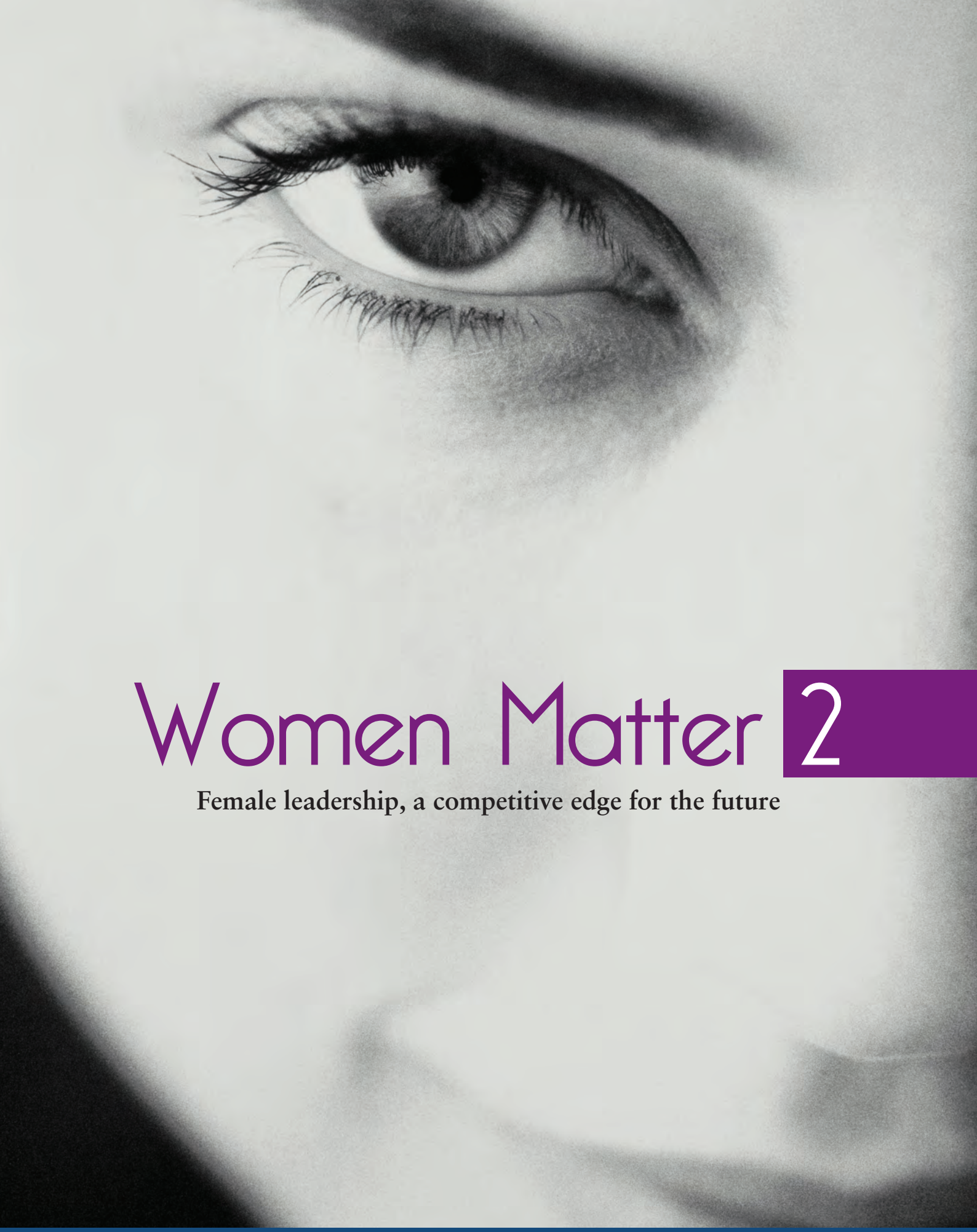


Women Matter 2

Female leadership, a competitive edge for the future

McKinsey&Company

McKinsey & Company is an international management consulting firm that helps leading corporations and organizations make distinctive, lasting, and substantial improvements in their performance. Over the past eight decades, McKinsey's primary objective has remained constant: to serve as an organization's most trusted external advisor on critical issues facing senior management. With over 8,000 consultants deployed from some 90 offices in more than 50 countries, McKinsey advises companies on strategic, operational, organizational, and technological issues. The firm has extensive experience in all major industry sectors and primary functional areas, as well as in-depth expertise in high-priority areas for today's business leaders. McKinsey also helps a diverse range of government institutions, public administrations, and non-profit organizations with their management challenges.

Foreword

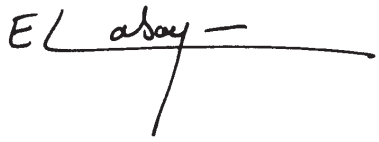
In 2007, as part of its global partnership with the Women's Forum for the Economy and Society, McKinsey & Company published *Women Matter: Gender diversity, a corporate performance driver*. This study highlighted the underrepresentation of women in European companies, particularly in management and decision making positions, and developed a fact-based case for change by establishing a correlation between the proportion of women in management teams and how well companies perform.

Gender diversity is not just a social concern. Our new study suggests that it could also create a competitive edge to address the global challenges that corporations will face in the near future.

Beyond the current financial crisis, long-term global trends are reshaping the corporate landscape, and the current turmoil is likely to accelerate some of the changes that corporations need to make to continue to seize the new opportunities that will arise. According to our study, most business executives around the world agree that global social, environmental, and business trends will significantly impact their companies' development over the next five years, although relatively few report that their companies have acted upon all these trends so far.

Among a variety of levers that corporations can use to address the global trends, one lies in the capacity of leadership to manage change effectively and to capture global opportunities. Our new study, *Women Matter 2*, conducted this year as part of our partnership with the Women's Forum, offers new insights into the leadership behaviors that will be critical to address the upcoming challenges. It shows how having more women in top management positions can give companies a real competitive edge by spreading these leadership practices within organizations.

As women represent over half of the global talent pool, it is clear to us that they should be at the forefront of the economic and social scene, not just out of a sense of fairness, but to ensure that the very best minds, men's and women's alike, are brought together to address the challenges that society faces. Achieving gender diversity in corporations, at all levels, is a long and demanding journey, which requires the involvement of the whole company and the strong commitment of top management. Therefore, we believe that beyond gender diversity, what always matters ultimately is leadership!



Eric Labaye

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Women Matter 2

Some leadership behaviors, which are more frequently applied by women than by men in management teams, prove to enhance corporate performance and will be a key factor in meeting tomorrow's business challenges. Hence, promoting gender diversity and leadership variety is of strategic importance for companies.

McKinsey & Company's 2007 study *Women Matter* demonstrated the link between the presence of women in corporate management teams and companies' organizational and financial performance.[1]

Two questions remained unanswered, however: How exactly do female leaders contribute to improve corporate performance? And is their specific contribution a critical success factor for a company's future?

Women Matter 2 draws some answers from an analysis of leadership practices among female managers. This study shows that the leadership behaviors more often applied by women reinforce a company's organizational performance in several dimensions.

Moreover, a survey involving more than a thousand managers from a wide range of companies reveals that these leadership behaviors – in short supply in today's corporations – will be critical in meeting the expected challenges companies will face over the coming years.

Once again advocating for more women in management positions, *Women Matter 2* defines clear courses of action to develop gender and leadership diversity in business organizations.

Female leadership, a corporate performance driver

How exactly do female leaders positively influence corporate performance? This was the obvious question raised by McKinsey's 2007 study *Women Matter,* which established a correlation between how well a company performs and the proportion of women it has in its management team. We have found that one element of the answer lies in the way they exercise leadership. Indeed, some leadership behaviors, observed more frequently among women than among men, have a positive impact on a company's organizational performance. In this way, women complement and enhance the range of leadership behaviors that are critical to corporate performance.

Financial performance is linked to organizational performance

As described in the 2007 study *Women Matter*, McKinsey has, for several years, used a performance diagnostic tool that measures a company's organizational excellence against nine key criteria: **"Leadership team", "Direction", "Work environment and values", "Accountability", "Coordination and control", "Capabilities", "Motivation", "Innovation", and "External orientation"** *(Exhibit 1)*.

Using this tool, we established a correlation between a company's level of excellence in these nine areas and its financial performance.[2] On average, the companies ranked most highly according to these organizational criteria tend to have operating margins twice as high as those of the lowest-ranked *(Exhibit 2)*.

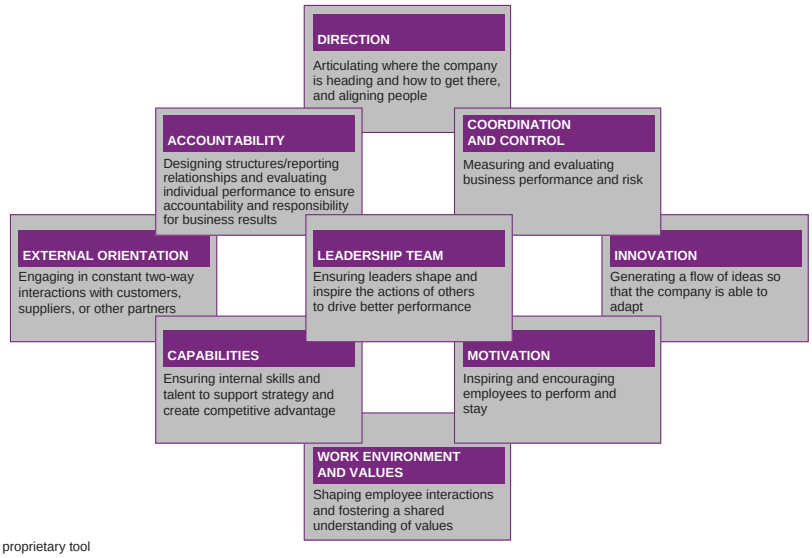
We also established a correlation between the presence of a "critical mass" of at least three women in a corporation's management team and its organizational and financial performance.

We have therefore sought to establish whether women make a specific contribution to organizational performance that could explain such a positive correlation. Among the many levers of organizational performance (strategy, processes, systems, skills, etc.), we chose to focus our study on a lever which depends on individual practices: managers' leadership behaviors.

Exhibit 1

McKinsey uses a diagnostic tool that measures the organizational excellence of companies against nine key criteria.

Criteria of Organizational Performance Profile (OPP)

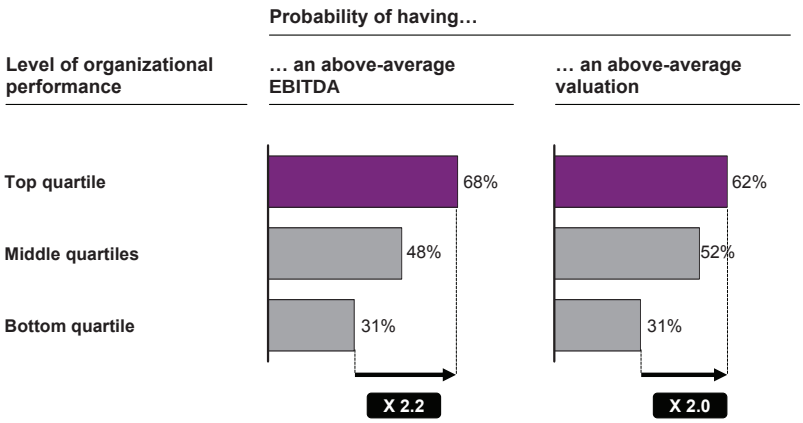


Source: McKinsey proprietary tool

Exhibit 2

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 according to their organizational rating



Source: McKinsey – OPP analysis, *Women Matter*, 2007

Organizational performance is reinforced by nine leadership behaviors

We have sought to determine which leadership behaviors tend to increase scores in each of the nine dimensions of organizational performance, considering only individual behaviors that can be observed and measured.

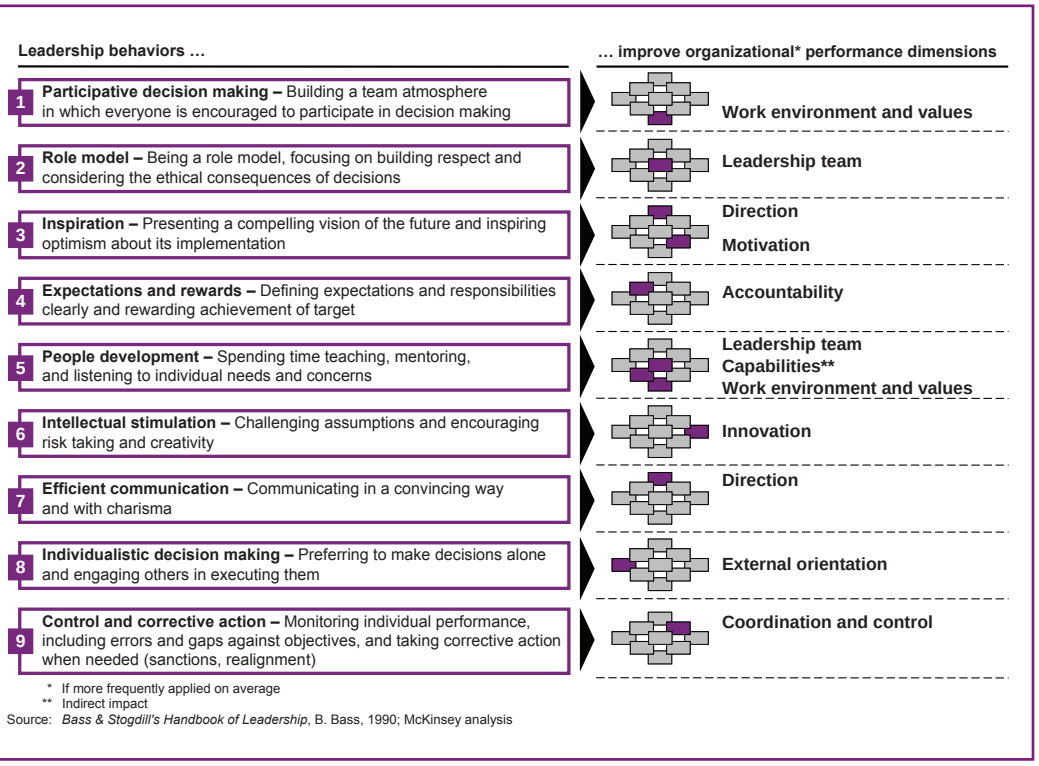
We based our study on the work of two academic researchers, Bernard Bass and Bruce Avolio, who surveyed, classified, and measured the full range of leadership behaviors observed in the corporate environment[3] *(see box: Frequency of leadership behaviors)*.

By matching[4] the attributes that define the leadership behaviors described by Bernard Bass with the associated attributes that define McKinsey's organizational performance criteria *(Exhibit 1)*, we have identified nine leadership behaviors that improve organizational performance: **"Participative decision making", "Role model", "Inspiration", "Expectations and rewards", "People development", "Intellectual stimulation", "Efficient communication", "Individualistic decision making" and "Control and corrective action"***(Exhibit 3)*.

We excluded the leadership behaviors "Laissez-Faire" and "Passive management by exception" from our selection as they were shown to reduce the effectiveness of leaders.[5]

Exhibit 3

We have identified nine key leadership behaviors that improve organizational performance.



FREQUENCY OF LEADERSHIP BEHAVIORS *(Exhibit 4)*

Bass and Avolio, two academic researchers in behavioral sciences specializing in leadership management, have identified eleven leadership behaviors in corporations.

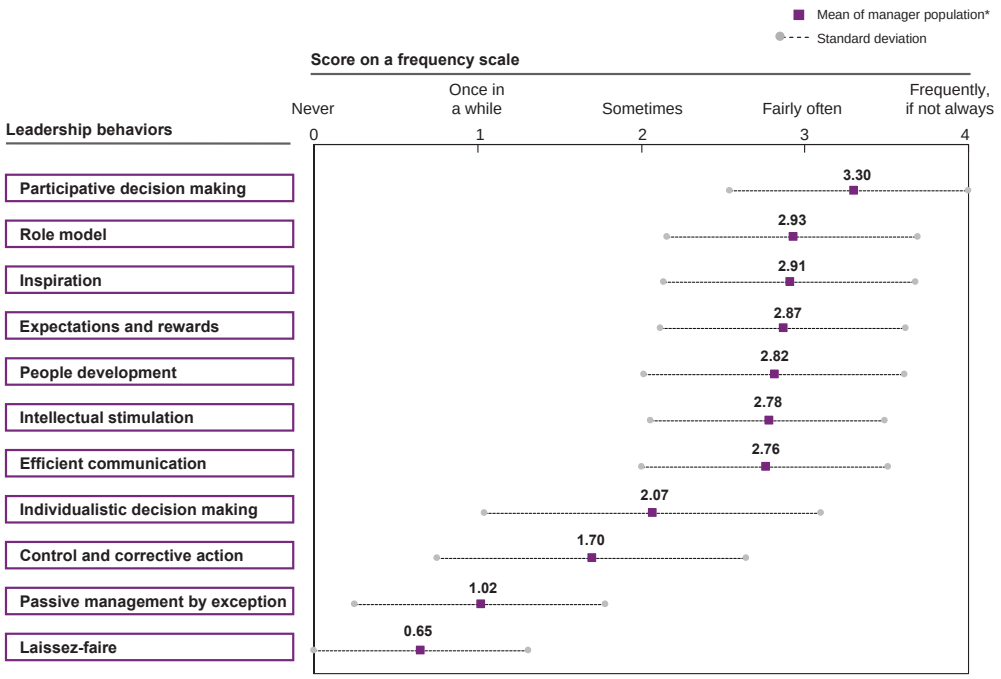
They conducted a 45-question survey[6] and received responses from 9,000 leaders and managers from around the western world, and from every industry and function, which allowed them to measure the frequency of nine of those behaviors, on a scale of 0 (never) to 4 (frequently, if not always).

Their survey adopted a 360° approach: it was based on a combination of self-assessments and third-party evaluations (each leader was rated by seven people) and was developed using psychometric questioning techniques.

We have assessed the two remaining behaviors by conducting a survey among 684 executives from the western world. Our findings were consistent with A. Eagly's 2001 meta-analysis.

Exhibit 4

The frequency of leadership behaviors adopted by managers.



* For 9 behaviors: assessment of 9,000 decision makers by themselves and their colleagues (360°); for "Participative decision making" and "Individualistic decision making": 684 decision makers surveyed by McKinsey (2008)

Source: Transformational, Transactional, And Laissez-Faire Leadership Styles, Alice H. Eagly, Johannesen-Schmidt, and Van Engen, 2003; Bass & Stogdill's Handbook of Leadership, B. Bass, 1990; McKinsey survey and analysis, 2008

Women apply five of these nine leadership behaviors more frequently than men …

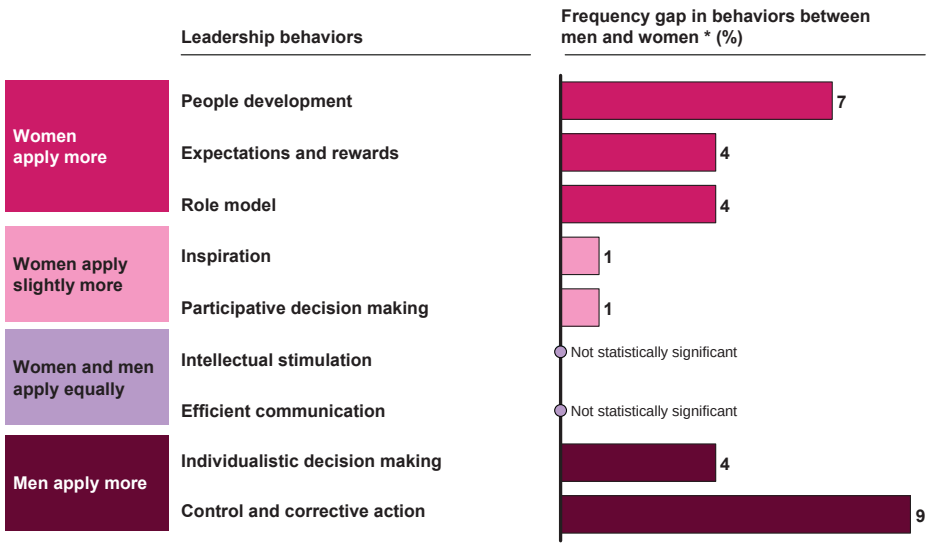
Looking at how often women and men apply the nine behaviors that positively affect organizational performance highlights significant differences. A study conducted by Alice H. Eagly,[7] based on the research of Bass and Avolio *(see box: Differences in the frequency of leadership behaviors between men and women)*, found that women use five leadership behaviors (**"People development", "Expectation and rewards", "Role model", "Inspiration"**, and **"Participative decision making"**) more frequently than men – particularly the first three. Men, however, adopt two behaviors (**"Control and corrective action"** and **"Individualistic decision making"**) more often than women. There is no significant difference in the frequency of use between women and men for the two remaining behaviors (**"Intellectual stimulation"** and **"Efficient communication"**).

DIFFERENCES IN THE FREQUENCY OF LEADERSHIP BEHAVIORS BETWEEN MEN AND WOMEN

Using Bass and Avolio's database, Eagly analyzed the frequency of leadership behaviors of men and women. The results show that while men and women apply all nine leadership behaviors, they do so with different frequencies. The gaps may seem small but they are statistically significant and reflect a genuine difference of behavior between men and women *(Exhibit 5)*.

Exhibit 5

On average, women use five of the nine leadership behaviors that improve organizational performance more often than men, particularly the first three.



* 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 = ~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 behaviors; "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, Johannesen-Schmidt, and Van Engen, 2003; McKinsey survey and analysis, 2008; The Leadership Styles of Women and Men, Alice H. Eagly and Mary C. Johannesen-Schmidt, 2001

… and thus contribute to stronger organizational performance

We then assessed how these gaps in observed frequencies translate into the organizational performance dimensions.

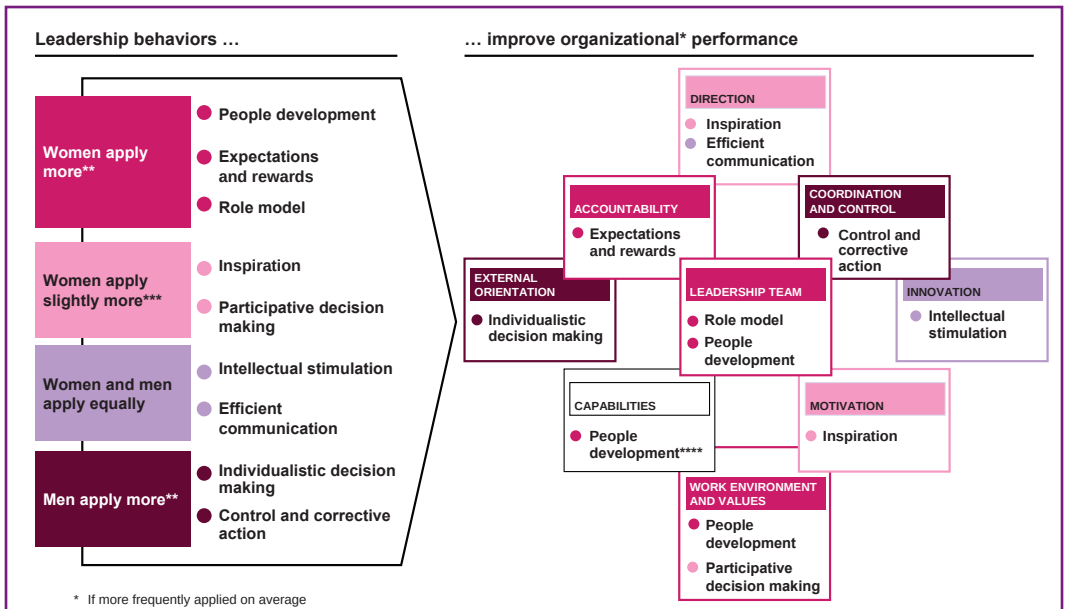
We matched the frequency of behaviors of men and women *(Exhibit 5)* with the impact of each behavior on the organizational dimensions *(Exhibit 3)*. This allowed us to identify the specific contributions that men and women are more likely to make in each area of organizational performance *(Exhibit 6)*.

For example, by demonstrating the behavior types **"People development", "Expectations and rewards"** and **"Role model"** more frequently, women help to reinforce the **"Work environment and values", "Accountability"** and **"Leadership team"** dimensions. While men, with their more frequent exercise of **"Control and corrective action"** and **"Individualistic decision making"** behaviors, tend to reinforce the **"Coordination and control"** and **"External orientation"** dimensions.

This analysis partly explains the correlation, established in our 2007 study *Women Matter*, between corporate performance and the proportion of women in senior management positions. In that study, we demonstrated that companies with more women in their management teams score more highly, on average, on their organizational performance criteria

Exhibit 6

The leadership behaviors more frequently applied by women improve organizational performance by specifically strengthening three dimensions.



* If more frequently applied on average
** Frequency gap ≥ 4 %, statistically significant (t-test ; p<0.05)
*** Frequency gap of 1 %, statistically significant (t-test ; p<0.05)
**** Indirect impact on organizational performance driver
Source : Alice H. Eagly, Johannesen-Schmidt, and Van Engen, *Transformational, Transactional, and Laissez-Faire Leadership Styles*, 2003; McKinsey analysis

than companies with no women in senior positions. Moreover, the gap increases significantly once a certain critical mass is attained, i.e., at least three out of ten board members are women.

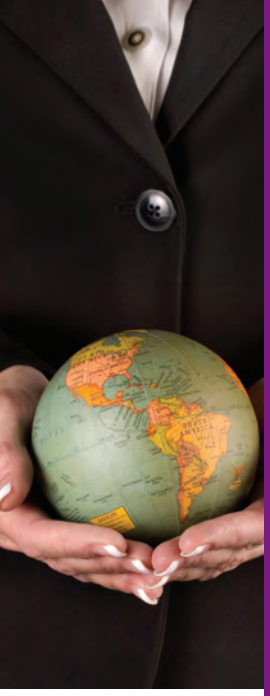
Our current study offers a fact-based explanation for this superior performance, arguing once again in favor of greater gender diversity in business organizations, especially in top management.

"It is only when there is a critical mass of women who use those behaviors that are complementary to men's that performance significantly increases".

– CEO of a media group

Of course, outside the scope of "leadership behaviors" which is the focus of our study, there may well be other levers of organizational performance (such as processes, systems, etc.) that will complement our explanation of the performance gap.

Ultimately, our study shows that organizational performance mainly relies on the complementarity and diversity of behaviors. Therefore, beyond developing gender diversity, corporations should also seek to expand the range of leadership behaviors among their leaders in order to reinforce organizational performance across all the criteria.



Which leadership behaviors for the future?

All nine leadership behaviors are necessary to perform on all the organizational dimensions. But are they all equally effective when it comes to meeting the business challenges of the future? A recent McKinsey survey of top management suggests that certain behaviors have become critical in order to meet future global challenges and yet they are in short supply in today's organizations. Of the four most critical behaviors, three are more often demonstrated by women.

The new global economic challenges reshaping leaders' profiles

In the first half of 2008, we conducted a survey of a representative sample of more than a thousand business executives worldwide.[8] We asked them to rate the importance to their company of fourteen long-term trends over the next five years *(see box: Fourteen global long-term trends shaping the corporate landscape)*.

FOURTEEN LONG-TERM GLOBAL TRENDS SHAPING THE CORPORATE LANDSCAPE

Macroeconomic

1. **Shift of economic activity between and within regions**

   We are witnessing a far-reaching reorganization of economic activity. In 2025, Asia (excluding Japan) will have practically the same economic weight as the whole of western Europe. On a microeconomic scale, the strongest growth opportunities will be found in China and India over the next five years.

2. **Growing number of consumers in emerging economies/changing consumer tastes**

   More than a billion new consumers will join the global marketplace between 2006 and 2015. Geographic expansion will require strong global positioning as well as a solid local presence. New segments and new tastes are emerging in developed economies.

3. **Development of technologies that empower consumers and communities**

   Connectivity is transforming our way of living and interacting. Knowledge has become commonplace; it is no longer seen as an asset in its own right. The use of new technologies is influencing the social fabric and fostering a new, virtual economy.

4. **An aging population in developed economies**

   The financial cost of an aging population in developed countries will weigh on economic growth, generating an increase in public spending on pensions and healthcare.

5. **Geopolitical instability**

   The profusion of terrorist threats and regional conflicts is pushing companies to anticipate and control the associated risks (for assets, suppliers, and customers).

6. **Increasing needs in the public sector**

   The increase in public spending is forcing the public sector to reform and seek out productivity gains.

Social and environmental

7. **Competition for talent will intensify and become more global**
   Supply and demand for global talent is growing ever more volatile. Companies need to attract enough new talent – an increasingly scarce resource – and be responsive to changing expectations.

8. **Increasing constraints on supply or use of natural resources**
   As a result of world population growth, demand for resources will quickly outstrip supply. This context could provide an opportunity to redefine our economic models on the basis of efficiency and ecological management.

9. **Role and behavior of business will come under increasing scrutiny**
   Corporate social responsibility is increasingly becoming a determining factor in consumers' purchasing choices and individuals' choice of employer.

Business

10. **A faster pace of technological innovation**
    The pace of innovation is accelerating. Companies need to keep abreast of new technologies, adopting the innovations necessary for the evolution of their internal processes and the development of new products and services.

11. **Increasing availability of knowledge/ability to exploit it**
    Knowledge is easily accessible. This has implications for knowledge management, knowledge-based businesses, and companies' information systems.

12. **Adoption of increasingly scientific, data-driven management techniques**
    To be best-in-class, it is vital to make efficient use of analysis, benchmarking and measurement tools, and powerful databases.

13. **Shifting industry structures/emerging forms of organization**
    The borders of companies are becoming increasingly blurred and value chains extended within complex ecosystems.

14. **Organizations will become larger and more complex**
    The structure of global industries is changing rapidly. For several years, companies have been engaged in a race for sheer size in terms of revenues, workforces, and stock market capitalization.

Source: "*How companies act on global trends*", McKinsey Quarterly, 2008

Two long-term trends stand out: **"A faster pace of technological innovation"** (77% of respondents view this trend as likely to have either a positive or a negative impact on their company's profits over the next five years); followed by **"Increasing availability of knowledge/ability to exploit it"** (74%). **"Competition for talent will intensify and become more global"** (cited by 66% of respondents) is rated third *(Exhibit 7)*.

"Today, because of the availability of knowledge everywhere in the world and the transparency of communication, innovation can come from anywhere. It can come in a complex form, it can also come in a simple form; and this is simply adding to the speed at which innovation is getting to the marketplace".

– Chairman and CEO of a medical equipment company

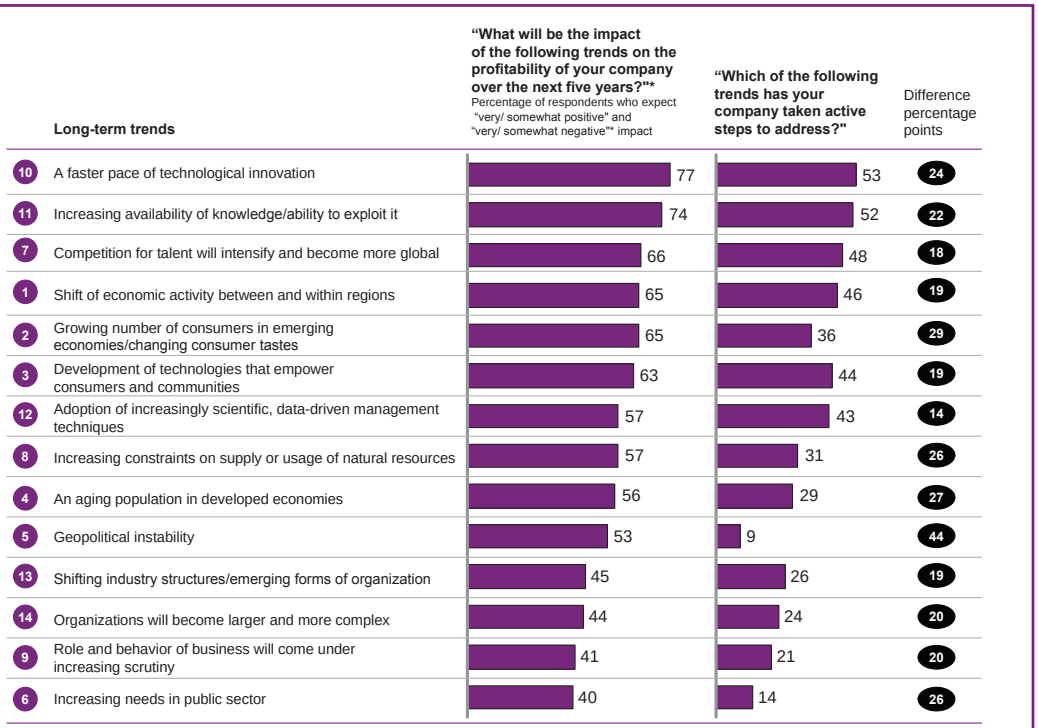
The survey also reveals that, while over 70% of the managers agree that the global trends have become more or much more important to corporate strategy, relatively few companies have taken action. For example, while around 75% say that **"A faster pace of technological innovation"** and **"Increasing availability of knowledge/ ability to exploit it"** will have an impact (positive or negative) on their company's profits, just over 50% have done something about either of these two trends.

"You have to have knowledge from all different areas to be able to deal with uncertain times. The pace picks up, the challenges are bigger, and knowledge, as well as the ability to exploit it, is just going to be more and more important as we go into the future".

– CEO of a banking group

Exhibit 7

Managers have rated the importance, over the next five years, of 14 trends.



* Respondents could select more than 1 answer, those who answered "none of the above" are not shown; n = 1,243

Source: *"How companies act on global trends"*, McKinsey Quarterly, 2008

Female leadership: A response to the needs of the future?

We asked our panel of executives[9] to identify which of the nine leadership behaviors would be most effective in preparing to manage the challenges of the future.

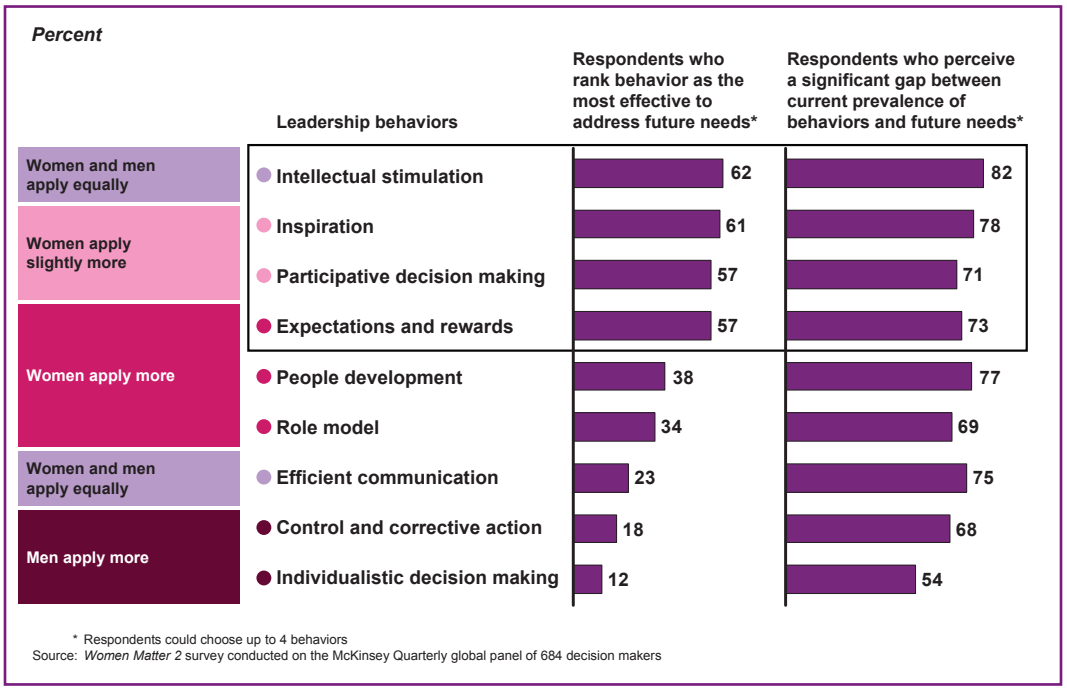
Male and female leaders converge in their vision of what is needed, whatever the trend. Overall, and for each trend, four behaviors consistently emerge as of particular importance for corporate performance over the next five years:[10] **"Intellectual stimulation", "Inspiration", "Participative decision making"** and **"Expectations and rewards"** *(Exhibit 8)*.

Furthermore, our survey indicates that these four behaviors (as well as the others) – though seen as critical for the future – are underrepresented in today's corporate environment. More than 70% of the leaders who rated these four items at the top of the list also say that their company's current leadership practices show a deficit of such behaviors.

These results make good sense in light of the most important trends rated by our panel of managers. The first most important trend, **"A faster pace of technological innovation"** (77% of the respondents), suggests that companies should be able to question their traditional practices and models in order to adapt to business evolutions, and encourage creativity and innovation.

Exhibit 8

Four behaviors are seen as most effective in addressing the global challenges of the future, although none are sufficiently prevalent in corporations today. Women apply three of these four leadership behaviors more frequently than men.



* Respondents could choose up to 4 behaviors
Source: *Women Matter 2* survey conducted on the McKinsey Quarterly global panel of 684 decision makers

This requires leadership skills such as **"Intellectual stimulation"** or **"Participative decision making"** to support creativity, innovation, risktaking, and thinking outside the box.

"Innovation has become a process where everyone collects different elements from around the world and adds the special touch that will make a different product. This requires a participative type of management. The traditional hierarchical way doesn't work anymore as you lose a lot of substance at every level".

– CEO of a telecom company

The second trend on the top of the managers' list, **"Increasing availability of knowledge/ability to exploit it"**, will require collaborative workflows and multidisciplinary teamwork to face the challenges of a new knowledge economy. Leadership behaviors such as **"Participative decision making"** are critical drivers to encourage collaborative attitudes and to manage effectively within network organizations.

"The ability to apply knowledge and experience from other areas, learn from them, and quickly apply and exploit them, is critical in complex and uncertain times".

– CEO of a banking group

Looking at the third trend, **"Competition for talent will intensify and become more global"**, motivational behaviors such as **"Inspiration"** and **"Expectations and rewards"**, which underpin a strong value proposition for people, will make a significant difference in the market to attract and retain the best people.

Could the rise of female leaders help to bridge the leadership-behavior gap? Our analysis suggests that it could. Of the four behaviors regarded as most effective for meeting future challenges – and currently in short supply – the first, **"Intellectual stimulation"**, is a gender-neutral behavior. On the other hand, the remaining three – **"Inspiration"**, **"Participative decision making"** and **"Expectations and rewards"** – are among the behaviors observed more often in women than in men.

"A leader must translate the corporate strategy at all individuals' levels if he or she wants to inspire and retain the best talent".

– CEO of a consumer goods company

Building on these findings, our study confirms that it is more important than ever for companies to promote diversity of leadership behaviors. Increasing the participation of women should help to achieve this goal.

From gender diversity to leadership variety

"The presence of women in management teams creates a space for men and women to expand the way they lead".

– Board member of a financial institution

If today's corporations lack the most effective leadership behaviors to meet future challenges, it is a matter of some urgency to reinforce and develop these behaviors. Developing gender diversity is a key lever to achieve this, since women adopt most of these behaviors more frequently than men. At the same time, women could be very effective as change agents in challenging dominant codes and, more generally, in stimulating the spread of good leadership practices throughout the entire organization. However, this alone will not be sufficient. Corporations should also seek to change leadership behaviors through transformation programs. Both initiatives require strong support from top management *(Exhibit 9)*.

"The cultural aspects of a company are very important and you have to drive an organization toward the behaviors that you want. So, one, you have to state exactly what you expect – what "good" looks like. Two, you have to get people in place that model that behavior. And, three, you have to value behaviors – how you get the result as much as the result itself".

– CEO of a banking group

Increasing gender diversity

In the 2007 McKinsey study *Women Matter,* we identified good practices developed by companies that had successfully implemented gender diversity programs. The implementation of these practices remains indispensable to designing an effective gender diversity program in a company, and can be addressed through three main initiatives.

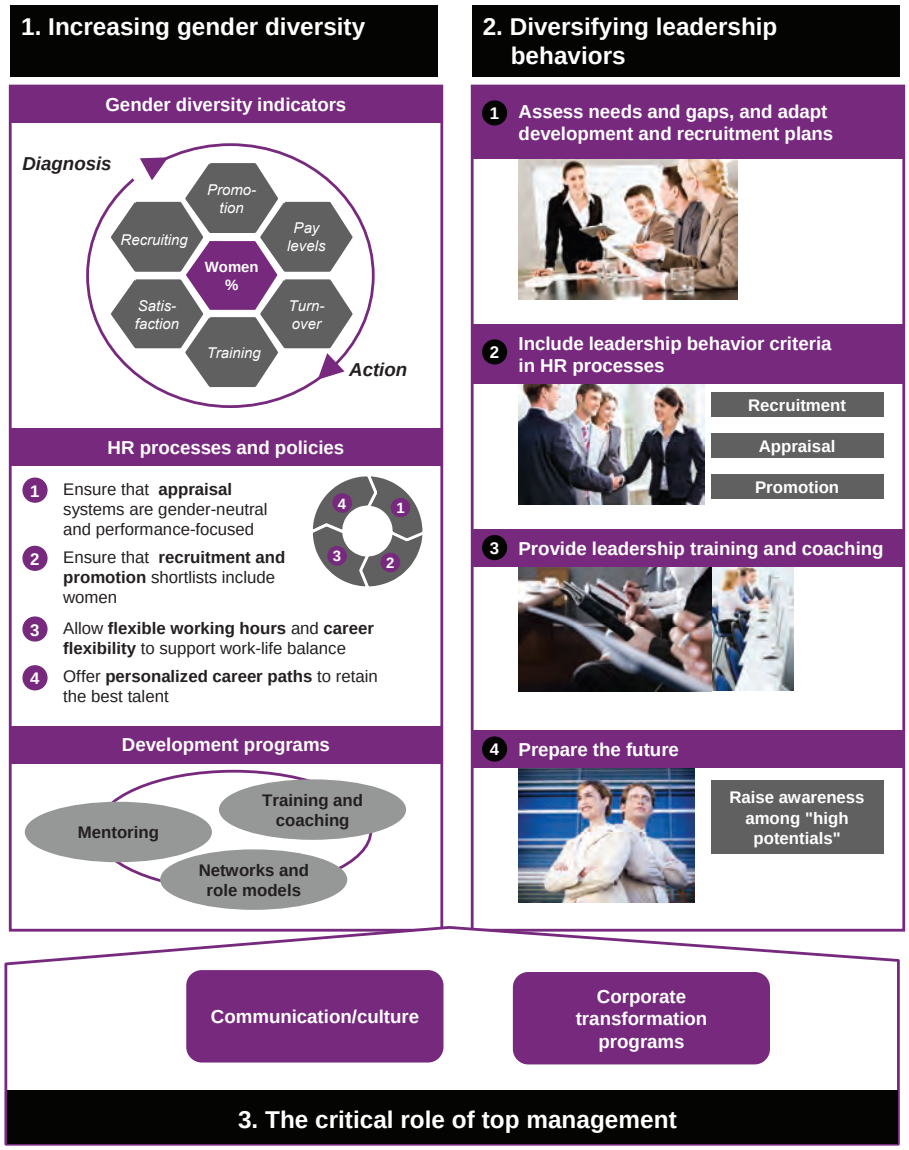
Implementing gender diversity indicators

This is a prerequisite to achieving change, as it helps to create transparency, to measure any current gaps, and then to monitor progress.

Corporations should first seek to establish a diagnosis of the situation and identify gaps and bottlenecks. Indicators may include the proportion of women in the company's various business units, at each level of management and among recruits. They may also include pay levels and gaps, as well as attrition rates, between men and women in similar functions. The ratio of "women promoted" to "women eligible for promotion" is also a key indicator in building awareness of existing gaps.

Exhibit 9

Strengthening leadership teams by increasing gender diversity and developing effective leadership behaviors.



Source: McKinsey

These indicators should be used to define and direct priority actions, monitor progress and, where necessary, adapt a diversity program to the evolution of the situation.

In addition, indicators are very powerful in communicating success and progress, as well as in maintaining momentum in the diversity challenge.

Redefining human resource management processes and policies

Corporations need to ensure that their recruitment, appraisal and career management systems are gender-neutral and performance-focused, and that they do not hold women back in their professional development.

For example, the process for identifying "high potentials" often focuses on age (e.g., managers between the ages of 28 and 35). It could be altered to incorporate more flexible criteria, such as the number of years of service in the company, so as to make allowance for periods of leave (such as maternity leave).

Human resource functions also have an essential role to play in ensuring that there is at least one female candidate on every promotion and recruitment shortlist for senior positions.

Lastly, measures to facilitate work-life balance should be proposed to balance the "anytime, anywhere" model that still prevails in corporations. Among these measures, flexible working hours (e.g., remote working, part-time work, flextime) is key but not sufficient. Companies have to allow career flexibility and support during breaks – not just for one day, one week, or one year, but throughout a career. The fact that women tend to take career breaks needs to be taken into account to prevent any negative impact on their career paths or pay. However, a flexibility program should not be a women-only policy, but should be an integral part of the company's overall talent development model.

Furthermore, companies must be in a position to offer personalized career paths in order to retain the best talent.

Helping women to master the dominant codes and nurture their ambition

Coaching and mentoring programs can be highly effective in raising women's awareness of self-imposed limitations and enable them to manage their careers in a male-centric environment. Women also need to be made more aware of the crucial importance of networking.

Setting up women's networks within a company raises women's awareness of this fact. Moreover, it creates opportunities for broader professional exposure, while raising the profile of female leaders in the organization, which is essential in helping young women identify role models. By motivating women and facilitating their development, these initiatives are often remarkably successful in retaining, and even expanding, the female talent pool within companies.

These initiatives may seem obvious. Yet many companies confess that they struggle to implement such programs fully and consistently and to follow it up with the support of the top management.

"It takes time and commitment to get it right".

– Chairman and CEO
of a medical equipment company

Diversifying leadership behaviors

Beyond a gender diversity program, companies should seek to diversify leadership behaviors and spread good practices within the entire organization. To achieve this goal, a company must assess its needs against its critical challenges and its strategy. It can then audit the profiles of its existing leaders, and identify the potential deficits that lie ahead.

The first objective is to round out the palette of leadership behaviors of every manager in the company. To do this, the company needs to communicate the behaviors, explaining what they are and why they matter. Once again, the most effective way to change leadership behaviors is to integrate them explicitly into HR processes.

It is important, for example, that evaluation and promotion processes incorporate criteria that measure leadership skills, as much as technical capabilities or fulfillment of targets. In particular, companies can evaluate leaders during recruitment, annual appraisals, and promotion boards by including among the assessment criteria the four leadership behaviors which, according to our survey, are the most important for the future: **"Intellectual stimulation", "Inspiration", "Participative decision making",** and **"Expectations and rewards"**.

Some companies have already implemented such tools. For example, one company has defined a "good leader" profile against which all potential leaders are judged. In addition to the usual qualities of expertise, functional knowledge, thinking ability, imagination, and courage, the profile contains a leadership dimension called "**Inclusiveness**".

"The purpose of the "Inclusiveness" dimension is to benefit from all the synergies created by a global and diverse team, to connect up individuals, to remain open and to recognize that diversity is a strength".

– Chairman and CEO of a medical equipment company

Leadership behaviors can also be changed in a more proactive, ad hoc manner through training. Our survey of managers confirms that training plays a key role in the development of leaders. Some two-thirds of respondents state that leadership training had led them to evolve in their personal practices and preferences. And more than three-quarters acknowledge that such training, and the support of their organization, had a positive impact on the effectiveness of their leadership.

"I think that leaders are developed and not necessarily born. It is really important because leaders have to evolve; they have to understand what their strengths are, but probably more importantly what their weaknesses are".

– CEO of a banking group

In addition to broadening the range of leadership behaviors in today's corporate environment, it is important to ensure that recruits to management positions demonstrate the required leadership behaviors by integrating the leadership criteria into selection processes.

Finally, to prepare the leaders of the future, companies must make sure that they have a sufficiently large pool of potential leaders who are all fully aware of leadership behavior issues.

The critical role of top management

A successful change program can be achieved only if initiated and fully supported by top management.

From our interviews with the companies that top the gender diversity league, it is clear that their efforts amounted to nothing less than a cultural revolution. Consequently, such change programs should take the form of full-fledged company transformation initiatives, with top management seen to be in control. Positive practices will not catch on unless top management is convinced that diversity creates competitive advantage and is committed to changing the company culture. Almost all of the companies in our study that had made real progress in this field benefited from the personal involvement of a president and a CEO who steered a clear course toward change.

"You must have the will, you must have the strategy – and you can never let it go".

– Chairman and CEO
of a medical equipment company

Conclusion – The diversity edge

The sheer size of the change required to develop gender diversity and to change leadership behaviors no doubt partly explains why female representation in top management has evolved so slowly. But it is also undoubtedly matched by the size of the potential gains: female leaders and a diversity of leadership styles can give companies a real competitive edge.

Beyond its financial performance, the ability of a company to differentiate itself and to acquire a competitive advantage is a major factor in its survival. Our study suggests that the challenge of gender and leadership diversity can become a genuine lever of differentiation in the marketplace. It certainly has all the key attributes: gender diversity is at once difficult to create, strongly conducive to current performance, and critical for future achievement.

The companies that succeed in fostering effective leadership, sustained by a diversity of both practices and gender, will gain a unique opportunity to develop a competitive edge that latecomers will find hard and long to acquire, especially as the barrier lies in culture and mindsets. In today's corporate world, taking a lead in gender diversity is indeed a strategic decision.

Sources/notes

[1] *Women Matter: Gender Diversity, a Corporate Performance Driver,* McKinsey & Company, 2007.

[2] We asked 115,000 employees from 231 public and private entities to grade their company on the nine criteria of organizational performance; we then compared each company's mean score on the various criteria with its financial performance indicators.

[3] *Bass & Stogdill's Handbook of Leadership: Theory, Research, and Managerial Applications, 3rd edition,* Bernard M. Bass, 1990. *Developing Transformational Leadership: 1992 and Beyond,* Bernard M. Bass and Bruce J. Avolio, 1990.

[4] We matched each leadership behavior with one or more criteria of organizational performance by matching the 45 elements defining the individual leadership behaviors with the 49 elements defining the organizational performance criteria observed in corporations. For example, we matched "This leader expresses in specific terms who is accountable for attaining the performance objectives" (an element of the definition of the "Expectations and rewards" behavior) with "This company's employees know what they are accountable for" (an element of the definition of the "Accountability" criteria of organizational performance).

[5] *Bernard Bass and Bruce Avolio, Center For Leadership (2000) in The Leadership Styles of Women and Men,* Alice H. Eagly (2001).

[6] *The Multifactor Leadership Questionnaire,* 3rd edition, Bernard M. Bass and Bruce J. Avolio, 2004.

[7] *Transformational, Transactional, and Laissez-Faire Leadership Styles,* Alice H. Eagly, Mary C. Johannensen-Schmidt, Marloes L. van Engen, 2003.

[8] *How companies act on global trends,* McKinsey Quarterly, 2008*;* panel: 1,243 respondents.

[9] McKinsey Quarterly panel; respondents: 684 company managers, including 279 in the European Union, 405 in North America.

[10] Respondents were asked to select up to four behaviors.

Acknowledgments

We are grateful to the many senior executives and academic researchers who gave their precious time and valuable insights for this publication. In particular we would like to thank:

The Women's Forum for the Economy and Society, its President and Founder Aude Zieseniss de Thuin, and the members of the board for their constructive feedback and continued encouragements.

Alice H. Eagly and Bruce J. Avolio for their knowledge contributions and the thoughtful discussions that allowed us to refine our approach.

Manfred Kets de Vries, Herminia Ibarra, and Elisabet Engellau, from INSEAD, for testing our conclusions in light of their own research.

Joanna Barsh, Director, McKinsey & Company, author of "The Leadership Project", for her continued support and innovative insights into the nature of leadership.

The many senior executives we talked to, for providing their wisdom and experience on leadership and long-term trends shaping the corporate landscape.

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