



# BECAUSE IT'S 2017: Gender Equality as an Innovation Challenge

Instead of focusing on building a 'business case' for gender equality, we need to re-frame it as an innovation challenge.

*by Sarah Kaplan*

**MOST READERS PROBABLY REMEMBER** that moment when newly-elected Prime Minister **Justin Trudeau** was asked by a reporter, why he had appointed women to 50 per cent of his cabinet positions — and his now-famous response: “Because it’s 2015.”

What is remarkable to me about that moment is not the Prime Minister’s appropriately-feminist response — although that was a welcome surprise; but the fact that the question had to be asked at all. How did we get all the way to the 21st century, and this is still a question? How are people still wondering whether women should have equal positions of leadership in politics, business — or anywhere else in the world?

If I think back to my own career, it has been 30 years since I had my first job out of university; and frankly, I thought we would be further along than we are. Lately I’ve begun to wonder, why haven’t we seen more progress?

Indeed, in many ways, we appear to have plateaued. Some have concluded that this is because the case for ‘equality of op-

portunity’ has largely been made on an anti-discrimination basis. For a long time, the messaging around this issue was, ‘It’s *just not right* to discriminate against women’. In response to the lack of impact of this argument, the messaging has shifted in recent years to ‘making a business case for equality’. Somehow, the thinking goes, if we can make an economic argument for *why* diversity matters, we should be able to make more progress.

Publications from the *Financial Times* to *The New York Times* have been touting the ‘growing evidence’ for a business case. This evidence has come, in large part, from reports from organizations like **Catalyst**, which are focused on establishing relationships between *the presence of women* and *company performance*. For instance, their research shows that returns for firms with *no women* on their board of directors are much lower than for firms with three or more women on their board.

For those who prefer to look beyond the elite setting of boards, there is also data from **McKinsey** showing that



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gender-diverse companies are more likely to outperform their peers. These findings are being quoted not just in the business world, but also in the world of non-profits and NGOs, with organizations like the **World Bank** and **Oxfam** justifying their policies on the idea that gender equality is based in a ‘strong business case’.

This kind of rhetoric about *the business case* for gender equality has led to comments like the one that appeared in the *New York Times* recently, in which the writer said — almost with relief — that ‘The business case now transcends public policy and moral imperatives’ — as if moral imperatives somehow don’t matter anymore.

All of this got me thinking: Why have we become so obsessed with making a business case, and what is the actual evidence for it?

I turned to the academic literature to see what scientific studies had to say about the relationship between gender diversity and performance. Based on my analysis of the findings to date, it appears that this relationship holds true — in some circumstances, in some industries and at some points in time. More importantly, the research shows that the relationship between gender diversity and performance is not necessarily *causal*: It could be that the best companies happen to hire a more diverse workforce and have more diverse boards, so it is not the diversity that causes their strong performance, but that diversity and performance are two outcomes of ‘being a great company’.

And yet, the headlines continue to trumpet: ‘Just add one more woman to your board, and your company will perform better.’ The truth is, we don’t actually *know* if this supposed business case actually holds. Researchers have definitely found correlations between gender diversity and performance — but because we have not yet achieved full equality and there are few truly-

inclusive environments to study (yet), we actually have no idea what the true potential could be.

When I get to this point in the conversation, many of the people who thought I was ‘on their side’ suddenly think I’m the enemy. By calling the business case into question, people are concerned that I am ‘undermining’ their ability to make change. What I’m suggesting, however, is that doubling down on the business case may actually be impeding change. I would like, instead, to *re-frame this conversation*.

Critically, the existing research does not show that adding women in leadership positions leads to *worse* performance for an organization. This leads me to question why we even need to ‘prove’ that including women is somehow a ‘win-win proposition’ in order to have them included in business or politics — or any other kind of setting. Why is the bar set higher in the first place?

**Figure One** shows the difference between *having women on a board* and *having no women on a board*. If you turn the comparison on its head and look at how firms compare relative to the average performance for their whole industry, the companies with no women on their board have, on average, much worse performance than the average for their industry (**Figure Two**). No one is asking those companies, ‘What is your business case for having *only men* on your board?’ Yet, we still seem to be obsessed with the ‘business case for action’ when it involves increasing the representation of women.

Why is this? I don’t have a perfect answer, but I believe it has to do with the notion of *meritocracy*.

We all want to believe that we live in a meritocracy, where the best and the brightest people get the big jobs and the best and brightest entrepreneurs get opportunities for funding. To explore

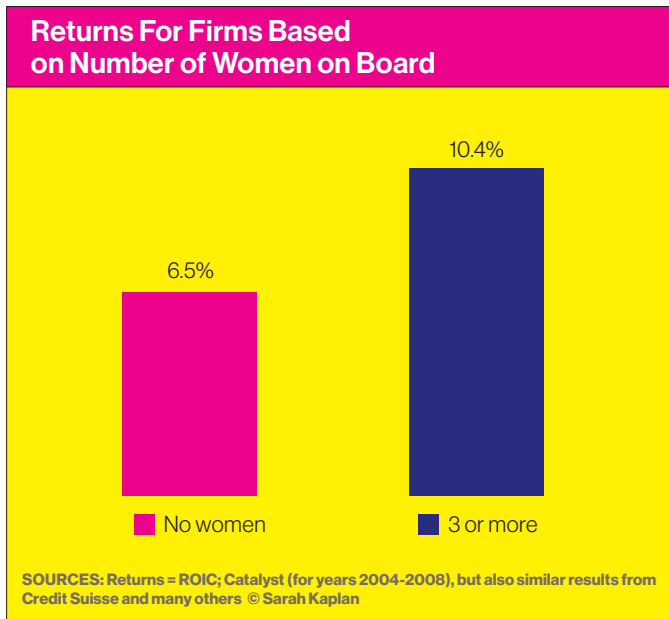


FIGURE ONE



FIGURE TWO

how meritocracies actually work, I decided to examine a domain where everyone thinks meritocracy truly rules: Silicon Valley and its venture capital investing community.

Silicon Valley is known for having some mysterious, magical way of finding greatness and supporting it. By implication, it must value meritocracy more than any other place in the world, right?

Not so fast: If you look at the data, only two per cent of venture capital funding currently goes to female-led startups (and that is down from six per cent in recent years). How is that a meritocracy? When I asked venture capitalists what was going on, they said, ‘Women just aren’t bringing us enough good ideas’ or ‘We can’t find enough good female entrepreneurs’.

This seemed problematic to me and, in fact, to several other researchers. These colleagues decided to create a situation where the ideas presented to investors were objectively equivalent and asked, ‘Would we still see this gendered difference in investing?’ They developed a pitch for a new startup, along with a script to narrate that pitch. Then, they asked potential investors to view the PowerPoint presentation. The only difference was that, in some cases, the narration was read by a recorded female voice, and in others, it was read by a male voice. At the end, they asked, ‘Would you invest in this startup?’

The results were startling: When the exact same pitch with the exact same script was narrated by a male voice, it was more than twice as likely to get recommended for an investment.

Maybe venture capital and Silicon Valley are a special case, you might say. So, I looked at the world of hiring in organizations. In one experiment, researchers used two versions of the exact same resumé to apply for a lab technician job. The only difference was that one applicant was named John and the other,

Jennifer. When hiring officers evaluated the resúmes to decide, ‘Is this person hireable for this job?’, it turned out that ‘John’ was much more hireable than ‘Jennifer.’

You might still be thinking that people are inferring some underlying difference in quality that is represented by gender but not by the resumé or the business pitch. How could we hold this constant and see if a bias still exists?

So, here’s another experiment: A group of people were asked to perform some specific tasks on a computer. Everyone in the experiment used the same exact type of computer, and everyone was asked to do the same tasks. The only difference was that some participants were told that their computer’s name was James, and others were told that their computer’s name was Julie.

After they completed the tasks, they were asked, ‘How did the computer perform?’ Everyone said that the computers worked well—there was no discernable difference between them. But when they were asked, ‘Given that performance, how much do you think this computer is worth?’ — it turned out that ‘James’ was worth 35 per cent more than ‘Julie.’

The examples of bias in the face of equal levels of quality and ability are endless, making it harder to cling to the notion of a meritocracy. In my own research, I’ve spent a lot of time talking with and observing people who are trying to achieve gender equality in terms of access to capital and in the world of finance. So, let’s go back to Silicon Valley for a moment. One of the people I talked to there told me, “Meritocracies are noble and worthy goals, but they are absolute myths. The only thing that meritocracy serves in Silicon Valley is as great validation if you’ve made it; it justifies your success. You are just that much smarter than everyone else.” And, by the way, it is the same on Wall Street. As one banker who did a survey of members of her Wall Street



## We are all jointly producing and perpetuating a system that is biased.

firm said: “The feeling that the firm was a meritocracy was much more likely to be held by those in the majority [white, male, heterosexual] group. Non-majority members were more likely to say that there were ‘hidden rules’ for success, and that it was harder to get the right opportunities.”

The takeaway: When you look closely, you realize that the current ‘meritocracy’ is actually *reinforcing the privilege of the people at the top*. Those in positions of privilege want to believe in meritocracy because it justifies that they have ‘made it’ based on their own skills — not that they’ve somehow benefited from privilege. And this, I believe, is why we are being forced to make a ‘business case’ at the moment: Because we have to prove to these people in positions of privilege that there is ‘something in it for them’.

So, what to do? This is not a story about criticizing white, heterosexual men. The fact is, we are all in this together: We are all

jointly producing and perpetuating a system that is biased and so, we are going to have to collaborate in order to solve the problem.

This is also not a ‘fix the women’ story. We can’t simply say, ‘The system is broken; women need to fix it themselves.’ And we can’t say to women, ‘You just need to be more self-confident,’ ‘You need to be less risk averse’, or, ‘You need to learn to negotiate better’. These are suggestions that are easy to make, as they come without costs to those with privilege and without a requirements that the system itself change.

If ‘fixing the women’ is not the solution, then what is?

My answer is this: Innovation. It will be hard to make further progress if we continue to do the same old things within the same old system. In my mind, the demand for a business case perpetuates the existing ways of doing business, because we are being asked to make a case *within the existing system* — instead of thinking about how to change that system.

### Tackling the Gender Gap in Entrepreneurship

As tough as it is for talented women to climb the corporate ladder, female entrepreneurs may have it even harder: According to a U.S. Senate report, a paltry 4.4 per cent of the total value of small-business loans went to women-owned businesses in 2014; and last year, **Bloomberg** reported that women comprised only seven per cent of founders receiving US\$20 million or more in venture capital.

For investors, fixing the flaws in the entrepreneurship ‘meritocracy’ would result in better decisions and higher returns — ultimately benefiting the entire ecosystem. In my research with **Peter Roberts** of Emory University, we are using a gender lens to scrutinize the performance of ‘innovation accelerators’ — programs whose explicit goal is to give a boost to new entrepreneurs — with two questions foremost in mind: Are these accelerators working for women? And if so, how are they moving the needle?

Our early findings offer both good news and bad: While the right combination of messaging and methods could help women make strides towards gender parity, most accelerators we studied adopted either half of this equation or none. They *said* they wanted to attract female entrepreneurs to their programs,

but then didn’t actually change any of their practices to be more inclusive.

Unlike incubators, accelerators don’t offer physical infrastructure for operations. They are more like ‘entrepreneurship bootcamps’, where a cohort of start-ups is given fixed-period access to an intense regimen of mentoring and training. Some are structured as competitions with a prize (usually funding) awarded at the end; for others, participants receive only non-financial resources, such as education or access to networks.

We analyzed 49 accelerators in the social innovation space — a field generally thought to be female-friendly, so that there would be enough female participation to make a viable comparison. Surveys from the accelerators — as well as from more than 3,000 ventures that applied to them over a two-year period (including those that were rejected) — comprised our dataset.

Happily, our study found that acceleration *does* work, for both female- and male-led teams. Indeed, we found no average difference in post-program performance that could be attributed to gender. A closer analysis, however, revealed some telling gender differences.

Our first point of interest was the gender mix of the

I've been doing research on innovation for my entire career, and one thing that is unquestionably true is that innovation is difficult. The fact that it is so difficult means that organizations put their best people on it and invest substantial resources in it; and the fact that it's so difficult is what makes it so exciting for these smart people. In contrast, when people start talking about diversity and equality, and how hard those things are to achieve, most people get depressed or frustrated, rather than excited. What if, instead, we thought of diversity as an innovation problem—making this challenge as exciting as other innovation challenges?

Following are a few examples of what innovation looks like in this arena.

**INNOVATIVE PROCESSES.** 'Social innovation accelerator' **Village Capital** brings together cohorts of entrepreneurs with new ventures to develop their business potential. The goal — as with all

innovation accelerators — is to help new ventures make their business more viable through training, mentoring and networking. In this program, two of the ventures from each cohort are selected to receive funding at the end of the program.

Without even having gender in mind, Village Capital's leaders had a discussion about the mechanism they were using to make these investment decisions. In most entrepreneurial settings — Silicon Valley being the prime model—you pitch your venture to a panel of investors. But research shows that pitching is actually a highly-gendered, 'masculinized' process. At Village Capital, they wanted a new model for their due-diligence process—so they decided to focus instead on peer mentoring and peer evaluation. They thought, 'Wouldn't it make more sense to have the actual participants — the entrepreneurs themselves — vote on which of their peers should receive funding?'

They decided to experiment with this approach, and

applicants. Not surprisingly, accelerators that made special overtures to women applicants received more applications from women. Perhaps also not surprisingly, those who used language emphasizing financial performance or solo entrepreneurs rather than teams, received fewer applications from women-led start-ups. This is consistent with well-publicized research demonstrating that female job-seekers are less likely than males to apply for a job when they don't fulfill all of the requirements laid out in a job description.

Accelerators who solicited applications from women not only received more, but also accepted them at a greater rate than those that did not reach out to women. Also, programs emphasizing financial returns under-selected women — indicating that women entrepreneurs may have been rational in choosing not to apply to these programs to begin with.

What about performance? Not all women-led start-ups that went through these accelerators benefited equally one year later, or in fact saw any benefit whatsoever. Accelerators with a critical mass (30 per cent or more) of female program leaders and mentors were much more effective with women-led ventures. Additionally, when the accelerator was run as a 'con-

test' (with prizes), women alums performed worse one year later than their male counterparts; and when funding was made available to all accelerator participants, women entrepreneurs ended up outperforming the men.

One would hope that the accelerators with stated preferences for women would also be the ones with the best practices for women — but that wasn't the case. We found little correlation between stated preferences for women entrepreneurs and the use of gender-inclusive practices. In fact, many programs that made special efforts to recruit women may have done their female participants a disservice, by exposing them to a hyper-competitive program run almost completely by men.

The bottom line: Our fascination with diversity — the numerical representation of women and minorities — may actually be inhibiting progress towards workplace equality.

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**Prof. Sarah Kaplan** presented her research on innovation accelerators at INSEAD's Singapore campus in January 2017.

something amazing happened: While only about 15 per cent of the entrepreneurs in the program were women, these entrepreneurs made up 30 to 40 per cent of those who were voted by their peers to receive funding. Basically, Village Capital took proactive steps to innovate and change its system, and as an unintended outcome, female entrepreneurs are benefitting.

**INNOVATIVE EVALUATIONS.** In 1970, women made up only five per cent of symphony musicians. Today, that number is closer to 30 per cent—and that is because in the 1980s, orchestras began doing ‘blind auditions’. Candidates are now situated on a stage behind a screen to play for a jury that can’t see them. In some orchestras, blind auditions are used just for the preliminary selection, while others use it throughout the process, until a hiring decision is made. Even when the screen is only used in the preliminary round, it has a powerful impact: Researchers have determined that this step alone makes it 50 per cent more likely that a woman will advance to the finals.

**INNOVATIVE CRITERIA.** France is in the process of moving to a 40 per cent quota for women on corporate boards; and everyone is up in arms: They don’t know how they are going to find these women, because they claim that there is no pipeline in place. One executive at a search firm even said, ‘We might have to look outside of France.’ Well, why not? This is a global economy; maybe French companies *should want* to have some board members from outside of France. Maybe lots of companies’ criteria for ‘what makes for a good board member’ are outdated, and if they changed the criteria, they might see all sorts of benefits. Indeed, research suggests that boards that proactively seek gender diversity become more effective because the gender diversity brings functional and intellectual diversity along with it.

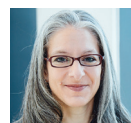
### In closing

Many of us believe that we can make evaluations based on quality alone. But as indicated herein, the research suggests otherwise. The next time you are making a decision about hiring someone, giving an employee a raise or investing in a new business, perhaps you can take some proactive steps to keep your implicit

biases at bay and carry out your evaluation using only the criteria that actually matter.

This is not just about checking our own individual biases. Once we recognize that these biases are built into our systems for hiring, evaluating and investing, we need to think about ways to change the systems themselves. If we can collectively recognize that our supposedly-neutral systems are actually gendered in many ways, together, we can make progress on gender equality.

And we won’t even need a business case to do it. We’ll just be able to say: Because it’s 2017. **RM**



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This article was adapted from her TED talk, which can be viewed online.

Rotman faculty research is ranked #3 globally by the *Financial Times*.