

ORGANIZATION

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# A business **case for women**

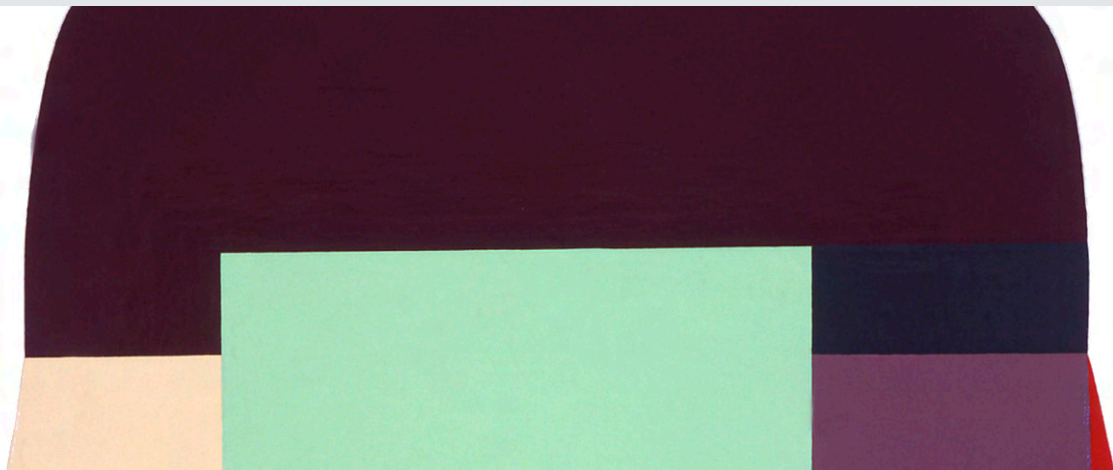
*The gender gap isn't just an image problem: our research suggests that it can have real implications for company performance. Some companies have taken effective steps to achieve greater parity.*

**Georges Desvaux, Sandrine Devillard-Hoellinger, and Mary C. Meaney**

**Article  
at a  
glance**

Companies that hire and retain more women not only are doing the right thing but can also gain a competitive edge. They can take several basic steps to achieve even greater parity.

These companies will be able to draw from a broader pool of talent in an era of talent shortages. What's more, research shows a correlation between high numbers of female senior executives and stronger financial performance.



Women in developed economies have made substantial gains in the workplace during recent decades. Nevertheless, it's still true that the higher up in a company you look, the lower the percentage of women.

But some companies have moved successfully to increase the hiring, retention, and promotion of female executives. Their initiatives have included efforts to ensure that HR policies aren't inadvertently biased against women or part-time workers, to encourage mentoring and networking, to establish (and consistently monitor at a senior level) targets for diversity, and to find ways of creating a better work-life balance. Changes like these have a price, but there are business advantages to making them—above and beyond the branding benefit that might accrue to companies viewed as socially progressive.

Research in Europe and the United States suggests, for example, that companies with several senior-level women tend to perform better financially. Hiring and retaining women at all levels also enlarges a company's pool of talent at a time when shortages are appearing throughout industries.

### **Why women matter**

Few women become executives. Across the European Union, women account for only 11 percent of the membership of governing bodies such as boards of directors and supervisory boards, our research has found. In the United States, fewer than a third of the leading 1,500 companies had even a single woman among their top executives in 2006, according to research from Columbia University and the University of Maryland.<sup>1</sup> The numbers are even more discouraging elsewhere: in South Korea, for example, 74 percent of the companies surveyed in 2007 had no female senior executives.<sup>2</sup> We believe that such underrepresentation is untenable in the longer term—and not only because it's unfair.

### **More workers needed**

Many countries and regions face talent shortages at all levels, and those gaps will worsen. By 2040, Europe<sup>3</sup> will have a shortfall of 24 million workers aged 15 to 65; raising the proportion of women in the workplace to that of men would cut the gap to 3 million. In the United States, the upcoming retirement of the baby boomers will probably mean that companies are going to lose large numbers of senior-level employees in a short period of time; nearly one-fifth of the working-age population (16 and older) of the United States will be at least 65 by 2016.

Mismatches between training and employment can also cause shortages. In the United Kingdom, male-dominated sectors with a dearth of workers include engineering, IT, and skilled trades—yet 70 percent of women with science, engineering, or technology qualifications are not working in these fields.<sup>4</sup>

Besides helping companies to fill shortfalls of talent, gender diversity can allow them to attract and retain it and to meet other business goals. One European Commission study showed that 58 percent of the companies with diversity programs reported higher productivity as a result of improved employee motivation and efficiency, and 62 percent said that the programs helped attract and retain highly talented people.

#### Corporate performance

In recent years, McKinsey has done extensive work on the relationship between organization and financial performance and on the number of women who are managers at the companies we've studied. Our research has shown, first, that the companies around the world with the highest scores on nine important dimensions of organization—from leadership and direction to accountability and motivation—are likely to have higher operating margins than their lower-ranked counterparts do (Exhibit 1).<sup>5</sup> Second, among the companies for which information on the gender of senior managers was available,<sup>6</sup> those with three or more women on their senior-management teams scored higher on all nine organizational criteria than did companies with no senior-level women (Exhibit 2).<sup>7</sup>

#### EXHIBIT 1

##### More profitable



<sup>1</sup>Quartiles are based on arithmetic average of scores obtained by 231 institutions, rated on 9 criteria by 115,000 employees.

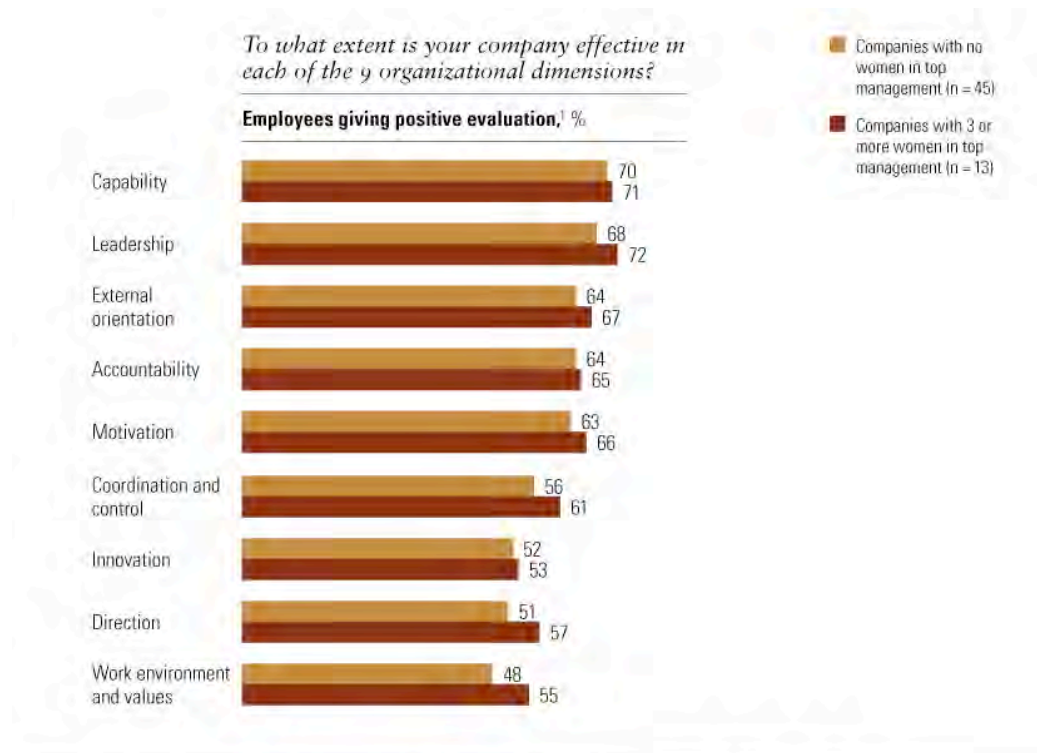
<sup>2</sup>Based on data for year of survey or averaged over 3 years; surveys were carried out at different times in different companies over last 3 years.

<sup>3</sup>Earnings before interest, taxes, depreciation, and amortization.

<sup>4</sup>Ratio of enterprise value to book value.

EXHIBIT 2

More effective



<sup>1</sup> Analysis conducted on sample of 58,240 persons employed by 101 companies around the world; given the sample size, a 1% difference is statistically significant.

These findings suggest that companies with higher numbers of women at senior levels are also companies with better organizational and financial performance. Although the analysis does not show a causal link, our research argues for greater gender diversity among corporate leaders.

Work by professors at the business schools of Columbia University and the University of Maryland lends support to this point. Using data on 1,500 US companies from 1992 to 2006, Cristian L. Deszō and David Gaddis Ross demonstrate the “strong positive association between Tobin’s Q,<sup>8</sup> return on assets, and return on equity on the one hand and the [female top-management] participation rate on the other.” The authors add that they found “at least indicative evidence that greater female representation in senior-management positions leads to—and is not merely a result of—better firm quality and performance.”<sup>9</sup>

## What companies can do

Some companies have succeeded in hiring, retaining, and promoting more women. McKinsey and other research suggest some basic steps a business can take to enhance its opportunities.

### Rethinking HR

HR policies can inadvertently hold women back. Internal processes for identifying high-potential employees, for example, often focus on managers between the ages of 28 and 35. Broadening the parameters to include years of employment at a company—thus taking into account time spent on maternity leave, which sometimes lasts as long as two years in Europe—can ensure that the evaluation processes don't overlook qualified women.

Some companies, such as JPMorgan Chase, have organized training for recruiters and operational managers on the importance of diversity and on identifying prejudices that might affect their decisions. Together with the top team's commitment to retaining and promoting women, this training has generated a strong pipeline: in 2008, women made up 48 percent of the company's managers—and 27 percent of its most senior ones, up from 19 percent in 1996.

Other approaches can work as well. At a European company in a technical, sales-oriented line of business, only 5 percent of the job applications that a specific ad generated were coming from women. By replacing the ad's stock photo of a man with one of the company's senior women and by focusing the text on enthusiasm and innovation instead of aggressiveness and competitiveness, the company raised the rate of applications from women to 40 percent.<sup>10</sup>

### The role of mentors

Coaching, mentoring, and networking programs have proved quite successful in helping female executives succeed—for instance, by encouraging them to seek out new positions more aggressively. Internal research at HP showed that women apply for open jobs only if they think they meet 100 percent of the criteria listed, whereas men respond to the posting if they feel they meet 60 percent of the requirements.

Likewise, Lloyds TSB found that although female employees are 8 percent more likely than men to meet or exceed performance expectations, they tend not to apply for promotion. To address this issue, managers are specifically charged with encouraging talented women to move up, making sure that they receive the necessary training, and developing succession plans that include them. Thanks to this and other initiatives, as well as the CEO's personal focus on diversity, the percentage of Lloyds management positions held by women rose from 15 percent in 1998 to 39 percent in 2007; meanwhile, the percentage of senior-management positions they

hold rose to 21 percent, from 9 percent. The company also has four women on its nine-member senior-executive committee.<sup>11</sup>

Advancement has traditionally been difficult for women in Japanese corporations as well. In 2004, Nissan Motor began a program focusing on mentoring, networking, educating managers, and accountability. Its effort has helped increase the number of female senior managers to 101 (4 percent of the managers throughout the company), from 36—still low by Western standards, but a notable increase.

Mentoring efforts also take place outside individual companies. The FTSE 100 Cross-Company Mentoring Programme pairs chairmen and CEOs of the largest public companies in the United Kingdom and their public-sector counterparts, on the one hand, with female executives who hold positions just below the board level elsewhere, on the other. Thirty-three chairmen and CEOs act as mentors, helping the mentees to manage their careers, giving them advice and guidance, introducing them to other senior executives and to headhunters, and generally preparing them to be credible candidates for positions as executive or nonexecutive directors. Since the program began, in late 2004, a number of mentees have been appointed to public bodies and to the boards of national charities, and seven participants have been appointed to the boards of companies.<sup>12</sup>

#### Measurement and accountability


Explicit diversity indicators allow companies to monitor their progress and to define priorities for action. Frequently used indicators include the proportion of women in a company's business units at each level of employment, the pay levels and attrition rates of men and women in comparable positions, and the ratio of women promoted to women eligible for promotion. Companies seem to promote and retain women most successfully when senior executives monitor those indicators and incorporate them into regular reviews.

At Lloyds TSB, for example, the CEO reviews the progress of women with the managing directors of the business units, and the company regularly profiles its workforce at all levels to measure progress. ING links part of each business unit's bonus pool specifically to diversity goals. Between 2003 and 2007, the company raised the proportion of its top-management positions around the world held by women to 10 percent, from 8 percent. In 2007, 30 percent of ING's senior managers, including those just below the top level, were women.

#### Having a life

What about retention rates? Companies can raise them by offering flexible hours, maternity and child-care leaves, and coaching to ease the return to the workforce. Such programs can have other benefits as well. Research that the Korea Labor

Institute conducted in 2007 indicates that some family-friendly policies (such as allowances for child care and granting women permission to take nursing time out of their daily schedules) are correlated with higher revenues per employee: about \$1,000 a year.

None of these approaches comes without cost: whether the time needed to implement change or real monetary expenditures. Yet companies reap tangible benefits, such as retaining and promoting more women, by implementing suitable policies. The other benefits—for instance, a larger talent pool and stronger financial performance—also suggest that making gender diversity a significant goal is well worth the investment. 

#### About the Authors

Georges Desvaux is a director in McKinsey's Paris office, where Sandrine Devillard-Hoellinger is a principal; Mary Meaney is a principal in the London office.

#### Notes

<sup>1</sup>See Cristian L. Deszö and David Gaddis Ross, "'Girl Power': Female participation in top management and firm performance," working paper, December 2007.

<sup>2</sup>See "Survey on women as human resource," conducted in 2007 by the Korean Women's Development Institute, commissioned by Korea's Ministry of Gender Equality.

<sup>3</sup>Europe in this sense includes the EU-27, excluding Slovenia, Slovakia, and the Czech Republic, and including Albania, Iceland, Norway, and Switzerland.

<sup>4</sup>See Avivah Wittenberg-Cox and Alison Maitland, *Why Women Mean Business: Understanding the Emergence of Our Next Economic Revolution*, Chichester, England: John Wiley & Sons, 2008.

<sup>5</sup>Our analysis is derived from a survey of 115,000 employees at 231 private and public companies around the world. The nine dimensions of organization are leadership, direction, accountability, coordination and control, innovation, external orientation, capability, motivation, and work environment and values.

<sup>6</sup>We had such information for 101 of the companies, which allowed us to analyze 58,240 employee evaluations.

<sup>7</sup>In addition to undertaking these analyses, we joined with the Amazone Euro Fund to conduct a study on the financial performance of the 89 European public companies with the greatest gender diversity in top posts. We found that, on average, these companies outperform their sectors in returns on equity, operating results, and stock price growth. The full study, *Women Matter* can be found on [www.mckinsey.com/locations/paris/home/womenmatter.asp](http://www.mckinsey.com/locations/paris/home/womenmatter.asp).

<sup>8</sup>A standard measure of corporate value: the market value of a company divided by the replacement value of its assets.

<sup>9</sup>See Cristian L. Deszö and David Gaddis Ross, "'Girl Power': Female participation in top management and firm performance," working paper, December 2007.

<sup>10</sup>See Avivah Wittenberg-Cox and Alison Maitland, *Why Women Mean Business: Understanding the Emergence of Our Next Economic Revolution*, Chichester, England: John Wiley & Sons, 2008.

<sup>11</sup>Ibid.

<sup>12</sup>Personal communication from Peninah Thomson, a partner at Praesta, which sponsors the program.

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