

Special Report produced exclusively for *The Wall Street Journal*
Executive Task Force for Women In The Economy 2011

Unlocking the full potential of women in the U.S. economy



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Women have been a growing factor in the success of the U.S. economy since the 1970s. The additional productive power of women entering the workforce since then accounts for about a quarter of current GDP. But the full potential of women in the workforce has not yet been tapped. Now, it is critically important to do so: As the U.S. struggles to sustain historic GDP growth rates, bringing more women into the workforce and fully deploying high-skill women to drive growth through productivity improvements are essential to meeting that goal.

McKinsey & Company undertook this research to understand how women contribute to the U.S. economy; how their work benefits individual corporations; what prevents women from making greater contributions to their companies; and what approaches can help companies unlock the full potential of women.

Creating the conditions to unlock the full potential of women and achieve our economic goals is a complex and difficult challenge. On the macro level, there is significant growth potential in raising labor participation rates of women across the country. At the corporate level, where many high-skill women are employed, the issue is continuing to advance women to positions where they can make the greatest contributions. Despite the sincere efforts of major corporations, the proportion of women falls quickly as you look higher in the corporate hierarchy. Overall, this picture has not improved for a decade.

We believe, however, that there is reason to expect substantial progress now in developing and advancing women on the path to leadership. We have become very good at recruiting women—many major corporations recruit their “fair share” or more of women. And many companies have mechanisms such as on-ramps and off-ramps and travel-reducing technology to help women stay the course.

Still, the barriers that remain are substantial and many. Indeed, because there are so many factors that constrain the talent pipeline for women, our research shows that there is no single solution. However, we believe that interventions at critical points can have out-sized impact.

For example, by increasing the number of women who make it from middle management to the vice-presidential level, corporations could vastly improve the odds for building diversity in top management. These aspiring and highly capable women, having advanced and built managerial skills, are even more focused on leading. Moreover, many of these young women have relatively light work/family concerns. If we can win their loyalty now, they will be more likely to stay with us all the way. These women are ours to lose.

What compels such bright, highly-motivated women at this level—and higher up—to turn down advancement, look for jobs outside the company, or leave Corporate America altogether? We surveyed 2,500 men and women and interviewed 30 chief diversity officers and experts to understand the factors that hold women back. The result is a clearer understanding of what drives career decisions of women and men—what makes them strive for greater leadership responsibility and what convinces them to stay put.

One clear take-away: Women don't opt out of the workforce; most cannot afford to. They do leave specific jobs for others in pursuit of personal achievement, more money and recognition—just like men. They also hold themselves back to pursue greater satisfaction across all parts of their lives—and not only to fulfill family responsibilities. A sizeable percentage of the male college graduates who took our survey reported the same motivation to gain greater balance.

We looked into specific barriers that women cite as factors that convince them that the odds of their getting ahead in their current organizations are too daunting. The reasons why women stay put at their current level or move on to another organization—despite their unflagging confidence and desire to advance—include: lack of role models, exclusion from the informal networks, not having a sponsor in upper management to create opportunities for them (like male colleagues do).

In McKinsey's Centered Leadership research, we found another phenomenon that limits diversity at the top: Women often stay put in jobs if they derive a sense of meaning from the work. More than men, women prize the opportunity to pour their energies into making a difference, working with close colleagues. Women don't want to trade that joy for what they fear will be energy-draining meetings and corporate politics at the next corporate echelon.

Of all the forces that hold women back, however, none are as powerful as entrenched beliefs. While companies have worked hard to eliminate overt discrimination, women still face the pernicious force of mindsets that limit opportunity. Managers—male and female—continue to take viable women candidates out of the running, often on the assumption that the woman can't handle certain jobs and discharge family obligations, too. In our Centered Leadership research, we found that women, too, hold limiting beliefs that stand in their own way.

These imbedded mindsets are often institutional as well as individual—and difficult to eradicate. The CEO's personal crusade to change behavior does not scale. A diversity program by itself, no matter how comprehensive, is no match for entrenched beliefs that prevail. Targeting behavioral change only generally leads to an early burst of achievement followed by reversion to old ways.

Our evidence points to the need for systemic, organizational change. Companies that aspire to achieve sustained diversity balance—and that want to get the competitive advantage of owning the best talent—will choose to transform their cultures.

HOW WOMEN CONTRIBUTE TO THE ECONOMY

Between 1970 and 2009, women went from holding 37% of all jobs to nearly 48%. That's nearly 38 million more women. Without them, our economy would be 25% smaller today—an amount equal to the combined GDP of Illinois, California and New York.

GDP growth is driven by two factors—an expanding workforce and rising productivity. Back in the 1970s, when women and a huge cohort of baby boomer men were entering the workforce, 65% of GDP growth was attributed to workforce expansion. Today, nearly 80% of growth is related to productivity increases, according to the McKinsey Global Institute.

To sustain the historic rate of GDP growth of around 3% and maintain the United States' leadership in the global economy, MGI reports that the nation will need a combination of some workforce expansion and a burst of productivity—driven by innovation and operational improvements. Women are critical to both forms of growth:

- **Bringing more women into the workforce.** About 76% of all American women aged 25-54 are in the workforce (i.e., currently employed or seeking work). That compares with about 87% in Sweden. Underneath the U.S. average, there is considerable variability among the states where our top 10 states have participation rates at 84%. This suggests an opportunity. Getting all states up to an 84% participation rate would add 5.1 million women to the workforce. In GDP growth terms that is equivalent to 3-4%.

- **Fully tapping the talent of high-skill women; training women for the most productivity-enhancing jobs.** In 2010 58% of all undergraduate degrees in the U.S. were awarded to women. As a result women accounted for 53% of the total college educated population in the U.S. However only 50% of the college educated workforce were women. Simply said, we don't have the full amount of female college educated talent in our workforce. This is a great source of potential talent that can be tapped to improve corporate performance and help raise national productivity. Doing so will depend on finding ways to keep ambitious, well-qualified women moving up the ranks (see *What Holds Women Back* below). Women can also contribute to the productivity challenge by training in disciplines with impact on increasing productivity, such as finance, professional services, science & technology.

HOW WOMEN CONTRIBUTE AT THE CORPORATE LEVEL: THE BUSINESS CASE FOR DIVERSITY

What do women bring to Corporate America? How can more women leaders contribute to a company's competitive edge? Making the conclusive case has been the subject of much debate and research. The central challenge in proving that gender diversity in top management produces differentiated results is small sample size: Too few companies have enough women in such roles to provide statistically significant results. However, there is a growing body of work that compares financial performance to gender diversity at the top; in addition, recent McKinsey Women Matter research points to the link between the characteristics that women leaders bring to organizational health. Our Centered Leadership research underscores that many women bring an approach to leadership well suited for the challenges that major organizations face today.

- When McKinsey asked global business leaders what they believe the most important leadership attributes are for success today, each of the top four—intellectual stimulation, inspiration, participatory decision-making and setting expectations/rewards—were more commonly found among women leaders.
- In a limited application of The McKinsey Organizational Health Index, we found that companies that have three or more women in top positions (executive committee and higher) scored higher than their peers. OHI measures nine factors, ranging from external orientation to coordination and control that are linked to well-functioning organizations. Companies that score highly on all nine metrics of organizational health have also shown superior financial performance.
- Catalyst continues to refine its research into how having women on boards of directors correlates with performance. In its 2011 research, it found a 26% difference in return on invested capital (ROIC) between the top-quartile companies (with 19-44% women board representation) and bottom quartile companies (with zero woman directors).

WHAT HOLDS WOMEN BACK

As has been well documented, Corporate America has a “leaky” talent pipeline: At each transition up the corporate ladder, more women are left behind. According to Sylvia Hewlett, women represent 53% of new hires, but at the very first step in career advancement—when individual contributors are promoted to managers—the numbers drop to 37%, Catalyst estimates. At the vice-presidential level, only 26% of the population is female and only 14% of the executive committee, on average, are women. At this point women are doubly handicapped because, our research of the largest U.S. corporations shows, 62% of them are in staff jobs that rarely lead to a CEO role; (in contrast, 65% of men on the executive committee hold line jobs). This explains why the number of women CEOs in Fortune 500 companies has been stuck at around 3%.

While our data shows that women—even mothers—retain strong conviction about their abilities and a desire to advance, when they look at the odds of making it through the pipeline, many make a well-reasoned decision: They stay put, or look for a job elsewhere that will fulfill their ambition, or they seek careers outside large corporations.

- **Structural obstacles.** In our survey and interviews we found specific factors that hold women back or that convince women that their odds of advancement may be better elsewhere. Women in our survey cited familiar factors that they find discouraging: Lack of access to access to informal networks where they can make important connections, a lack of women role models higher up in the organization, and a lack of sponsors that can provide opportunities, which male colleagues have.
- **Lifestyle issues:** Some of the more interesting insights from our research are about the role that family concerns play in career choices. These insights counter much of the conventional wisdom. For example, diversity officers told us that motherhood, per se, rarely prompts a woman to stay put, downshift or look for work elsewhere. But women did express concern about the always-on 24/7 executive lifestyle and travel requirements. Interestingly, we found that attitudes among fathers and mothers are converging: Half of fathers with one child say they will not accept a new job that reduces work/life balance; 55% of women without children say the same thing. This suggests that companies have even more to lose from the talent pipeline than highly-qualified mothers.
- **Imbedded institutional mindsets:** The most insidious barriers for women are imbedded mindsets that halt the progress of women. For example, managers (men and women) still tell diversity officers things like “Everybody ‘knows’ you can’t put a woman in that particular slot.” Or “That job could never be done part-time.” Even at major corporations, not-so-subtle differences linger. Several diversity officers and experts told us that despite their best efforts, women are often evaluated for promotions primarily on performance, while men are often promoted on potential.
- **Imbedded individual mindsets:** The effect of women’s own mindsets cannot be discounted. Women are, on average, less satisfied than men with their chosen professions and jobs. And as women age, their desire to move to the next level dissipates faster than men’s. At all ages, more men want to take on more responsibility in their organizations and have greater control over results (43% versus 34% for women).

What our survey showed most clearly is that, no matter how they feel about the current situation, women never lose their belief in their abilities. Indeed, age, motherhood, and seniority did not materially change the high response on this question. Women have the ambition and believe they have the qualifications—they want to make a contribution to the success of the organization. Over time, however, the barriers seem to get larger and women’s belief that there is opportunity ahead shrinks—and along with it their willingness to keep pushing.

A PATH TO SOLUTIONS

Knowing what we know about the role of women in driving macroeconomic growth and how women can contribute to corporations, it is clear that the U.S. must make far better use of women in the work force.

Plugging the leaks in the talent pipeline is clearly a top priority and there is opportunity at every transition point in the pipeline. But we believe that companies have a promising opportunity to capture by focusing on the transition from mid-level manager to senior management (vice president).

Having survived the first cut in the talent pipeline—from individual contributor to manager—middle management women have already demonstrated superior capability. They retain their ambition and confidence and are quickly acquiring skills and know-how. They also have a better understanding of what it takes to succeed than when they entered the company—and have a stronger belief that opportunity for promotion exists. A greater portion of middle management women aspire to the top role versus entry-level women (31% versus 16%).

If companies could raise the number of middle management women who make it to the next level by 25%, it would significantly alter the shape of the pipeline. When women make it to senior management, their aspiration to lead rises again, as does their belief that getting to senior leadership worth the cost. Getting more women into that position is how companies can remix the executive committee, and increase the likelihood for sustaining gender diversity all the way to the top.

Addressing the barriers that convince women that they can't make it is far more complex. As chief diversity officers told us, there are a thousand reasons for a thousand little leaks in the talent pipeline. This means that point solutions will never do the job. We need comprehensive change.

Our conclusion is that this systemic challenge can only be met through organizational transformation. That feels like a tall order and it is. Our extensive research on organizational change indicates that 70% of transformations fail. However, the same research tells us that the transformations that succeed have had strong leadership from the top and a comprehensive plan to shift mindsets and behaviors. Getting people to think and act differently is one of the most difficult management challenges, but it can be done:

- Start with a compelling story for change—the “business case”—including communication of successes that reinforce the desired mindset shifts.
- Refine organizational processes and other mechanisms to reinforce the change—in particular the metrics used to track performance need to enforce the change.
- Build the capabilities that enable the desired behavior. For example, both men and women can learn how to be more effective sponsors.
- Leaders—all the way down to the front line—must model the change. Changing only the mindsets of top leaders means missing the most important influencers of sustained change—the employees' direct supervisors.

Our interviews revealed that many companies have made real strides in removing structural barriers for women, by adopting more flexible work routines, etc. The next leg of this long journey is genuine transformation.

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If the U.S. is to achieve a level of economic growth to sustain or improve living standards, and if U.S.-based corporations are to remain globally competitive, we can no longer simply have good intentions about gender diversity. Now, we need good results.

