

Women Matter 3



Women leaders, a competitive edge in and after the crisis

Results of a global survey of almost 800 business leaders conducted by McKinsey & Company in September 2009

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Introduction

In 2007, McKinsey & Company published *Women Matter: Gender diversity, a corporate performance driver*. This report demonstrated a correlation between a company's performance and the proportion of women serving on its executive board. In *Women Matter 2*, published in 2008, we identified some of the reasons for this "performance effect" by examining the leadership behaviors that women leaders adopt more frequently than men leaders. In 2009, for *Women Matter 3*, our aim was to understand how gender diversity in companies was evolving – how the global economic crisis might have affected the programs and priorities of female executive development – and to identify whether the leadership behaviors more often adopted by women were still appropriate in times of crisis and beyond.

In September 2009, we conducted a survey of about 800 business leaders, representing all industry sectors, all levels of responsibility, and all regions of the world. The results reveal that the crisis has not altered firms' priorities with regard to gender diversity. On the other hand, our findings show that only one-third of the firms surveyed view gender diversity as one of their priorities at all. More worryingly, not all managers recognize the positive impact of gender diversity on corporate performance.

Our new report also confirms that certain leadership behaviors more frequently adopted by women are critical to navigate through the crisis safely and to perform well in the post-crisis world.

Lastly, as companies tend to implement piecemeal approaches to develop female executives, *Women Matter 3* recommends that companies should follow the example of the most advanced firms in order to accelerate the progress of gender diversity.

The case for gender diversity in top management

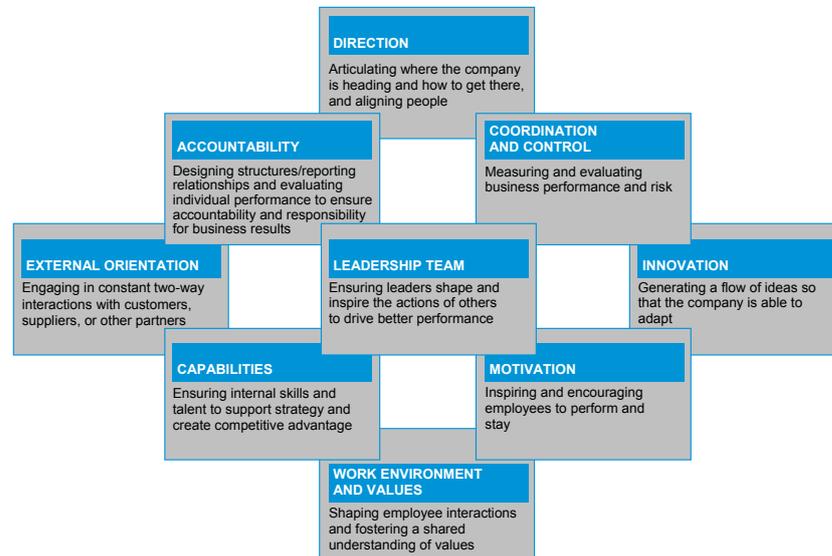
In 2007, our first *Women Matter* report highlighted the underrepresentation of women in European companies, particularly at management level.¹ The report provided a factual basis to demonstrate the importance of supporting women's involvement in corporate management.

By using a proprietary tool based on nine dimensions to measure firms' organizational performance (*Exhibit 1*), we revealed a correlation between the proportion of women serving on a firm's executive board and how well that firm performed both organizationally (*Exhibit 2*) and financially (*Exhibit 3*).

Exhibit 1

A proprietary diagnostic tool measures organizational excellence against nine key dimensions

Organizational Performance Profile (OPP)



¹ In 2006, women represented only 11% of the executive board members of listed companies in Europe and 8% in France. Source: European Commission Statistics – Executive Board (2006).

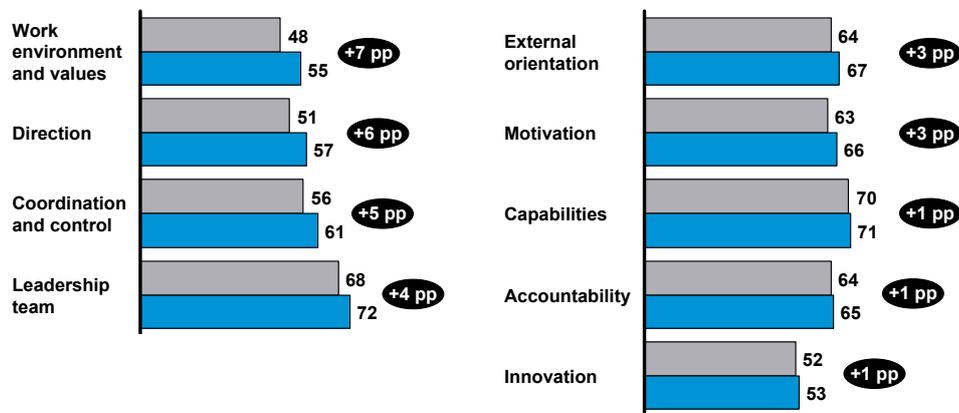
Exhibit 2

Companies with three or more women in top management score higher on each organizational dimension than companies with no female executives

How effective is your company on the nine organizational dimensions?

Employees giving positive evaluation¹, Percent

Number of women in top management:
 ■ None (n=45)
 ■ 3 or more (n=13)

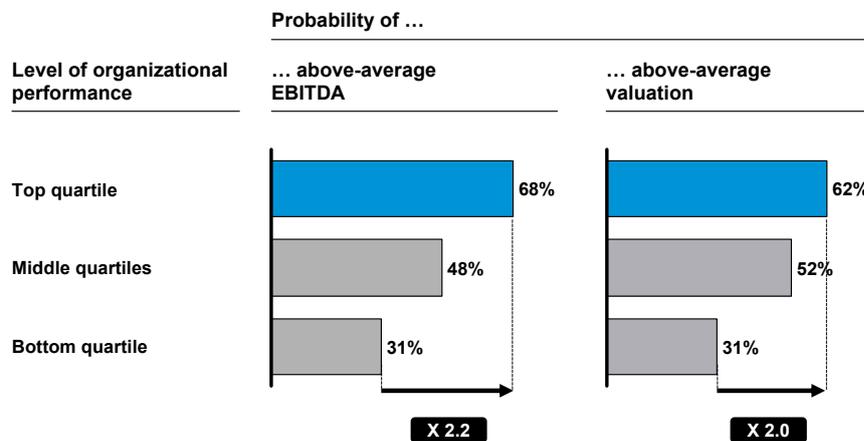


¹ Analysis conducted on a sample of 101 companies worldwide (58,240 persons surveyed)
 Note: Given the sample size, a 1 percentage point difference is statistically significant
 SOURCE: OPP analysis, *Women Matter*, 2007

Exhibit 3

Companies in the top quartile of organizational performance tend to have an operating margin at least twice as high as those in the bottom quartile

Companies' economic performance by organizational rating



SOURCE: OPP analysis, *Women Matter*, 2007

In 2008, some months before the economic crisis began, we turned our efforts to understanding the reasons for this outperformance by companies that had reached a “critical mass” of female executives. In *Women Matter 2*, we found some elements of a response by demonstrating that women leaders adopted five of the nine types of leadership behavior that positively affect corporate organizational performance (*Exhibit 4*) more often than their male counterparts (*Exhibit 5*).

Our report also highlighted the importance of the leadership behaviors most frequently adopted by women in addressing the major challenges companies would face in the following five years (*Exhibit 6*).

In 2009, in the grip of an unprecedented global economic crisis, our chief aim was to understand how the recession might have affected companies’ priorities in terms of gender diversity, and whether women’s leadership behaviors could still provide a competitive edge in and after the crisis.

Exhibit 4

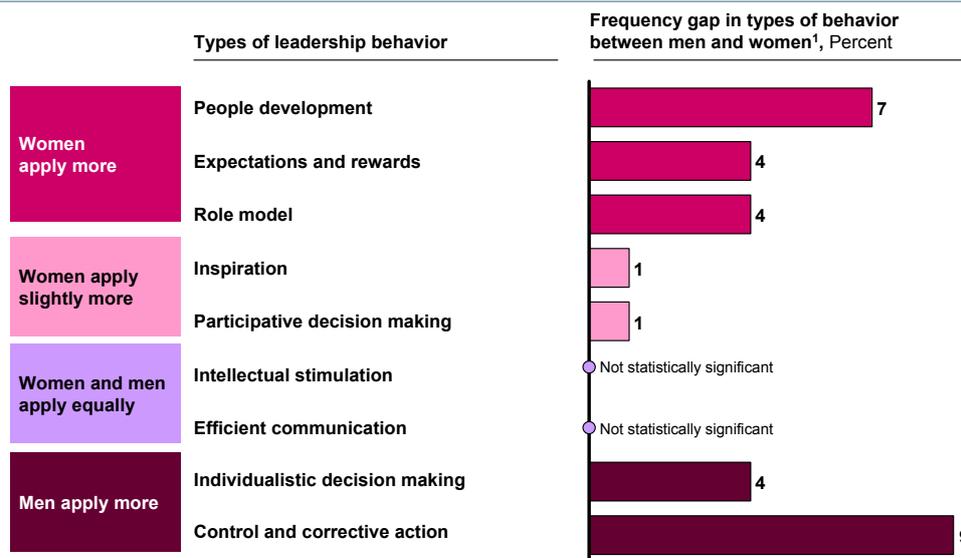
Nine key types of leadership behavior improve organizational performance¹

- 1 **Participative decision making** – Building a team atmosphere in which everyone is encouraged to participate in decision making
- 2 **Role model** – Being a role model, focusing on building respect, and considering the ethical consequences of decisions
- 3 **Inspiration** – Presenting a compelling vision of the future and inspiring optimism about its implementation
- 4 **Expectations and rewards** – Defining expectations and responsibilities clearly and rewarding achievement of targets
- 5 **People development** – Spending time teaching, mentoring, and listening to individual needs and concerns
- 6 **Intellectual stimulation** – Challenging assumptions and encouraging risk taking and creativity
- 7 **Efficient communication** – Communicating in a convincing way, with charisma
- 8 **Individualistic decision making** – Preferring to make decisions alone and engaging others in executing them
- 9 **Control and corrective action** – Monitoring individuals’ performance, including errors and shortfalls against goals, and taking corrective action when needed (sanctions, realignment)

¹ If applied more frequently than average
SOURCE: *Bass & Stogdill's Handbook of Leadership*, B. Bass, 1990

Exhibit 5

Women tend to demonstrate more often than men five of the nine types of leadership behavior that improve organizational performance – and three in particular



¹ Example: on a scale of 0 (never) to 4 (frequently, if not always), on "People development" the score is 2.94 for women and 2.76 for men: $(2.94 - 2.76) / 2.76 = \sim 7\%$. Unless otherwise stated, these differences are meaningful according to the t-test with $p < 0.05$

Note: Scope of the sample: 2,874 women and 6,126 men for 7 types of behavior; "Participative decision making" and "Individualistic decision making": 357 women and 327 men (2008 McKinsey survey, consistent with Alice H. Eagly's 2001 meta-analysis)

SOURCE: *Transformational, Transactional, and Laissez-Faire Leadership Styles*, Alice H. Eagly, Mary C. Johannesen-Schmidt, and Marloes L. van Engen, 2003; *The Leadership Styles of Women and Men*, Alice H. Eagly and Mary C. Johannesen-Schmidt, 2001

Exhibit 6

Women apply more frequently three of the four types of behavior seen as most effective in addressing the (pre-crisis) global challenges of the future



¹ Respondents could choose up to 4 types of behavior

SOURCE: *Women Matter 2* survey conducted on the McKinsey Quarterly global panel of 684 decision makers, 2008

The crisis hasn't stopped gender diversity initiatives, but progress is insufficient

Has the global economic crisis had an impact on female-executive development programs? Our survey of approximately 800 business leaders worldwide conducted in September 2009 – a year after the recession began – confirms that the crisis has not had an impact on firms' priorities or their efforts to promote gender diversity. However, the survey also reveals that gender diversity is often not a corporate priority.

The situation is unchanged

Before conducting our 2009 survey, we began by examining the progress made in terms of female participation on company executive boards in Europe since the publication of our first survey in 2007. In the European Union, the figures suggest that the average level of female participation on executive boards has stood still in Europe. At just 11% by the end of 2008, it had not changed in two years, even though certain countries had made good progress (*Exhibit 7*). In

Spain, for example, the figure had progressed by three percentage points over the two-year period, with women making up 8% of the members of the executive boards of listed companies.

The female employment rate, however, continues to rise in Europe (from 56% to 60% between January 2005 and March 2008).² At the same time, the gap between male and female employment rates closed by two percentage points in three years (from 21% in March 2005 to 19% in March 2008). In France, the gap has closed by three percentage points in the same period. This is the result of an employment rate that has remained stable for generations of males, but which has increased with each successive generation of females. For example, at all age levels, 20% more of the women born between 1955 and 1964 are in work than of those born between 1935 and 1944. This figure is clearly far higher than the rate at which female participation at the executive board level has evolved.

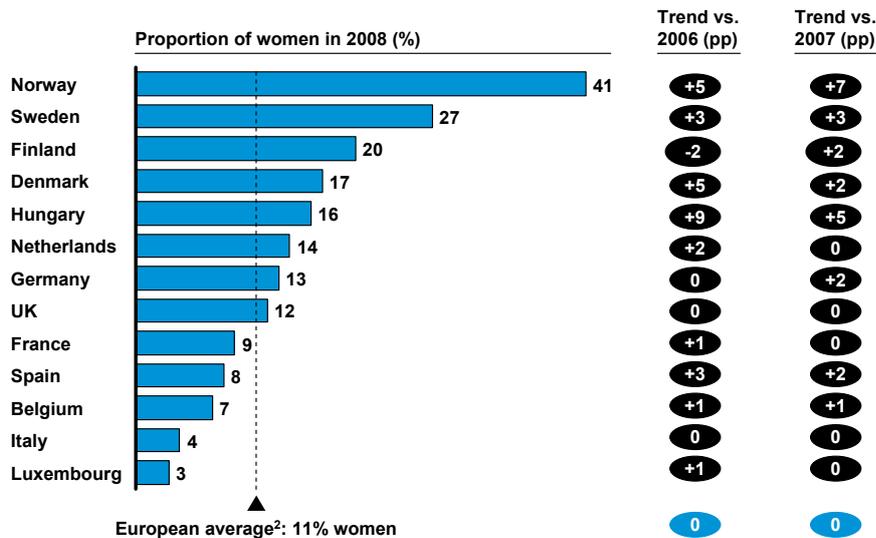
² Source: INSEE, Eurostat EU-2007, employment rate of 15–64 year olds.

“The average level of female participation on executive boards has stood still in Europe”

Exhibit 7

In Europe, women’s participation on executive boards has not changed in two years, on average, despite progress in some countries

Proportion of women on the executive boards of leading European companies (selected countries)¹



¹ European statistics for companies listed in the Blue Chip index for each country, with a maximum of 50 companies (n=714 companies in 2008), gathered between September 1 and October 30, 2008
² All Europe, including Turkey

SOURCE: European Commission, DG EMPL, database on men and women in decision-making

Current efforts fall short of requirements

The meager progress achieved reflects the importance companies give to this issue. Our survey shows that gender diversity is a strategic priority for only 28% of companies worldwide (26% in Europe). More striking still: 40% of companies worldwide (43% in Europe) have no plans in place to address the issue (*Exhibit 8*).

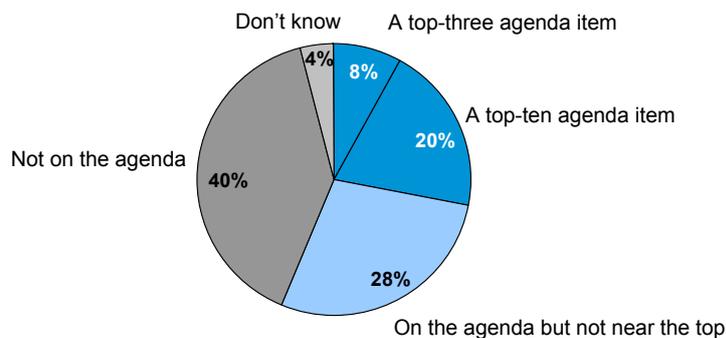
Furthermore, although 61% of the leaders we interviewed (regardless of gender and management level) claimed to be convinced of the positive impact of gender diversity on company performance, our survey shows that 41% of top management remained unconvinced: 20% didn't agree with the proposition and 21% didn't know either way (*Exhibit 9*). Clearly, there is room for improvement. If 59% of top management is convinced of its value and yet gender diversity is a

Exhibit 8

Only 28% of companies make gender diversity a priority, while 40% don't even see it as an agenda item

In recent years, many companies have put in place measures to increase gender diversity in leadership. How important has gender diversity been in your company's strategic agenda over the past five years?

Percent
Total companies (n=763)



SOURCE: *Women Matter 3* global survey, September 2009

“Gender diversity is a strategic priority for only 28% of companies”

“82% said that the economic crisis had not had a negative impact on the strategic importance of gender diversity”

priority for barely one-third of all companies, it would appear to be critical to motivate the skeptics if we are to make any progress, even by just a few percentage points.

Lastly, our study also shows that although 49% of men recognized the positive impact of gender diversity

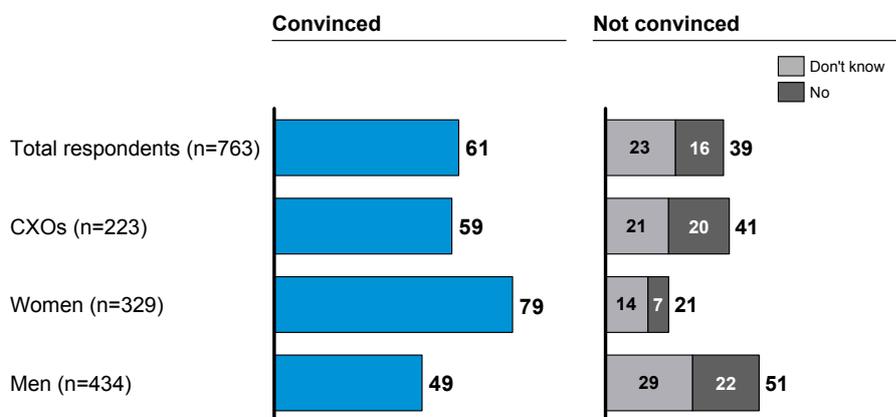
on performance, 51% remained unconvinced of it (22% didn't agree with the proposition and 29% didn't know). This division of opinion may well be acting as an additional brake on the development of women executives in companies, especially at board level, where men remain, on average, largely in the majority.

Exhibit 9

Although most business leaders recognize the positive impact of gender diversity on company performance, a large proportion of CXOs and male leaders remains skeptical

Much research has shown that companies with diverse leadership teams that include significant numbers of women generate higher financial returns. Do you believe this to be true?

Percent



SOURCE: Women Matter 3 global survey, September 2009

Gender diversity's strategic importance remains undiminished by the crisis

However, contrary to what one might think, the global economic crisis has not adversely affected gender diversity's importance within companies. Of those questioned, 82% said that the economic crisis had

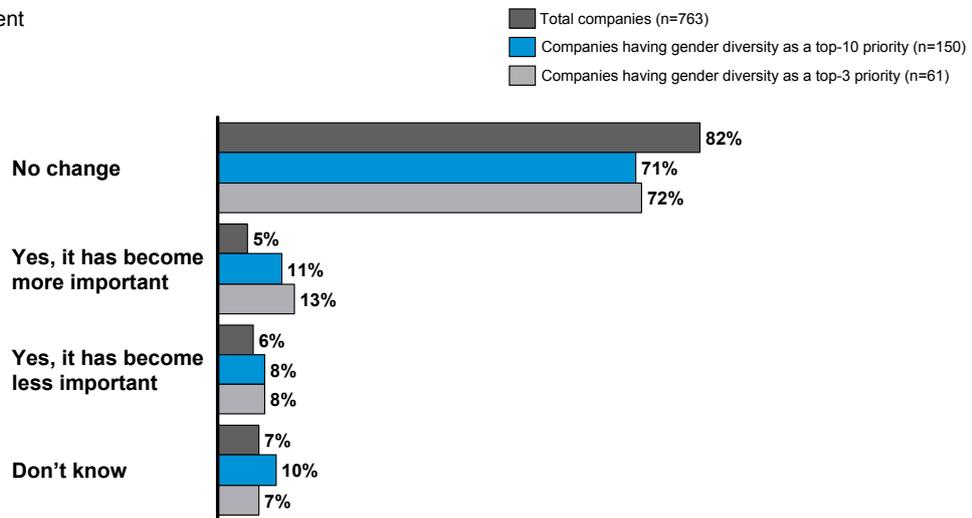
not had a negative impact on the strategic importance of gender diversity. The same is true of companies for which gender diversity is a top-ten priority: 71% of those surveyed replied that its importance had not changed, while 11% said that gender diversity had gained in strategic importance (*Exhibit 10*).

Exhibit 10

The strategic importance of gender diversity remains unaffected by the crisis

Has the strategic importance of gender diversity within your company changed as a result of the current crisis?

Percent



SOURCE: *Women Matter 3* global survey, September 2009

Gender diversity programs have suffered less than other HR programs

In addition, although the global economic crisis has had an impact on HR (human resources) programs in general, it has affected women-specific programs less. In fact, 69% of those who said that gender diversity was a priority for their company confirmed that there had been no change in their programs to recruit, retain, promote, and develop women. In contrast, only 38% said that there had been no change in any of their employee-related programs (*Exhibit 11*). Likewise, 22% of the business leaders we asked reported a reduction

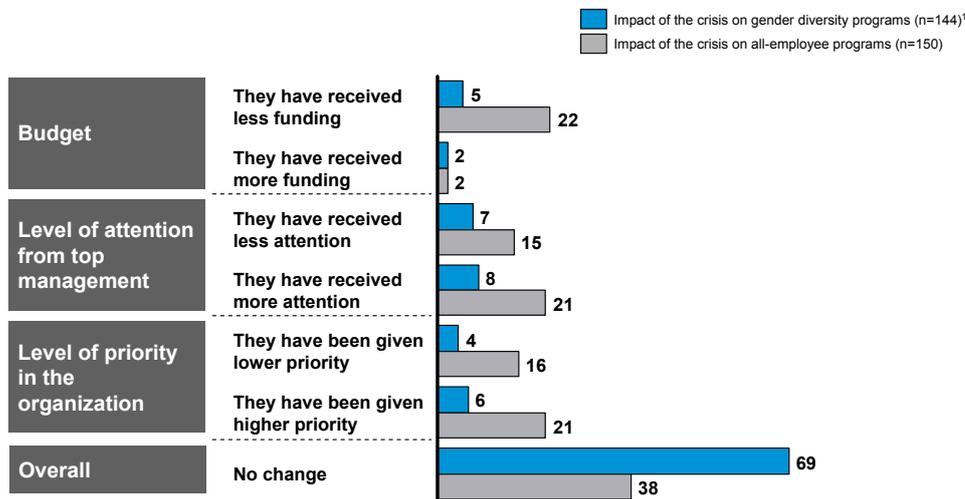
in funding for HR programs in general, whereas only 5% of companies for which gender diversity is a priority reported a reduction in their budgets for women-specific programs.

On the other hand, although gender diversity programs have suffered less than other HR programs, they have not benefited from any additional effort or interest within companies as a result of the crisis. Compare this to programs targeting all employees, for example, which became a higher priority according to 21% of the companies in our survey.

Exhibit 11

The economic crisis has not had the same impact on women’s programs as it has had on programs for all employees

Impact of the crisis on gender diversity programs and on all-employee programs (companies having gender diversity as a top-ten priority²)



¹ This question was not asked to respondents that selected "No specific measures"

² The trends are identical in the total respondents sample

SOURCE: *Women Matter 3* global survey, September 2009

Women leaders, a competitive edge in and after the crisis

Continuing and even accelerating gender diversity initiatives is all the more desirable given the competitive edge that women's presence and leadership give to companies. In particular, diversity would appear to be key for firms to navigate the crisis safely and to boost performance in the post-crisis world. Our new survey confirms this.

Companies with at least three female executives score higher on the key organizational dimensions

Taking an overall view of their companies, we asked managers what they believe to be the key organizational dimensions needed to emerge successfully from the current crisis. Of the nine organizational performance indicators identified by McKinsey, two stood out: "Leadership team" and "Direction."

The "Leadership team" (i.e., the ability of leaders – collectively and at whatever level – to guide and inspire action) is seen by 49% of respondents as the most important organizational dimension needed to address the current crisis. "Direction" (i.e., the ability to define where a company is heading and the resources needed to get there, and unite its people in achieving this vision) comes second: 46% of respondents ranked this as the most important dimension for a company to navigate through the crisis (*Exhibit 12*).

Interestingly, we showed in *Women Matter 1* that companies with at least three women on their executive boards performed better on these two organizational dimensions.

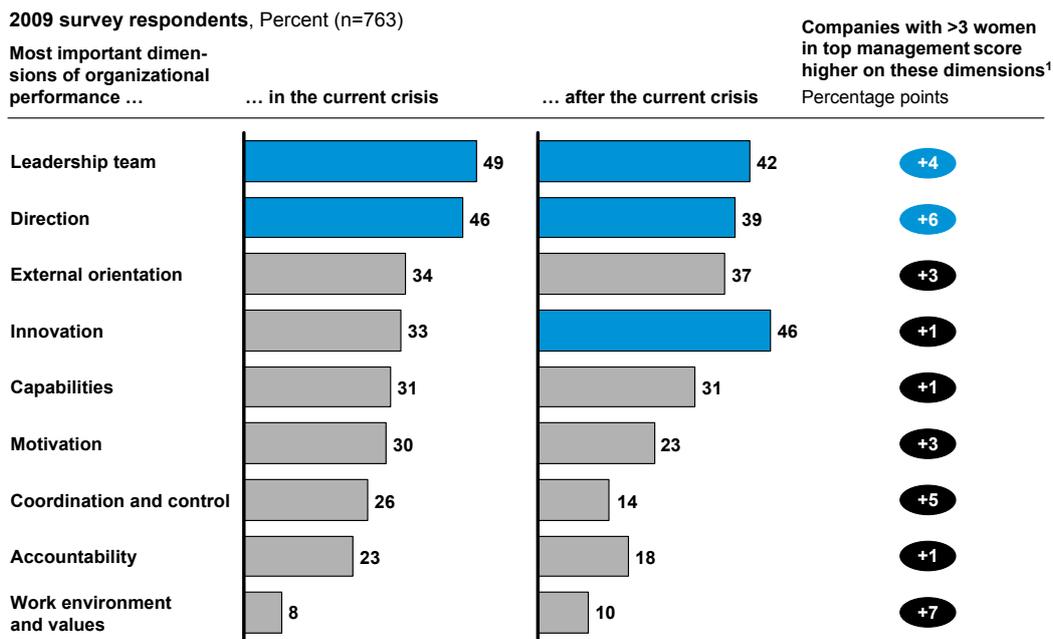
When we asked managers about what they believe are the key organizational dimensions affecting post-crisis performance, "Leadership team" and "Direction," although still important, slipped to second and third positions, with 42% and 39% of responses respectively.

It is interesting to note that only one-third of respondents said that "Innovation" was important to navigate through the crisis successfully. Nevertheless, this same dimension emerged as the most important influence on post-crisis performance (46% of responses). The discrepancy is understandable: in a crisis, companies need to reinforce the dimensions that enable them to manage and motivate their teams in an uncertain world, which requires inspirational leadership and a clear direction. On the other hand, the need to innovate, while less important in a crisis, appears to be more decisive in a post-crisis world.

“The ability of top management to guide and inspire action is seen as the key dimension”

Exhibit 12

Companies with three or more women leaders score higher on the organizational dimensions rated as most important during and after the crisis



1 As shown in *Women Matter – Gender diversity, a corporate performance driver*, McKinsey, 2007
 SOURCE : *Women Matter 3* global survey, September 2009 (n=763 respondents: CXO level, senior management, middle management)

Leadership behaviors more frequently adopted by women leaders are critical to navigate through the crisis and beyond

We also surveyed the managers to understand what they feel are the most important types of leadership behavior (at the individual level as opposed to the entire organization) to navigate through the crisis and to manage performance after the crisis. Of the nine types of leadership behavior we identified that positively influence organizational performance in companies, two emerged as critical both in the crisis and in the recovery that will follow: “Inspiration” and “Expectations and rewards.” As we showed in *Women Matter 2*,

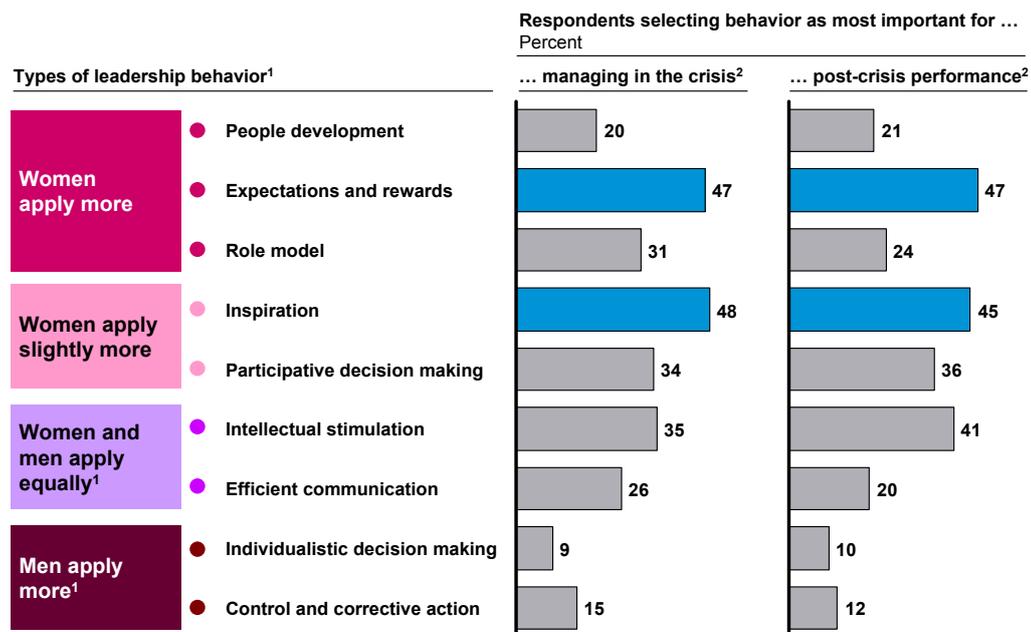
these are the behaviors most often adopted by women (*Exhibit 13*).

Almost half of all respondents (48%) felt that “Inspiration” (the ability to present an inspiring vision of the future and create optimism around its implementation) is the most important behavior type to steer successfully through the crisis. In addition, 45% see it as the key behavior influencing post-crisis performance.

Likewise, 47% felt that “Expectations and rewards” (i.e., the ability to define clearly expectations and responsibilities, and to recognize and reward the

Exhibit 13

Women more frequently adopt the two types of leadership behavior seen as most important in and after the crisis



¹ From analysis in *Women Matter 2*, 2008

² *Women Matter 3* global survey, September 2009 (n=763 respondents: CXO level, senior management, middle management)

“The ability to present an inspiring vision of the future and create optimism around its implementation is the most important behavior type to navigate through the crisis”

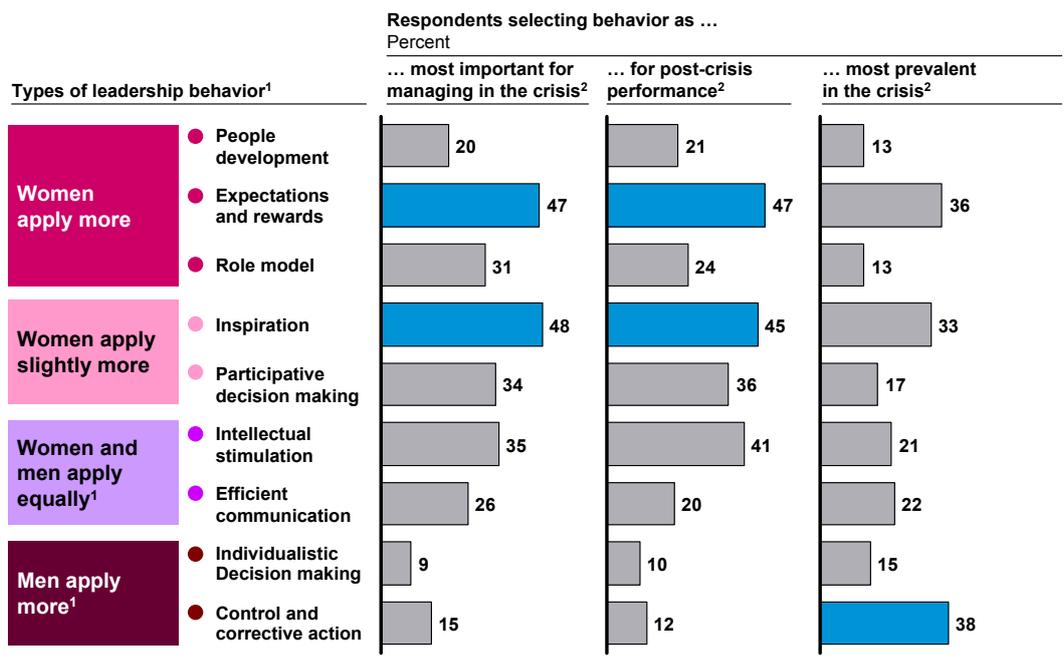
achievement of targets) is the most important behavior type to help in a crisis. Further, 47% see it as the key behavior influencing post-crisis performance.

Lastly, it is interesting to note that only 15% of respondents believed that “Control and corrective action” (i.e., the ability to monitor closely performance- and target-shortfalls, and take corrective action in the

form of sanctions, changes, etc.) is an important behavior type to help cope with the crisis. Moreover, only 12% see it as crucial for post-crisis performance. And yet “Control and corrective action” topped the list of the most common types of behavior applied in organizations since the start of the crisis. Fully 38% of managers said their company had demonstrated this behavior more frequently during the crisis (Figure 14).

Exhibit 14

“Control and corrective action” is applied more frequently by men, but is seen as one of the least important behavior types, despite its prevalence



1 From analysis in *Women Matter 2*, 2008

2 Women Matter 3 global survey, September 2009 (n=763 respondents: CXO level, senior management, middle management)

Best practices to foster gender diversity

Faced with such facts, it appears more important than ever for companies to include gender diversity in their list of priorities and implement a genuine policy to foster the development of women leaders.

Most companies rely on flexibility alone as a lever

However, apart from the small share of companies that count gender diversity as a strategic priority, only a few survey respondents report that their companies have implemented a comprehensive range of measures. Most companies use only one lever: flexibility (*Exhibit 15*).

In practice, measures promoting flexible working conditions are the primary lever to develop gender diversity (30% of all responses). Companies virtually ignore other measures that have proven their worth in our experience. For example, only 3% of the firms systematically ensure a certain percentage of women

candidates for promotion opportunities, while just 8% incorporate indicators of gender diversity in their management performance reviews.

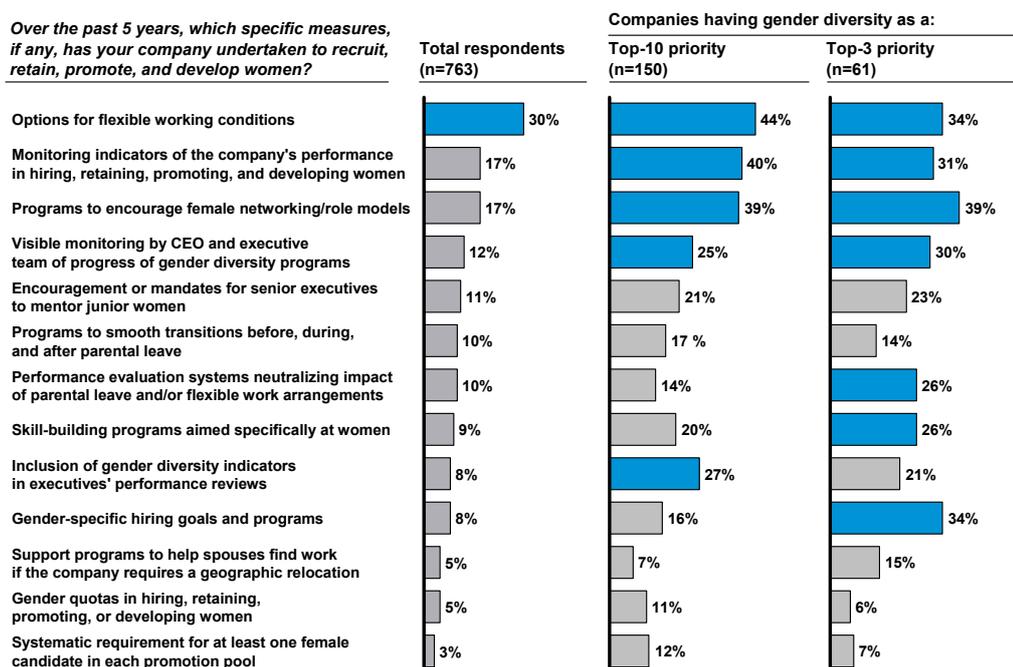
Companies committed to gender diversity use a broad range of measures

It is interesting to observe, however, that the higher the priority a company gives to gender diversity, the broader the range of measures it uses. Hence, companies at which gender diversity is a top-ten priority have used various levers. While 44% have developed flexible working conditions, 40% have also developed indicators of gender diversity, 39% invest in networking and meetings with representative women-leaders, and 25% have a CEO and top management team who drive and actively monitor the progress of gender diversity.

Such companies also offer more skills development programs created specifically for women than the other firms. In all, 9% of the companies we surveyed said they

Exhibit 15

Companies at which gender diversity is a top priority use a wider range of measures to achieve it



“The higher the priority a company gives to gender diversity, the broader the range of measures it uses”

use this lever, compared with 20% of companies at which gender diversity is a top-ten priority and 26% of those at which it is a top-three priority.

Likewise, 34% of companies at which gender diversity is a top-three priority had recruitment programs that specifically target women, compared with only 8% for the total survey sample and 16% of those at which gender diversity is a top-ten priority.

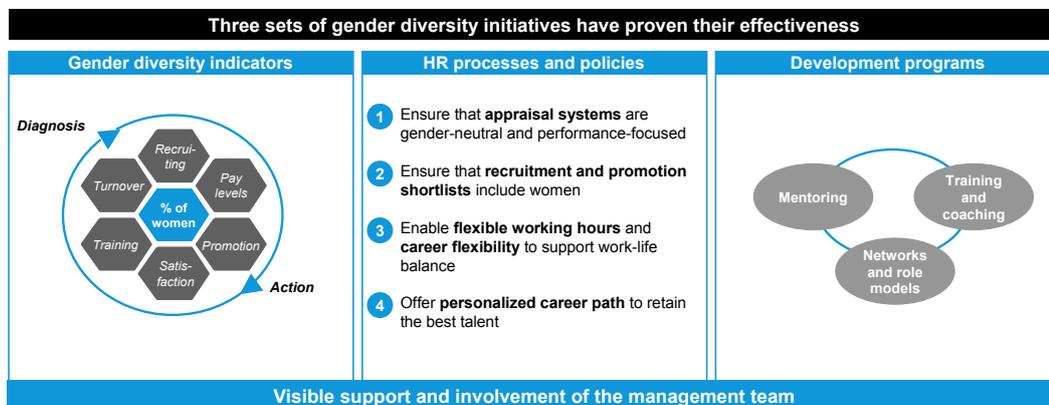
Lastly, high-profile monitoring by the CEO and the executive board of the progress made in achieving gender diversity accounts for only 12% of the measures

developed by all the companies in our survey, compared with 30% for those that have made gender diversity a top-three priority.

Best practices in gender diversity

Based on our many discussions over the last two years with the leaders of companies strongly committed to gender diversity, we have identified a common set of best practices to develop women leaders. We have grouped these practices into three sets of initiatives (Exhibit 16).

Exhibit 16
The three sets of initiatives for companies to introduce effective gender diversity policies



The first set of initiatives comprises the implementation of gender diversity indicators to identify inequalities and gaps, and to measure progress.

This is a prerequisite to create transparency. The initial step is a diagnostic to measure the size of the gaps to address within the organization (identify the proportion of women in the various businesses, activities, and functions of a company at different levels and among new hires; measure the discrepancies in pay and in turnover between men and women in comparable positions; calculate the ratio of women promoted as a proportion of those eligible for promotion). After completing the diagnostic, the resulting indicators should serve to guide the priority actions and measure their progress. For example, setting targets for managers and incorporating gender diversity criteria into manager performance reviews are both excellent ways to steer change. The indicators also represent an important communication lever to maintain positive momentum around a gender diversity program.

The second set of initiatives concerns the entire set of HR management processes.

Companies need to develop their recruitment, evaluation, and promotion systems to ensure they do not penalize women's careers. For example, some companies consider career breaks (maternity or parental leave) in their processes to identify high potentials by including length of service in addition to age. Other firms ensure there is at least one female candidate for all management posts, while others implement recruitment programs that specifically target women.

Flexible working conditions allow remote working, flexi-time, part-time work, and tailored working hours. Flexibility remains a key success factor for a better work/life balance, but it shouldn't be the only lever nor should firms reserve it exclusively for women. Flexible working hours can be a double-edged sword (*see inset*). Moreover, the concept of flexibility could and should apply to career management, too. Hence, as women's careers often include breaks, providing support during such periods should help to limit any negative impact on job or salary progression.

The third set of initiatives focuses on developing women's and men's mindsets.

Many studies have demonstrated the need to help women master the "dominant code" of an organization. This is why companies that are leaders in gender diversity have implemented very effective coaching and mentoring programs to help women become aware of their self-imposed limitations and manage their careers in a predominantly masculine environment. Setting up women's networks also increases women's awareness of this important lever for career progression, while simultaneously raising the profile of women leaders in an organization: an essential step to help young women identify role models. Such initiatives often deliver outstanding results in terms of retaining and expanding the pool of female talent in companies. At the same time, organizations need to develop the mindsets of men in order to break down prejudices and stereotypes (e.g., men tend to assume that women are less "mobile"). Some companies therefore have successfully organized meetings of male and female executives with the aim of raising men's awareness of such prejudices.

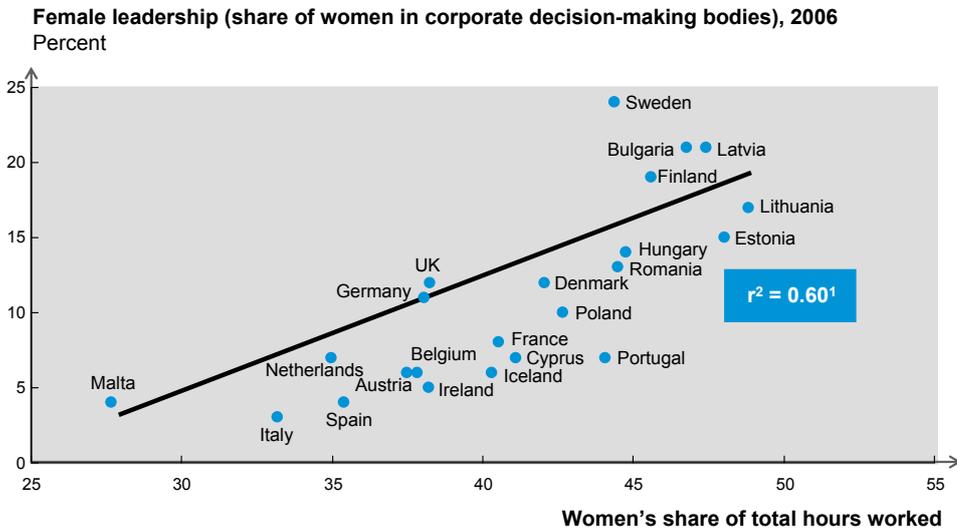
Flexible working can be a double-edged sword

While flexibility is a key lever to foster gender diversity in management, companies should deploy it for all staff and not (almost) exclusively for women, which could result in the opposite of the desired effect. In *Women Matter* in 2007, we showed the correlation between the presence of female executives in senior management and the proportion of total working hours attributed to women (*Exhibit 17*). This suggests that accumulated experience is a key factor in gaining access to management positions.

However, statistical analyses published by Eurostat on male and female employment over successive generations since the start of the twentieth century show that, for example, in France women do most of the part-time work. Moreover, from generation to generation, female part-time employment has outgrown male part-time employment, which is still below 10% (*Exhibit 18*).

Exhibit 17

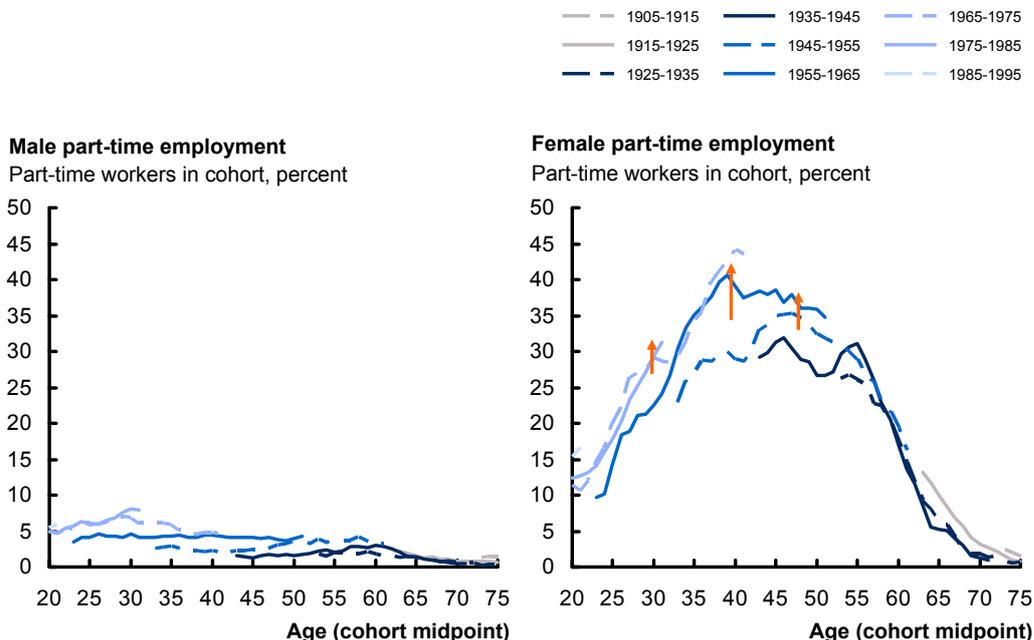
There is a correlation between women's share of total hours worked and the presence of women in top management



1 Excluding maximum (Norway: 32%) and minimum (Luxembourg: 1%) in terms of proportion of women in top management
 SOURCE: European Commission 2006; Eurostat 2005/06

Exhibit 18

In France, part-time employment for women of all age groups has grown substantially from generation to generation, while for men it has remained below 10%



SOURCE: McKinsey Global Institute analysis; INSEE 2009; Eurostat 2009

The decisive role of top management

The *Women Matter 3* survey conducted in September 2009 shows that only 12% of top management paid close attention to indicators of progress in gender diversity and was visibly engaged in managing gender diversity programs. Our discussions with companies that champion gender diversity all confirm that such programs can succeed only when top management backs them. The introduction of a gender diversity policy is often like a cultural revolution and requires support to accompany the changes. Positive practices stand little chance of developing fully if senior management remains unconvinced that gender diversity delivers a competitive advantage and does not commit to changing the culture of the organization under the sponsorship of the CEO.

The question of quotas

The issue of quotas has been the subject of many debates about gender diversity in top management. Few countries have introduced quotas, and even then only recently. Hence, it is difficult to conduct a factual and objective analysis of the impact of these measures.

From a strictly qualitative point of view, the hundred or so interviews we conducted throughout Europe revealed a change in the perception of quotas by female managers. Although the majority of the female managers we surveyed in 2006 and 2007 had reservations – mainly due to the worry that imposed quotas might cast doubt on the genuine abilities of the women promoted under them – just under a quarter of them now say they rather favor them: “If we don’t legislate, we won’t see change for a long time.”

Conclusion

“Reaching a critical mass of women in the top management of organizations requires a critical mass of measures”

As they weather the crisis and look forward to the recovery, companies have every reason to strengthen their organizational and leadership dimensions through appropriate behavior: all firms need to motivate their employees and unite them around a clear direction, precise objectives, and an inspirational vision. Developing leadership behaviors that favor these dimensions is therefore essential for management to navigate through the crisis and perform in the post-crisis world. The ability to foster innovation is also an imperative in a period of recovery and, with this in mind, organizations need to make room for leadership styles that encourage questioning, discussion, creativity, and risk taking.

The crisis has tended to increase “control-based” behaviors. However, our survey shows that these (undoubtedly useful) approaches shouldn’t be allowed to curb leadership styles that are more likely to inspire and motivate action and inventiveness, which are just as necessary in the crisis as they are at the dawn of the recovery. A higher female presence in top management could help to develop the right types of leadership behavior. However, although the crisis has not changed the efforts firms are making to develop gender diversity, our survey shows that the level of commitment to this idea remains largely insufficient.

This report provides a perspective on several levers that could raise the priority of gender diversity and increase the efforts to achieve it within organizations. The first one is to convince the skeptics of the benefits of having more women in top management: after all, there’s still a long way to go to persuade most executive boards and male business leaders of this. The second is to make gender diversity development a priority within organizations. The third lever is the most important for long-term effectiveness: implement appropriate programs. Based on our survey and our experience of companies that are highly committed to this issue, the success of gender diversity initiatives depends above all on deploying comprehensive programs that comprise a broad range of measures. It is not enough simply to provide more flexible working conditions or career management. Reaching a critical mass of women in the top management of organizations requires a critical mass of measures, if we want to create deep-seated and sustainable change.

The commitment and the support of top management – translated into clear signals and practical action – are the key success factors to realize such change.

The authors



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