

**Gender**

# **Research: Adding Women to the C-Suite Changes How Companies Think**

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Illustration by Lars Leetaru

**Summary.** It's well known that firms with greater gender diversity among senior leadership perform better. But what's less clear is why exactly that is. What are the specific mechanisms that drive the positive business outcomes associated with increasing the number of women in the C-suite? In this piece, the authors share new research that explores exactly how the addition of female executives shifts

companies' strategic approach to innovation. Based on an analysis of more than 150 companies, the authors find that after women join the top management team, firms become more open to change and less open to risk, and they tend to shift from an M&A-focused strategy to more investment into internal R&D. In other words, when women join the C-suite, they don't just bring new perspectives — they actually shift *how* the C-suite thinks about innovation, ultimately enabling these firms to consider a wider variety of strategies for creating value. [close](#)

Research has shown that firms with more women in senior positions are more profitable, more socially responsible, and provide safer, higher-quality customer experiences — among many other benefits. And of course, there is a clear moral argument for increasing diversity among top management teams (TMTs). But when it comes to explaining why having more female executives is associated with better business outcomes, and what specific mechanisms cause those positive changes, existing research is much more limited.

We set out to explore these questions by examining exactly how firms changed their strategic approach to innovation after appointing female executives. We tracked appointments of male and female executives and analyzed R&D expenses, merger and acquisition (M&A) rates, and the content of letters to shareholders for 163 multinational companies over 13 years to determine how these firms' long-term strategies shifted after women joined their TMTs.

As leaders in the European market, the firms we analyzed were all actively involved in activities associated with strategic innovation (e.g., technology-based M&A and internal R&D) during the observation period — but we found that their approaches to those initiatives varied significantly. Specifically, we were able to identify three distinct trends around shifts in firms' strategic thinking following the appointment of female executives:

## **1. Firms became more open to change and less open to risk**

First, we found that after women joined the C-suite, firms became both more open to change and less risk-seeking. In other words, these organizations increasingly embraced transformation while seeking to reduce the risks associated with it.

To quantify these subtle cognitive shifts, we first conducted a linguistic analysis of changes in company documents issued by the TMT. We used a standard word categorization methodology that grouped terms like “bold,” “venture,” and “chance” as likely reflecting a greater propensity for risk-taking, while terms such as “create,” “transform,” and “launch” indicated more openness to change. We found that after appointing women to the C-suite, the frequency of terms in company communications that indicated a propensity for risk-taking decreased by 14%, while the frequency of terms suggesting openness to change increased by 10%.

This suggests that adding women to the C-suite does not simply bring new perspectives to the top management team — it shifts *how* the TMT thinks. Our research indicates that female executives don’t just offer specific new ideas to the team; their presence actually makes the TMT collectively more open to change and less comfortable with risk-taking. And as we discuss below, this mindset shift was reflected in tangible changes to how these firms made key strategic decisions.

## **2. Firms shifted focus from M&A to R&D**

Specifically, we observed that when TMTs added female executives, they gradually shifted from a *knowledge-buying* strategy focused on M&As — which could be described as a more traditionally masculine,

proactive approach — towards a *knowledge-building* strategy focused on internal R&D, which could be described as a more traditionally feminine, collaborative approach.

Our analysis suggests that this shift was a direct result of firms' increasing aversion to risk, as we found that when a TMT experienced a one standard deviation increase in propensity for risk-taking, the likelihood of doing an additional M&A the following year increased, on average, by 10%, while TMTs that became less open to taking risks were significantly less likely to engage in M&A activity. Conversely, we found that after women were appointed to senior positions and firms began to exhibit higher levels of both openness to change and aversion to risk, firms reported an average 1.1% increase in R&D investments — and the average total R&D investment of the companies in our sample was \$6,538 million, so a 1.1% increase is substantial.

### **3. The impact of female appointments was greater when women were well-integrated into the TMT.**

Finally, we found that the more effectively female executives were able to integrate into the TMT, the greater the impact they were likely to have on its decision-making. There are two key factors that can influence this:

- **Whether she's the only woman:** We found that adding female executives to the TMT only actually changed C-suite thinking in cases where the executive team already had at least one woman. This may be because teams that already had a woman in the C-suite were more comfortable working with and including female executives, reducing the obstacles facing new female appointees.

- **Whether she's one of many new appointees:** We also found that larger shifts in thinking occurred when the new female executives were part of a smaller cohort of new appointees. In other words, if a firm promoted 10 men and 2 women to senior roles, we would see less of an impact than if a firm promoted 5 men and 1 woman. This could be because incumbent senior managers may feel more threatened when a larger group is promoted into their midst, leading them to be less trustful and less welcoming of the newcomers, and thus limiting new executives' ability to contribute effectively.

Importantly, we measured all of these metrics both before and a full year after female executives were appointed to the TMT. This ensured that we were actually observing the effect of adding women to the C-suite, as opposed to simply documenting trends that were already in play before the addition of the female executives. We also controlled for other factors that may have correlated with changes in C-suite makeup, such as product strategy, R&D investment levels, and female board representation, to isolate just the effects of adding women to the TMT.

## **Why Is Having Women in the C-Suite So Impactful?**

While our study focused simply on demonstrating these causal relationships, there are a few potential hypotheses we can offer based on prior research that could start to explain the root causes behind our findings.

First, a look at many women's paths to executive positions sheds some light on why these leaders might simultaneously court change and avoid risk. To advance to the highest corporate levels, many women need to walk a difficult tightrope: They often learn to stand

out by promoting novel strategies in an effort to overcome stereotypes of timidness, but at the same time, the hyper-visibility that comes with being the only one of an underrepresented group drastically increases the professional costs of making mistakes, and so they learn to carefully weigh the benefits of their innovative proposals with the risks of potential failure. Based on this common experience, one could expect TMTs to become more focused on balancing innovation with risk mitigation as more women join their ranks.

In addition, prior research suggests that female executives are likely to care less about tradition and are more open to challenging the status quo than their male counterparts. Behavioral psychology has found that these sorts of attitudes fundamentally increase others' receptiveness to change, and so it would make sense that as more women are appointed to executive teams, it could trigger more open-mindedness in existing TMT members.

Similarly, if the individual women entering the TMT are on average more risk-averse (as studies suggest is often the case), their presence could cause the entire team to become more cautious. When an individual who seems more risk-averse enters a group, research has found that it can cause other group members to believe that the group as a whole is more risk-averse than it actually is, which can in turn lead everyone to become less open to risk.

Finally, it's also possible that these changes are simply the direct result of increasing diversity in the TMT. Research suggests that having more diverse perspectives to weigh in on key decisions can make a group more open to change, and more likely to see change as

feasible. At the same time, having a wider range of opinions to consider often slows down decision-making, decreasing the chances that the group will make rash or risky decisions.

## **The Power of Patterns**

Of course, the trends we've identified are by no means a hard-and-fast rule. There are a number of famous examples of women-led companies that prioritized M&A over R&D, and certainly promoting women to the C-suite is no guarantee that a firm will invest more in R&D or avoid M&A opportunities.

But because our analysis is based on a comprehensive look at all TMT appointments (not just CEOs) across more than 150 multinational firms, we've been able to identify patterns that may not be obvious when thinking about singular, highly-visible female CEO appointments. While there are plenty of well-known female leaders who exemplify the patterns we found — Marillyn Hewson of Lockheed Martin, Lisa Su of AMD, and Susan Wojcicki of Google and YouTube, for example, are all known for being catalysts for internal change and innovation — many of the executives in our study are not household names. The scope of our analysis allows us to refocus the conversation from the impressive achievements (or notable failures) of individual female leaders to the broader impact of gender equity in the C-suite.

Furthermore, while our study focused solely on how firms change when women join the TMT and did not include information about the impact of other forms of diversity, we would expect to see similar findings for members of other underrepresented groups, such as racial and ethnic minorities. Research suggests that the career trajectories of these executives have much in common with those of

women who make it to the top, and so while it is outside the scope of our current work, we wouldn't be surprised to see similar patterns for TMTs that add members from any underrepresented group.

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Despite numerous studies linking greater representation of women in the C-suite to positive firm outcomes, the mechanisms driving those changes have largely remained unclear. Our study begins to explore those mechanisms, finding that when women are appointed to the C-suite, they catalyze fundamental shifts in the top management team's risk tolerance, openness to change, and focus on M&As versus R&D. To be clear, we make no claim as to whether these shifts are intrinsically "better" — rather, our research aims simply to shed light on exactly how the integration of female leaders at the highest levels of an organization impacts its approach to innovation, and ultimately suggests that including more women in executive decision-making may lead firms to consider a wider variety of value creation strategies.

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