McKinsey&Company

Women as a Valuable Asset

Women in governing positions positively influence the company's performance. Organizations that timely take appropriate measures and help talented women climb up the corporate ladder will gain a decisive competitive edge.

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Introduction

No matter how paradoxical it may seem, there is a positive correlation between the proportion of women in the top management and the organizational and financial performance of the companies. A study conducted by McKinsey shows that companies having women among top managers demonstrate higher operating margin and market capitalization in the industry than companies managed by men only.

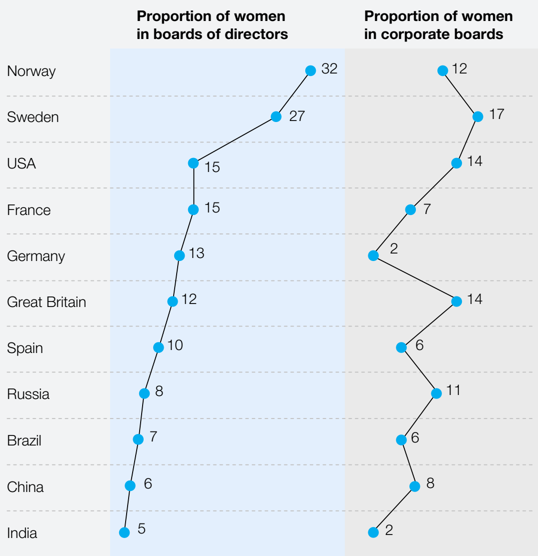
However, women are considerably under-represented in the senior management of companies all over the world – and the trend for positive changes in the gender gap is almost non-existent. This becomes evident when we compare the results of McKinsey's studies from the series "Women Matter" published in 2007 (analysis of top management gender composition in 50 leading listed companies from 13 European countries) and in 2010 (compositional analysis of corporate boards and executive committees of large companies from six European countries and BRIC countries).

However, in some countries the proportion of women in companies' management is growing, although insignificantly. France is leading the trend – the share of women in the executive committees grew there by 7% from 2007 to 2010. In the majority of other countries, the growth rate varies in the range of 0–3%. On the whole, there are different levels of gender diversity in companies' top management in different regions. Women are best represented in the top management of Nordic companies (which to a great extent is caused by the current gender quotas): in Norway women make 32% of executive committees, in Sweden – 27% (for comparison, in UK the corresponding share is 12%, in Russia – 8%). The average proportion of women in corporate boards is even smaller – 17% and 12% in Sweden and Norway respectively, 11% in Russia, and 2% in Germany (see box *Share of Women in Companies' Management* on page 4). The number of women in the top management also varies depending on the industry. For instance, women are relatively well represented both in executive committees (16%) and in the corporate boards (12%) in the segment of retail trade and consumer goods, while in such sectors as transportation, logistics, real estate and construction their proportion is noticeably lower: 6–9% in executive committees and 8–9% in corporate boards.

Executives of many organizations are coming to understand that gender diversity in business management is crucial for achieving high performance. However, ensuring gender diversity in the top management very rarely becomes a strategic priority of a company. Meanwhile, unless comprehensive measures aimed at increasing the proportion of women in the top management are taken, the situation will not improve. Based on the data of McKinsey studies we will tell you what prevents women from climbing up the corporate ladder and how to develop an efficient system ensuring gender diversity.

Share of Women in Companies' Management
Percent

Analysis of the composition of governing bodies of 441 companies from six European countries, BRIC countries and the USA, conducted by McKinsey in 2010, showed that the number of women holding governing positions was still lower than that of men. The greatest gender diversity was registered in the companies of the Nordic countries, and the lowest gender diversity – in BRIC countries. Russia has fewer women in executive committees than Europe or the USA, but more than BRIC countries in general. At the same time, the proportion of women in boards of Russian companies is even higher than in boards of companies from certain European countries. To a certain degree it may be explained by the principles of gender parity applied during Soviet times.



SOURCE: McKinsey's proprietary database, 2010; Catalyst, 2009; The Female FTSE Board Report 2009, Cranfield University.

Women in Management Mean Company's Success

Various data confirm the connection between the organizational and financial performance of the companies and the presence of women in the top management. Among such data are the results of the study conducted by McKinsey based on two large-scale surveys. The first survey was dedicated to assessment of the influence exerted by female managers on the effectiveness of the organizational model of the company, and the second survey determined whether there was a correlation between the presence of female top managers and the financial performance of the company.

During the first survey the specialists examined 231 firms in order to measure the organizational excellence of each firm against the nine criteria: leadership, direction, accountability, coordination and control, innovation, external orientation, capability, motivation, work environment and values. It turned out that there is a direct correlation between the level of the organizational effectiveness of the company and its financial performance. The companies ranked most highly according to these organizational criteria tended to have operating margin and market capitalization twice as high as those of the lowest-ranked companies.

Then the researchers selected 101 companies that publish the composition of their governing bodies out of the previously examined ones. After surveying 58,240 employees, they found out that companies with three or more women in senior management scored more highly for each organizational excellence criterion than companies with no women at the top. It is notable that performance increases significantly once a certain critical mass is attained: at least three women in a corporate board.

Idea in a Nutshell

Companies where governing positions are held both by men and by women have higher operating margin and market capitalization in the respective industry.

Women and men tend to apply different leadership behaviors, and only combination of the most effective leadership behaviors makes it possible to increase the company value. Therefore ensuring gender diversity in top management should become a strategic priority for every organization. In order to allow women to pursue professional development and successfully combine work and family life, smoothly climbing up the career ladder, it is necessary to create favorable conditions both on state and corporate level. The authors of the article tell us which measures should be taken in the first place.

The correlation between the organizational model excellence and the participation of women in management bodies echoes a number of comments made by CEOs of arious organizations. For instance, a board member of a major banking group says the following: *"When women sit on an executive committee, the nature of interaction changes. But, one woman there is not enough, you need several of them."* And the vice president of the European division of a leading global pharmaceutical company has the following to say: *"I think the real benefit of having women and diversity in a team is that you have a richer set of ideas. So, I truly believe there is a direct relationship between team performance and having a diverse team with the best talents."*

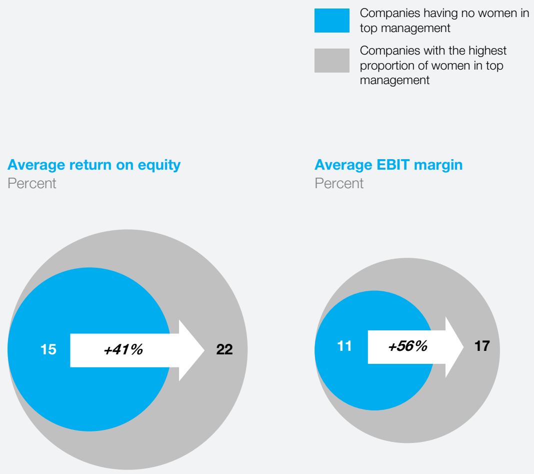
During the second survey McKinsey specialists analyzed financial performance of 362 major companies from European and BRIC countries with two or more women in the corporate board. As a result they found out that on the whole such companies are 41% ahead of the sector's average in terms of return on equity and 56% ahead in terms of EBIT (see box *Corporate Financial Performance and Women in Top Management*).

Despite the fact that statistical surveys, strictly speaking, do not identify cause and effect relationships, they confirm the thesis about advantages of women's presence in the companies' top management. The rightness of this thesis is also confirmed by the comments made by top managers: the majority of them believe that balanced participation of men and women in the management has a positive influence on the company's performance. 62% of male respondents and 90% of female respondents including chief executive officers, chief operating officers, chief financial officers, etc. note a positive correlation between the number of women in the company's management and its financial performance.

Corporate Financial Performance and Women in Top Management

Using a proprietary database (covering the UK, France, Germany, Spain, Sweden, Norway and BRIC countries) McKinsey specialists defined which companies in different industries belong to the upper quartile in terms of the relative number of women in top management.

Then in each industry, the financial performance of companies of the upper quartile was compared to the performance of companies having no women in top management. It turned out that the companies with the highest number of women in top management had the best performance.



Complementary Leadership Behaviors

In order to define what causes a positive correlation between the proportion of women in the top management and organizational and financial performance of the companies, McKinsey conducted a survey of approximately 800 executives of companies from different countries in 2009. It turned out that certain leadership behaviors that allow companies to achieve success in the post-crisis environment are typical of men, while the other leadership behaviors are more characteristic of women. And only a combination of different leadership behaviors contributes to balanced development of a company. The researchers identified nine key leadership behaviors that improve the managerial excellence:

- **Participative decision making** – building a team atmosphere in which everyone is encouraged to participate in decision making;
- **Role model** – an ability to be a role model;
- **Inspiration** – presenting a compelling vision of the future business development and inspiring optimism in the employees;
- **Expectations and rewards** – defining expectations and responsibilities clearly, recognizing the contribution of employees and rewarding achievement of target;
- **People development** – mentoring and listening to individual needs and concerns;
- **Intellectual stimulation** – encouraging initiative, risk taking and creativity;
- **Efficient communication** – communicating in a convincing way, with charisma;
- **Individualistic decision making** – preferring to make decisions alone and engaging others in executing them;
- **Control and corrective action** – monitoring individuals' performance against objectives, and taking corrective action when needed.

Having analyzed how often these leadership behaviors are applied by men and women, researchers found that three of the nine above listed behaviors ("People development", "Expectations and rewards", and "Role model") are more typical of female managers. Men prefer such leadership behaviors as "Control and corrective action" and "Individualistic decision making".

Such leadership behaviors as "Inspiration", "Efficient communication", "Participative decision making", and "Intellectual stimulation" present no significant differences in their frequency of use between women and men.

Almost a half (48%) of the survey participants believe that "Inspiration" is the most important leadership behavior. Moreover, 45% of the respondents are convinced that this leadership behavior plays the key role in achieving high business performance.

In their turn, 47% of the respondents think that the behavior "Expectations and rewards" is critical for performance management.

Given this, it is notable, that according to many respondents, the list of the most frequently used leadership behaviors is headed by "Control and corrective action". According to 38% of top managers, it started to be most frequently used in their company upon the beginning of the crisis.

Domination of any leadership behavior – however useful it might be for an organization – should be restricted so that it does not prevent development of other leadership behaviors, more targeted at motivation and inspiration of employees, at mentoring and encouraging creative thinking. Increasing the share of women in management is one of effective tools for creation of a balanced management model based on application of different leadership behaviors.

Barriers to Success

So what prevents women from becoming top-managers? In order to identify the key career barriers for women we collected the data of several European and North-American studies from different years and surveyed over 50 executives of different European countries.

The majority of the surveyed executives, both men and women, believe that the career development is mostly influenced by the factors related to working environment (89% of respondents) and their own aspirations (79% of respondents). At the same time, family concerns turned out to be of lower importance both for women (42%) and men (49%) – regardless of whether they had children. Besides, 89% of the respondents noted that they did not regret their decision to develop their career – on the contrary, they believed that this decision had positively influenced their intellectual development and material standing.

Still, many women believe that top governing positions are almost unattainable for them. The survey of 445 executives, both men and women, that took place within McKinsey's study of 2010, as well as numerous interviews with female top managers allow us to identify a number of key factors hindering strengthening of women's positions in companies.

The double burden

The necessity to combine work and domestic responsibilities creates a significant pressure on women and makes them face a difficult choice. The woman remains at the center of family life in the modern society: she brings up children, is responsible for housekeeping, and cares for the elderly. Such family workload may vary depending on the availability of such infrastructures as day nurseries, kindergartens, etc. On the average, European women devote twice as much time as men to domestic tasks: 4 hours and 29 minutes a day, compared with 2 hours and 18 minutes for the men.

In most countries family and children are considered a barrier to women's career development. In France for instance, 96% of female graduates from elite universities of the country believe that having children or simply being of child-bearing age is a real barrier when applying for a job. In Russia, 54% of women mentioned family as one of the factors negatively affecting their careers. Besides, over 80% of Russian women with children younger than 14 choose – most often for economic reasons – a life strategy of a *"working mother"*: they combine work and family duties. For comparison, in European countries the share of women following this strategy is below 70% (in Russia by no means all women who want to work have jobs; i. e. the existing potential is not leveraged in full). We would like to underline that comments made by Russian women on combining work and children upbringing demonstrate an evident trend – it is believed that children of preschool age hinder the professional fulfillment more that schoolchildren.

The necessity to work "anytime, anywhere"

Corporate cultures of many companies are dominated by a behavioral model assuming that top managers should be unfailingly available and ready for unplanned frequent business trips. Women believe that such requirements are incompatible with the double burden. For example, in the USA, 62% of women perceive family obligations and reduced mobility as an obstacle to their promotion.

Excessive modesty, lack of ability to promote oneself

The business model adopted by most companies of the world requires persistence in asserting one's professional interests. This includes, among others, an ability to promote oneself and assert one's talents. Women tend to underestimate their talents and achievements. A board member of a major banking group comments: *"On the same project, the men will demonstrate 100% ambition even if they only have 50% of the required skills, whereas the women will be concerned about only having 80% of the required skills".* This observation is backed by a survey of MBA students: 70% of female respondents rate their own performance as equivalent to that of their co-workers, while 70% of men rate themselves higher than their co-workers.

Women understand that the ability to play by the men's rules is a critical condition of career development, and try to adjust to such requirement and develop their own fighting qualities, become more assertive defending their interests. However, changing the value system is a challenge for them. That's why women often lose in the situations when "promotion" of one's talents and capabilities is required and less often gain recognition in the company – in other words, they less frequently capture every opportunity for promotion.

Absence of role models

Over a half of the female respondents (61%) consider the absence of worthy role models to be a barrier for their professional development (this opinion is shared just by 31% of the male respondents). Only clearly evident measures allow women to believe in the possibility of professional success and career development without affecting the family life. According to the chairwoman of a media group who often meets students, the first question she is always asked by female students is how she manages to balance her private and professional life.

Female employees of many European and American companies as well as of some Russian companies consider another key problem to be the absence of a mentor – an experienced senior colleague who helps junior specialists solve tasks, teaches them and supports them with advice, acting as a role model. According to a Catalyst study, only 33% of women (and 42% of men) have no difficulties finding a mentor.

There are other obstacles preventing women from climbing up the corporate ladder. Such barriers include the lack of ability to establish and develop useful business links, the lack of a state family policy and a system for social support of families, and lower ambitions compared to men.

According to the survey performed by Sylvia Ann Hewlett, Carolyn Buck Luce and Peggy Schiller, authors of the article The Hidden Brain Drain – Off Ramps and On Ramps in Women's Career (Harvard Business Review, March 2005), only 35% of women (and 48% of men) see themselves as *"extremely or very ambitious"*. In addition, only 15% of highly qualified women (against 27% of men) aspire to positions of power.

Women expect less from their careers than men; to a great extent it is caused by their great awareness of the barriers. In France for instance, 77% of women (and 49% of men) believe that there are numerous barriers hindering their career development. According to McKinsey's study, such barriers often force women to decline senior positions. It is characteristic that it often negatively affects their future career. A head of marketing in a French subsidiary of a major European bank says: *"When, for personal reasons, I declined the top job in an overseas branch, I was told I was excluding myself from the system. It was seen as career suicide".*

A voluntary decision to discontinue one's career is both the evidence (and result) of the high barriers and an additional cause of the shortfall of women in corporate executive bodies. In the USA, 37% of female participants of the survey conducted by Sylvia Ann Hewlett, Carolyn Buck Luce and Peggy Schiller voluntarily stopped working at some point in their career, against just 24% of men. One of the main reasons for opting out put forward by these women was the need to spend more time with their family (45% of the respondents). If the career is discontinued due to a maternity leave, the barriers grow: out of the 93% of women who have taken career breaks and intended to get back to work, only 74% have managed to do so, and only 40% have found full-time work.

The study also brought to light the significant differences between men and women in two aspects. In the first place, 27% of women (versus just 7% of men) admitted that they had felt discriminated against due to their gender during their professional career. In the second place, there was a substantial demographic difference between the male and female respondents: 54% of women (versus just 29% of men) were childless, and 33% of women (and 18% of men) were single.

Another survey performed by Sylvia Ann Hewlett confirmed that the higher women climb up the corporate ladder, the fewer children they have, whereas the reverse is true for men. For example, in the 41–55 age range, 49% of the "best paid" women (over USD 100 thousand a year) are childless, while only 19% of the "best paid" men are childless. The figure for the "well paid" women (USD 55–65 thousand a year) is 33% (compared to 25% of men).

As the business is still dominated by a male-centric model of corporate behavior, women who carve out prime positions for themselves today follow the same path as men: put career before family and pay a higher price for professional success. And this is one of the key barriers preventing achievement of gender diversity in companies' management.

Attracting and Retaining Women

Contrary to the established opinion, an increase of female university graduates almost does not change the gender balance in companies' management. According to McKinsey's estimates, for example, while the share of women with university education level increased from 32% to 55% in 1970–2000s in Germany, the proportion of women in top management grew from 2% to just 4%. In France, the increase in the number ofemale university graduates from 41% to 55% during the same period was accompanied by growth of the number of women in top management from 7% to 9%. In Russia, the share of women employees with university degree amounted to 54% in 2009; however, this fact does not mean that women dominate top management.

In order to allow women to pursue professional development and successfully combine work and family life, smoothly climbing up the career ladder, it is necessary to create favorable conditions both on state and corporate level.

The priorities of the **state initiatives** may vary. For example, although France and the UK have similar employment rates for women (60% and 67% respectively), these countries apply different measures aimed at gender diversity. In France, there are many social services aimed at family support, therefore French women have a certain advantage in terms of combining family and professional life as compared to British women. In the UK, state childcare support initiatives are just starting to develop, but there is a strong tradition of workplace equality – contrary to France, where it is very difficult to achieve equality in the workplace.

Russia should take measures in the both directions: formalize the gender parity in legislation and promote it, as well as develop the system of state social support, using the capacities created during the Soviet times and improving the infrastructure quality (kindergartens, day-care centers, etc.).

As for the **corporate initiatives**, their range is rather extensive. Some companies have already begun to purposefully develop measures aimed at attraction, promotion and retention of talented female employees. But despite the fact that women are actively fighting for their business rights in developed countries, the situation is changing very slowly.

The studies conducted by McKinsey specialists allowed us to identify the most effective measures aimed at development of women and ensuring gender diversity in companies, and to divide these measures into three groups.

- **An active position of the company's CEO.** Implementation of gender diversity principles can be similar to a revolution in the corporate culture of the organization. Therefore the CEO of the company should promote gender parity and perform the necessary changes. Introduction of progressive methods will not bring the desired results unless every top manager contributes to the transformation of the corporate culture. A close attention of all company's top managers to the results in this area and their participation in the implementation of initiatives aimed at ensuring gender diversity is the critical prerequisite for increasing the proportion of women in the management.

- **Individual programs of professional development.** The main objective of such programs is to help women overcome the obstacles preventing them from climbing up the corporate ladder. Organizations that have achieved the best results in terms of gender diversity apply efficient training and mentoring programs that allow the female employees to embrace their potential and to start actively and purposefully developing their career playing "by the men's rules". These companies apply such tools as regular meetings of a women's club, virtual forums and other events that could help women establish contacts in the professional community. As young female employees often need a role model, it is advisable to connect them with a senior female colleague acting as a mentor.

- **Comprehensive measures** aimed at development of favorable conditions for working women. Such measures include, first of all, changes in the HR policies: recruitment, performance reviews and promotion. For instance, when developing a pool of the most promising employees some companies include such career breaks as the maternity leave or the childcare leave in the length of service. Some firms have a rule to include at least one woman into the candidate pool for any governing position. Some companies have recruitment programs targeted at women. Other effective measures aimed at development of favorable working conditions include a possibility to work from home, part-time, according to a flexible or an individual schedule. The flexible approach remains one of the key factors providing for an optimal balance between the work and family and simplifying climbing up the corporate ladder. As women have to make career breaks due to child births and childcare leaves, support from the company during such periods can mitigate the negative influence exerted by the breaks on the career development and the salary growth.

A survey that McKinsey performed among its employees showed that its female employees believe that the most important measures aimed at ensuring gender diversity are the following:

- mentoring on part of female managers;

- targeted training programs;

- events aimed at establishing contacts in the professional community;

- working conditions that allow optimal distribution of time between work and family life.

As the company actively applies the mentorship system, offers prolonged maternity leaves and allows working mothers to transfer to part-time jobs, the proportion of women in McKinsey & Company has been steadily growing. At the end of 2010, their total share in the company amounted to 21%, and in some offices of the company this proportion was even higher – 22% in Russia and 30% in France.

While many business leaders already understand that the presence of women in the top management of a company positively influences its performance and financial results, only few of them take any measures to achieve gender diversity. Top managers do not believe that they could influence the state of affairs and are either poorly acquainted with mechanisms of supporting and promotion of women or do not understand such mechanisms at all.

However, there are certain major companies, including the Russian ones, that have managed to include women in their top management. There are two women on Sberbank's Board: Bella Zlatkis, Deputy Chairperson of the Management Board, and Olga Kanovich, Board member and Senior Vice President. VTB's Board also includes two women: Olga Dergunova and Ekaterina Petelina. ProfMedia, one of the largest media and entertainment businesses in Russia with leading positions in quality entertainment media, both the President and the Executive Vice President are women: Julia Solovieva and Olga Paskina.

If companies start learning from experience of organizations that have managed to develop a corporate culture targeted at gender diversity and start timely taking measures to attract women to governing positions, they will be able to ensure a great competitive edge.

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