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Research Brief

# Does Gender Diversity in Forest Sector Companies Matter?

## Overview

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### Description

Investigation of gender diversity in Boards of Directors and executive teams and impact on company performance.

### Methods

Analysis of secondary data

### Data Source

Company reports and YCHARTS.com

### Key Findings

Gender diversity in Boards of Directors has no impact on company performance

Gender diversity in executive management teams has a significant, positive impact on company performance

**Introduction**

The forest industry is faced with the generational transition of a graying workforce that is reaching retirement age. The oncoming wave of retirements presents a significant opportunity to recruit a young, vibrant, and more diverse workforce that can help move the industry into a more competitive future. Achieving such a future will require a suite of complementary and well-constructed strategies that includes workplace renewal. Promotion of workforce diversity must be an essential component of these strategies as it may have far reaching implications for the competitiveness of the future forest sector.

There are several motivations for companies to seek a more diverse workforce. In some cases it may be legislated, in others it may be considered the "the right thing to do" and is driven by corporate social responsibility and ethics. Finally, there is the business case, the idea that a more diverse workforce can produce better decision making and improved profitability.

This research investigates the gender diversity of Boards of Directors and top management teams (TMTs) in large companies in North America and Europe and the impact of that gender diversity on a measure of performance, EBITDA margin. Specifically, our objectives are to:

1) Identify if there is a relationship between gender diversity at board and executive levels and the financial performance of forest sector companies

2) Propose a path forward for industry to increase its workforce diversity

**Methods**

We focus on North American and European companies listed in the PricewaterhouseCoopers global top 100 pulp paper and packaging companies. Secondary data were collected in 2015 and generally represent 2014 company results, although some companies may operate on a fiscal rather than calendar year. After eliminating companies for which we could not obtain all the necessary data, our sample includes 51 companies. We use OLS regression to test relationships between share of females in TMTs and boards of directors, various control variables, and company performance. We included variables for companies two or more females, product line (pulp, paper packaging or wood products), and region of headquarters (Europe, North America).

**Results**

Of the 51 companies, the largest set is headquartered in the US (15), followed by the Canada (10), and Sweden (5). The companies have 499 members of their boards of directors and 414 members of their TMTs. Overall, female members represent 15.9% of boards of directors and 15.8% of TMTs. With respect to the TMTs, the most common roles for women are in the area of human resources, followed by divisional president, finance, and communications. In total, three (6%) of the companies had a female CEO. Overall, there were nine (18%) companies with no females on the board of directors, 21 (41%) companies with no females on the TMT, and three (6%) companies with no females on either (all from Europe). With respect to individual countries, the only Polish company has no females in board or TMT positions. Similarly, two of four companies from Portugal and four of ten from Canada lacked females at the board or TMT levels.

For TMT membership share, there is a positive effect from increased female proportion on financial performance, whereas the effects of company size, region or product line are insignificant. Having two or more female members was also non-significant. Gender diversity in Boards of Directors was not found to be significantly related to performance.

The weak effect of gender diversity on performance is, perhaps, not surprising given the extremely low representation of females within the companies represented in this study. For example, 43 (84%) of the companies have two or fewer female representatives on their TMTs. There is evidence to suggest that the real impact of gender diversity on groups is when there are three or more females (approximately one in seven of the companies in our data-

LITERATURE

Campbell, K., & Mínguez-Vera, A. 2008. Gender diversity in the boardroom and firm financial performance. Journal of Business Ethics. 83(3): 435-451.

Konrad, A. M., Kramer, V., & Erkut, S. 2008. Critical Mass: The Impact of Three or More Women on Corporate Boards. Organizational Dynamics. 37(2): 145-164.

base). Konrad et al. (2008) refer to three as a magic number where female representation is no longer a token and the diverse views of female members become genuinely integrated into team discussions. For most of the companies in this study, it may be that the diversity present in the teams simply has no, or limited voice.

Given the small proportion of females in leadership positions in this study, an alternative explanation is that to get where they are today, women have largely needed to conform to the prevailing male-dominated culture. If this is, in fact the case, higher level decision-making in the study companies does not benefit from significantly different thinking and values.

With respect to the TMTs in our sample, females were often in positions related to human resources and communications and these positions may be less central to strategy making than other positions on the TMT. Accordingly, these individuals may be less well-placed to impact strategic decisions and, therefore, company performance.

Campbell and Minguez-Vera (2008) suggest that board member diversity helps with marketplace understanding via a better match with employees and potential customers. In other words, when the diversity of the board better reflects the diversity of the marketplace, it is able to perform better in that market. In general, past research shows a forest sector that deserves further development with respect to market and customer orientation. Increased diversity on forest sector company boards and TMTs may be a way to further develop market and customer orientation.

Given the intuitive sense of positive performance impacts of increased diversity, one can hypothesize that the lack of positive findings may be the result of poor implementation of group processes to capitalize on the potential of diversity. Group leaders must be effective in integrating diverse views before they can have any impact on strategic decision making.

**The Pathway for Forest Industry Companies**

Given the lack of research in this area specific to forest sector companies, we have much to learn. Our initial evidence, along with findings from cross-sector work, suggests that increasing gender diversity is positive for the industry.

To be realistic, the pool of females qualified for leadership positions in the sector is small, especially relative to males. Even for the proactive and innovative forest sector company, it may be highly challenging to identify and attract candidates. Therefore, it is imperative that companies approach this issue with a well-tuned, long-term strategy. The strategy should encompass recruiting young employees and promoting from within, attracting outside talent into traditional positions, and utilizing talent that is increasingly operating in a non-traditional manner through project work.

Systematically recruiting and developing internal talent is an essential component of any long-term human resources diversification strategy. Companies should plan for effective recruiting of young females and careful mentoring of these individuals so that they are well-placed to climb the corporate ladder.

The strategy should also include recruiting talent from outside the organization since experience outside the company provides its own, additional diversity in thinking. Forest sector companies often proudly emphasize their promotion from within policies. While these policies can clearly be a positive element of company culture, they should not exclude the richness of experience and thinking that is possible from incorporating outside perspectives.

Another important element of the strategy is to actively engage with the growing number of people, typically women, who work on a project basis. Such candidates typically have the capacity to offer their diverse experience in an efficient and effective manner.

Finally, companies should promote a range of working approaches, to both male and female employees that allows them to stay actively engaged in the workplace when one or both parents may need alternative working conditions to manage the needs of a young family. Such flexibility will help ensure employees have the opportunity to retain and enhance their skills while also decreasing the likelihood of losing talent that the employer or industry more generally has invested in.



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