board of Directors for each year since 1980. Names and positions were provided for validation, with the assurance that they would not be published. Subsequent data sweeps were conducted in 1995 and 1998.

These efforts have resulted in data for an average of 215 Fortune 500 firms for every year from 1980 to 1998. The longitudinal nature of the database allows us to compare the data for any year with any other year since 1980, and allows the historical performance of any responding firm to be studied on a variety of measures.

The Scoring System

Once we tabulated these data, we devised a system to score each firm on their record for promoting women to the executive suite. We weighted the pioneering efforts of firms in the years 1980 to 1992 heavier than the efforts in later years. Two points were assigned for each woman in a "top 10" executive position for the years to 1992, with one point for later years. One point was assigned for each woman in the "next 10" positions to 1992, and one half point for later years. One point was given for each woman on the Board of Directors for the early years, and one half point for subsequent years. Scores were summed and firms were ranked in order. The 31 firms that scored the highest (the top one-seventh) were then evaluated for profitability. Because the survey had guaranteed anonymity to responding firms, we regret that those firms cannot be named here.

Four Evaluations of Profitability

Because different industries might prefer to use different measures of profitability, three measures of profitability were used to evaluate each of the firms. Profits as a percent of
revenues, assets, and stockholders' equity were recorded for each firm, based on data from the 1999 Fortune 500 list. In like manner, the equivalent figures for the median Fortune 500 firm in each firm's industry were recorded. Six of the firms did not have data available for 1999 and were discarded, leaving 25 firms. The figures for the 25 remaining firms were then summed, and a mean number calculated. The same was done for the industry medians.

In addition, a fourth measure of profitability was taken. We determined whether the each subject firm was higher or lower than its industry median counterpart. This was done in order to expose the potential situation whereby strong figures for one dominating firm might obscure a general trend in the opposite direction for the majority of women-friendly firms within an industry.

Results

The results showed a clear pattern. Fortune 500 firms with a high number of women executives outperformed their industry median firms on all three measures. Furthermore, the firms with the very best scores for promoting women were consistently more profitable than those whose scores were merely very good.

On the measure of profits as a percent of *revenues*, the 25 subject firms outperformed the corresponding industry medians by 34 percent. The women-friendly firms averaged 6.4 percent while the average of their industry medians was 4.8 percent. When taken individually, almost two-thirds of the subject firms (66%) outperformed their median counterparts.

On the measure of profits as a percent of *assets*, the 25 subject firms outperformed the industry medians by 18 percent. The women-friendly firms averaged 6.5 percent while the average of their industry medians was 5.5 percent. When taken individually, 62 percent of the subject firms outperformed their median counterparts.

On the measure of profits as a percent of *stockholders' equity*, the 25 firms outperformed the industry medians by 69 percent. The women-friendly firms averaged 26.5 percent while the average of their industry medians was 15.7 percent. When taken individually, 68 percent of the subject firms outperformed their median counterparts.

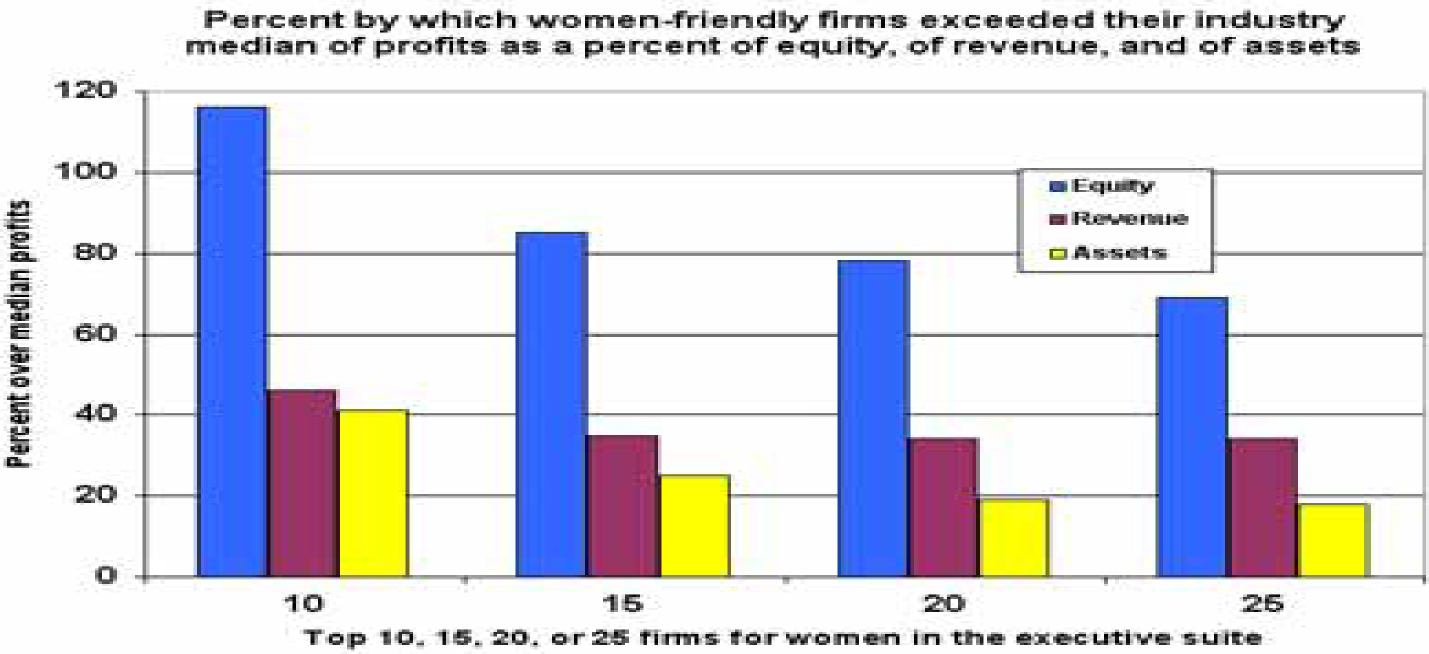
The diligent reader will note that the results might be sensitive to the number of firms included in the analysis. If one were to limit the subject firms to only the "top 10 firms" for women (or "top 15 firms" or "top 20 firms"), the results would be somewhat different. In fact, further analysis showed a direction consistent with the basic conclusion that firms with a stronger record of promoting women are more profitable.

The firms with the very best records for promoting women showed the strongest record of profitability, as shown in the table below.

Percent by which companies exceed the industry median in terms of …

Profit as % of >>>	**Revenue**	**Assets**	**Equity**
Top 10 firms	**46**	**41**	**116**
Top 15 firms	**35**	**25**	**85**
Top 20 firms	**34**	**19**	**78**
Top 25 firms	**34**	**18**	**69**

In other words, the results of the "top 25 firms" that are featured in this study are very conservative. The results would be even more dramatic if a smaller set of only the most friendly firms for women had been highlighted.



Indicated Action

It is important to note that the correlation does not prove causality. While it could be concluded that a firm's long-term record of promoting women to high positions results in higher than normal profitability, it could also be argued that firms with higher profitability may feel freer to experiment with the promotion of women to high levels.

One intriguing additional explanation is that firms exhibit higher profitability because their top executives have probably made smarter decisions. One of the smart decisions that those executives have made is to include women in the executive suite, so that the best brains are available to continue making smart, and profitable, decisions for the firm.

However one interprets the data, it is clear from multiple measures that there is a positive correlation between the existence of larger numbers of women in the executive suite and higher than normal profitability within an industry. Wise executives might well keep this evidence in mind as they consider promoting talented individuals to the executive suite.

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Roy D. Adler, Ph.D.
Brief Biography

Roy Adler is a Fulbright scholar and Professor of Marketing at Pepperdine University in Malibu. Dr. Adler holds degrees from Bucknell University, Xavier University, and the University of Alabama and has worked in the marketing or advertising departments of Procter and Gamble, Levi Strauss, and Nationwide Insurance.

A long-time officer of the Academy of Marketing Science, Dr. Adler is known for his books Marketing and Society and Marketing Megaworks, about 30 published articles, and his work as an on-camera host in the Emmy-winning PBS-TV series "Marketing."

Since 1992, his research focus has been on the emergence of women on top executive teams of the Fortune 500. With 21 years of data from an average of over 200 Fortune 500 Corporations each year, he has been able to shed empirical light on various issues concerning the glass ceiling, and predict the impact that women will have on major corporations in the 21st century. One of the most provocative findings is that firms that have been leaders in promoting women to the executive suite are far more profitable than their competitors.

He won the University's highest award for outstanding teaching in 1995, and was granted the lifetime designation of Distinguished Fellow of the Academy of Marketing Science in 1992, an honor held by less than 30 people, worldwide.

Additional information is available in an expended vita at royadler.com.