

## Unlocking the full potential of women in the US economy Liberando el potencial de la mujer en la economía de Estados Unidos

By Joanna Barsh and Lareina Yee



Women have been a growing factor in the success of the US economy since the 1970s. Indeed, the additional productive power of women entering the workforce from 1970 until today accounts for about a quarter of current GDP. Still, the full potential of women in the workforce has yet to be tapped. As the US struggles to sustain historic GDP growth rates, it is critically important to bring more women into the workforce and fully deploy high-skill women to drive productivity improvement.

**McKinsey & Company** undertook this research over the past three months to understand how women contribute to the US 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.



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Creating the conditions to unlock the full potential of women and achieve our economic goals is a complex and difficult challenge. At a macro level, there is significant potential to raise the labor participation rates of women across the country. At a corporate level, where many high-skill women are employed, the opportunity is to continue to advance women into leadership 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 years.

We believe, however, that there is an opportunity to make substantial progress in developing and advancing women on the path to leadership. Companies have become very good at recruiting women—many major corporations recruit their “fair share” or more of women. Moreover, many companies have introduced structural mechanisms such as parental leaves, part-time policies and travel-reducing technologies to help women stay the course. While the many barriers that remain are substantial, interventions at critical career points can have outsized impact.

For example, with a focus on middle management to increase the number of women who advance to the vice-presidential level, corporations could substantially improve the odds of achieving real gender diversity in top management. We found that more women in middle management roles are focused on leading than their colleagues at the entry level. And they have already demonstrated enough to advance and acquire managerial skills. Moreover, many are younger women with relatively light work/family concerns. If companies can win their loyalty at this stage of their careers, they will be more likely to stay the course. These women are ours to lose.

## Women's interest in being leaders increases as they progress from entry level to middle management.



Source: Feb 2011 McKinsey survey of 1,000 female and 525 male respondents currently working in large corporations or professional-services firms

What compels bright, highly-motivated women at middle management levels—and higher—to turn down opportunities for advancement, look for jobs outside the company, or leave Corporate America altogether? We reviewed over 100 existing research papers, 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 do hold themselves back to pursue greater satisfaction across all parts of their lives—but not only to fulfill family responsibilities. Indeed, a sizable percentage of the male college graduates who took our survey reported the same motivation to gain greater balance.

We looked into the specific barriers that women cite as factors that convince them that the odds of getting ahead in their current organizations are too daunting. The reasons why women choose to remain 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.

In McKinsey's ongoing Centered Leadership research, which examined the distinctive strengths women bring to leadership roles, we found another phenomenon that limits diversity at the top: Women often elect to remain in jobs if they derive a deep sense of meaning professionally. More than men, women prize the opportunity to pour their energies into making a difference and working closely with colleagues. Women don't want to trade that joy for what they fear will be energy-draining meetings and corporate politics at the next management 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 female candidates out of the running, often on the assumption that the woman can't handle certain jobs and also discharge family obligations. In our Centered Leadership research, we found that many women, too, hold limiting beliefs that stand in their own way—such as waiting to fill in more skills or just waiting to be asked.

These imbedded mindsets are often institutional as well as individual—and difficult to eradicate. A 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. Targeting behavioral change generally leads only 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 must choose to transform their cultures. Management needs a powerful reason to believe such as the potential competitive and economic advantage from retaining the best talent.



### How women contribute to the economy

Between 1970 and 2009, women went from holding 37% of all jobs to nearly 48%. That's almost 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 arose from workforce expansion. Today, nearly 80% of growth is related to productivity increases, according to the McKinsey Global Institute (MGI).

To sustain the historic rate of GDP growth of approximately 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 US average, there is considerable variability among the states, and the 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. This is equivalent to adding 3-4% to the size of the US economy.

**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 US were awarded to women. As a result, women accounted for 53% of the total college educated population in the US. However, only 50% of the college educated workers were women. Simply said, we don't have the full amount of female college educated talent in our workforce. Changing this could improve corporate performance and help raise national productivity. But doing so will depend on finding ways to keep ambitious, well-qualified women moving up the management 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, and science & technology. How women contribute at the corporate level: The business case for diversity

### How women contribute at the corporate level: The business case for diversity

What do women bring to Corporate America? How do women leaders contribute to a company's competitive edge? These questions have been the subject of much debate and research. The central challenge in proving a link between gender diversity in top management and improved corporate performance is sample size: Too few companies have had enough women in senior roles to provide statistically significant results. However, there is a growing body of work that

compares financial performance to gender diversity at the top. Catalyst has just released its most recent comparison of large industrial companies, pointing out the correlation of financial performance and more women at the top. The 2009 McKinsey Women Matter global survey on gender diversity highlighted the link between the characteristics of women leaders and organizational health. McKinsey's 2010 Centered Leadership research found that many women bring an approach to leadership well suited for the challenges that major organizations face today:

Catalyst, the U.S. non-profit focused on expanding opportunities for women in business, continues to deliver research on the relationship between the representation of women on boards of directors and corporate performance. In its 2011 research, Catalyst 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). When the McKinsey Women Matter team asked business executives globally 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 (OHI) we found that companies with 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.

In the 2010 McKinsey Centered Leadership research, we found that more than 90% of the women and men who mastered each of the five leadership dimensions felt equipped to lead through today's challenges compared to only 21% of those who mastered none.

### **What holds women back**

As has been well documented, Corporate America has a "leaky" talent pipeline: At each transition up the management ranks, more women are left behind. According to Sylvia Hewlett, founder of the Center for Work-Life Policy, women represent 53% of new hires. Catalyst estimates that at the very first step in career advancement—when individual contributors are promoted to managers—the number drops to 37%. Climbing higher, only 26% of vice presidents and senior executives are female and only 14% of the executive committee, on average, are women. At this point women are doubly handicapped because, as our research of the largest US corporations shows, 62% are in staff jobs that rarely lead to a CEO role; (in contrast, 65% of men on executive committees hold line jobs.) This helps explain why the number of women CEOs in Fortune 500 companies appears stuck at 2-3%.

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, look for a job elsewhere that will fulfill their ambition, or seek careers outside large corporations. We found four kinds of barriers in their way:

**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 female role models higher up in the organization, and a lack of sponsors to provide opportunities, which many male colleagues have.

**Lifestyle issues:** Some interesting insights from our research relate to the role that life outside work plays 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. No surprise, many women expressed a concern about the always-on 24/7 executive lifestyle and travel requirements. Notably, 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 their progress. Managers (men and women) still tell diversity officers that “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. Management may be acting with best intentions—to prevent women from failing—yet another mindset that forms a barrier to advancing women.

**Imbedded individual mindsets:** The effect of women’s own mindsets cannot be discounted. While women remain highly confident of their qualifications throughout their careers, women are, on average, less satisfied than men with their chosen professions and jobs. Moreover, as women get older, their desire to move to the next level dissipates faster than men’s desire. At all ages, more men want to take on more responsibility in their organizations and have greater control over results.

What our survey showed most clearly is that, no matter how they feel about their 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 are ambitious 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 diminishes—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 US must make far better use of women in the workforce. Plugging the leaks in the talent pipeline is clearly a top priority and there are opportunities at every transition point in the pipeline. But we believe companies have a promising opportunity to capture by focusing on the transition from mid-level manager to senior management (typically the vice president role).

Having survived the first cut in the talent pipeline—from individual contributor to manager—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 workforce—and have a stronger belief that opportunities for promotion exists. A greater portion of middle management women aspire to top management roles 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. More women who make it to senior management share an aspiration to lead, and more believe that getting to senior leadership is worth the cost. Advancing more women into these positions would in time help

companies rebalance their executive committees, which in turn increases the likelihood of sustaining gender diversity at every level to the very 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 one-off solutions will never succeed. Comprehensive change is required.

Our conclusion is that this systemic challenge can be met only through organizational transformation. This is a tall order. Our research on organizational change indicates that 70% of transformation efforts fail. However, the same research tells us that the transformations that succeed have 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”—and communicate it broadly, emphasizing the successes that reinforce the desired mindset shifts.

Refine the organizational processes and other formal mechanisms that can reinforce the change—in particular the metrics and reporting used to track performance and reinforce accountability.

Build the capabilities that enable the desired behaviors. 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 the Executive Committee and other senior leaders misses the most important influencers of sustained change—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, implementing career off-ramps and on-ramps, and policies that enable women to survive the dual responsibilities of family and work. The next leg of this long journey requires something much harder to achieve—genuine transformation.

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

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