



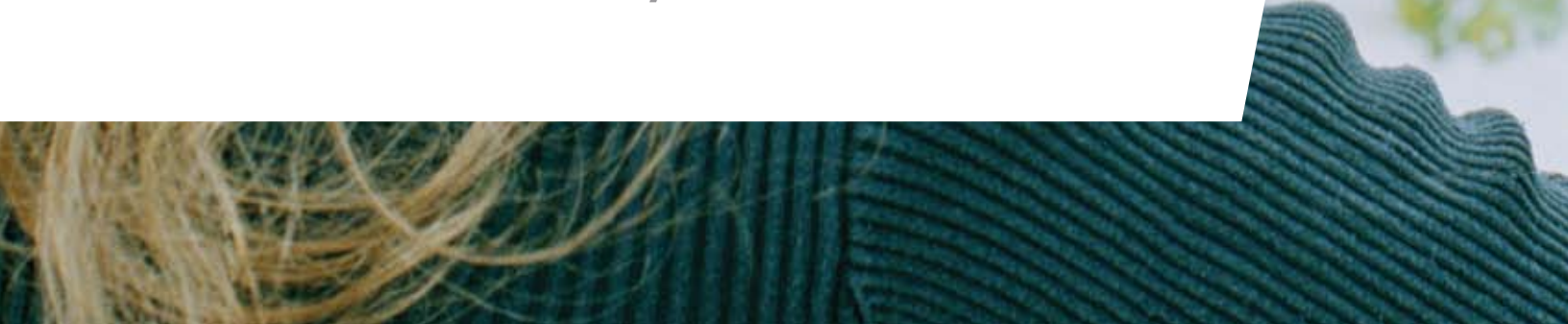
Groundbreakers

Using the strength of women
to rebuild the world economy



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Executive summary

The current financial crisis presents a real need to challenge ourselves and to rethink the way we do things. We need to draw on the widest range of talent. The vast economic potential of women as an economic force has yet to be realized. An extensive body of research shows that women make significant and proven contributions to business and economic growth. Now is the time to realize and harness the positive effect that women's economic empowerment and leadership can have on the global economy.

- ▶ Academics, policy-makers and business leaders around the world assert that long-term economic growth requires the expanded participation of women in the workforce.
- ▶ Research shows that women do not enjoy the full benefits of participation in the workforce. Both in emerging and developed markets, they experience wage and occupational disparities, inadequate political representation and little or no visibility in corporate boardrooms. This occurs even when women are better educated than men.
- ▶ Economic analyses by the World Bank, United Nations, Goldman Sachs and other organizations show a significant statistical correlation between gender equality and the level of development of countries. The evidence is compelling that women can be powerful drivers of economic development.
- ▶ Several studies from a broad spectrum of organizations—including Catalyst, Columbia University, McKinsey, Goldman Sachs and The Conference Board of Canada—have examined the relationship between corporate financial performance and women in leadership roles. Their undisputed conclusion is that having more women at the top improves financial performance.

The undeniable body of evidence in favor of women's empowerment presents a powerful case for building more inclusive societies and more diverse leadership. At a time when our global economy is facing the greatest challenge in decades, corporations and governments must capitalize on the contributions women can make. It's a daunting task, and one at which many have failed in the past. But our imperative is to do whatever it takes—now. We must meet the demands of a new era and learn from this crisis. Δ

Introduction

Picture this: You're a senior team leader, and you're charged with winning an important project. But there's a catch. Only half the people on your team can participate.

Would you feel comfortable with the outcome? Of course not. Yet this scenario plays out every day, in every venue, in every country in the world. United Nations statistics show that women make up about half of the world's population. But they're routinely denied positions of influence and leadership. Worldwide, they're the victims of gender disparity in education, labor-force participation and career advancement.

The financial crisis jolting the world's economies only highlights the missing voices and lacking presence of women. While many countries and businesses have made strides toward narrowing the gender gap, the vast potential of women to contribute to business and economic growth has yet to be realized. A crisis presents an opportunity for change. Now is the time in history to realize and harness the powerful and positive effect that women's empowerment and leadership can have on the global economy.

Expanding women's participation in the workforce isn't just something that shows off a company's commitment to diversity. It has powerful, positive and measurable results. Academics, policy-makers and business leaders assert that long-term economic growth requires the expanded participation of women in the workforce. "Greater representation of women in senior leadership positions within governments and financial institutions is vital not only to find solutions to the current economic turmoil, but to stave off such crises in future," says Klaus Schwab, Founder and Executive Chairman of the World Economic Forum (WEF).

Since 2006, the WEF has issued annual reports based on its Global Gender Gap Index, a framework for capturing the magnitude and scope of gender disparities and tracking their

progress. The index provides country rankings that allow for valid comparisons of the same variables across regions and income groups over time. Of the 128 countries covered in both 2007 and 2008, 41 show widening gender gaps. The WEF's *Global Gender Gap Report 2008*, which evaluated 130 countries on such measures of gender equality as health outcomes, educational attainment, economic participation and political empowerment, found that "No country in the world has achieved gender equality. The four highest ranking

"Women make up half of the human resources available to any country. If that half is not being channeled into the economy and not being made part of decision-making processes, then that country's economic potential is bound to suffer. As business leaders and policy-makers seek to navigate their way through the current crisis, they need the talents of both women and men more than ever to come up with the best solutions."

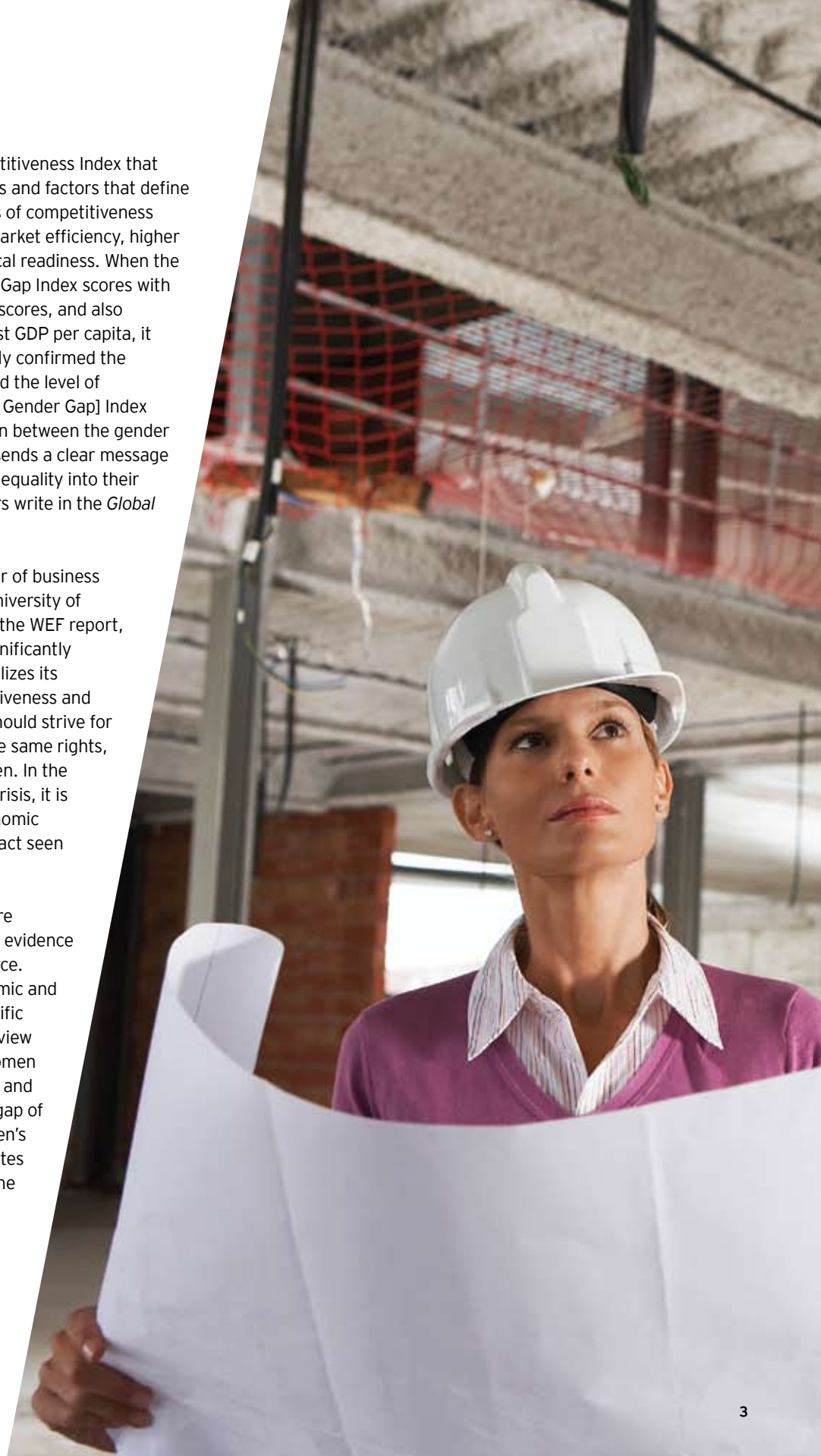
Saadia Zahidi, Head, Women Leaders' Programme, World Economic Forum

countries—Norway, Finland, Sweden and Iceland—have closed a little over 80% of their gender gaps, while the lowest ranking country—Yemen—has closed only around 47% of its gender gap."

The WEF also publishes a Global Competitiveness Index that measures the set of institutions, policies and factors that define a country's productivity level. Examples of competitiveness benchmarks are infrastructure, labor market efficiency, higher education and training, and technological readiness. When the WEF compared its 2008 Global Gender Gap Index scores with its 2008 Global Competitiveness Index scores, and also measured the gender gap scores against GDP per capita, it found that both comparisons statistically confirmed the correlation between gender equality and the level of development of countries. "The [Global Gender Gap] Index continues to track the strong correlation between the gender gap and national competitiveness and sends a clear message to policy-makers to incorporate gender equality into their national priorities," the WEF researchers write in the *Global Gender Gap Report 2008*.

According to Laura D. Tyson, a professor of business administration and economics at the University of California (Berkeley) and co-author of the WEF report, "A nation's competitiveness depends significantly on whether and how it educates and utilizes its female talent. To maximize its competitiveness and development potential, each country should strive for gender equality – i.e., to give women the same rights, responsibilities and opportunities as men. In the current global financial and economic crisis, it is more vital than ever that women's economic participation does not shrink, but is in fact seen as an opportunity to make headway."

A look at what happens when women are disempowered is even more compelling evidence in favor of their inclusion in the workforce. For example, the United Nations Economic and Social Commission for Asia and the Pacific Countries reports in its 2007 annual review that restricting job opportunities for women costs the region between US\$42 billion and US\$46 billion a year in GDP growth. A gap of 30 to 40 percentage points between men's and women's workforce participation rates is common in the Asia-Pacific region. The gap in women's education limits their participation in the workforce, causing a further loss of US\$16 billion to US\$30 billion to the region's economic output. Δ



A powerful economic force

A mounting body of quantitative research reveals that women who are given the opportunity can be influential and make real change happen. Our countries and companies will be stronger and more competitive if they have more women operating as managers and decision-makers – whether they are in developed or emerging markets.

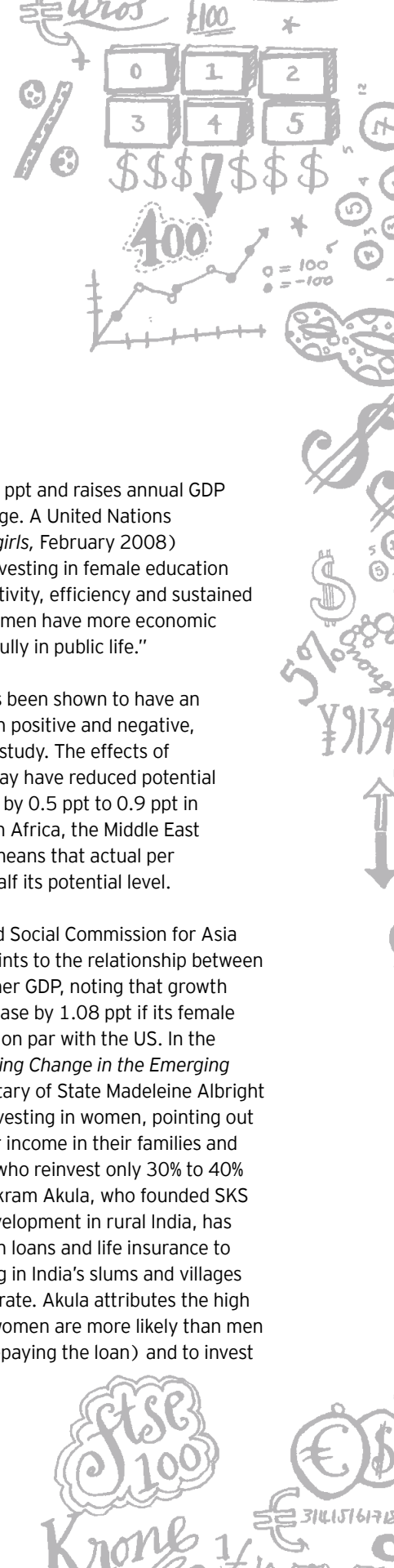
According to an Inter-American Development Bank report, “Without a doubt, women joining the work force will increase the economic overall efficiency of a country, whether developed or developing.” Goldman Sachs’s Global Economics Paper No: 154 (April 2007), *Gender Inequality, Growth and Global Ageing*, makes the case clearly: “Closing the gap between male and female employment rates would have huge implications for the global economy, boosting US GDP by as much as 9%, Eurozone GDP by 13% and Japanese GDP by 16%. ...Encouraging more women into the labour force has been the single-biggest driver of Eurozone’s labour market success, much more so than ‘conventional’ labour market reforms. The US and Japan, while starting from very different positions, have both made little progress in narrowing the gap between male and female employment in the past 10 years.”

In another Global Economics Paper (*Women Hold Up Half the Sky*, No: 164, March 2008), Goldman Sachs analysts discuss the important role of women’s education in boosting economic growth. Again, the arguments are persuasive: the analysts believe that in the BRICs and N-11 countries, greater investments in female education could yield a “growth premium” that raises trend GDP growth by about 0.2% per year. “Narrowing the gender gap in employment – which is one potential consequence of expanded female education – could push income per capita as much as 14% higher than our baseline projections by 2020, and as much as 20% higher by 2030,” the analysts write, adding that a one-percentage-point (ppt) increase in female education raises

the average level of GDP by 0.37 ppt and raises annual GDP growth rates by 0.2 ppt on average. A United Nations report (*Investing in women and girls*, February 2008) supports this view, noting that investing in female education “has a multiplier effect on productivity, efficiency and sustained economic growth. ...Educated women have more economic opportunities and engage more fully in public life.”

The level of female education has been shown to have an impact on economic growth, both positive and negative, according to the Goldman Sachs study. The effects of gender inequality in education may have reduced potential annual per capita income growth by 0.5 ppt to 0.9 ppt in much of South Asia, Sub-Saharan Africa, the Middle East and North Africa. In Africa, this means that actual per capita income growth was only half its potential level.

The United Nations Economic and Social Commission for Asia and the Pacific Countries also points to the relationship between women in the workforce and higher GDP, noting that growth in India, for example, would increase by 1.08 ppt if its female labor-participation rate were put on par with the US. In the book, *Women Empowered: Inspiring Change in the Emerging World* (2007), former US Secretary of State Madeleine Albright cites the economic benefits of investing in women, pointing out that women reinvest 90% of their income in their families and communities, compared to men who reinvest only 30% to 40% of their income. Entrepreneur Vikram Akula, who founded SKS Microfinance in 1998 to spur development in rural India, has provided about US\$275 million in loans and life insurance to more than 900,000 women living in India’s slums and villages while enjoying a 99% repayment rate. Akula attributes the high repayment rate to the fact that women are more likely than men to support each other (e.g., in repaying the loan) and to invest in their households. Δ





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- Numbers: 1, 2, 3, 4, 5, 6, 7, 8, 9, 10
- Currency symbols: \$, £, ¥, €
- Mathematical symbols: +, x, ÷, =, -
- Text: "Dollars", "FTSE", "EUROS", "Increase", "Y600", "1000", "1000"

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- Currency symbols: \$, £, ¥, €
- Mathematical symbols: +, x, ÷, =, -
- Text: "YEN", "YEN", "million", "99%", "Billion", "FTSE", "Brought"

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- Currency symbols: \$, £, ¥, €
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Wide occupational and wage disparity



Despite their obvious potential, women do not enjoy the full benefits of participation in the workforce. According to *Women and Children: the Double Dividend of Gender Equality*, UNICEF's State of the World's Children 2007 report, in 2005, women accounted for roughly 40% of the world's economically active population (population involved in some form of paid employment). But in most developing countries, women in the labor force work longer hours than men, earn significantly less when doing so and spend far more time on unpaid tasks (such as household work).

Women in developed markets do not fare much better. The gender gap is particularly stark in Europe, where, according to statistics from Eurostat and the European Commission's 2006 *Report on Equality Between Women and Men*, women account for 55% of all university graduates, but have an employment rate 21% lower than that of men; the average wage gap between women and men is as high as 15%. The European Commission's report states that women represent only 11% of the membership

“Eliminating gender discrimination in relation to occupation and pay could increase women's wages by about 50% and national output by 5%.”

Rachael Mayanja, UN Special Adviser on gender issues and the advancement of women

of the governing bodies of listed companies in Europe. The situation is much the same in the US. While females account for over a third of managers overall as of 2006, fewer than a third of the top 1,500 US firms reported even a single woman among their top executives, fewer than 6% reported more than one, and fewer than 3% had a female chief executive officer (US Bureau of Labor Statistics, *Women in the Labor Force: a Databook, 2007*).

The US Census Bureau reported that in 2007, American women working full time earned 22% less than men working full time. Political participation is even more unbalanced. According to the Inter-Parliamentary Union, the United States currently ranks 71st in the world for women's political participation. Marie Wilson, President of The White House Project, a nonprofit organization that advances women's leadership, points out that as of 2008, women in the US held only 16% of Congressional seats and 24% of seats in state legislatures. They account for just 10% of big-city mayors and hold governorships in only eight states. The irony is that women bring vital and impressive qualifications to the workforce. The US Department of Education reports that

“We saw that money going to women brought much more benefit to the family than money going to the men. So we changed our policy and gave a high priority to women. As a result, now 96% of our four million borrowers in Grameen Bank are women.”

Muhammed Yunus, founder of Grameen Bank,
2006 Nobel Peace Prize winner

women have been earning more bachelor's degrees than men since 1982, and more master's degrees than men since 1981. By 2016 women are projected to receive over 60% of bachelor's degrees, 61% of master's degrees and over 53% of all doctorate and first professional degrees.

The importance of women to earnings and productivity is all too apparent when considering the impact of layoffs. *Equality in Job Loss*, a report issued by The Joint Economic Committee of the US Congress in July 2008, makes the point that in the current economic downturn, women are increasingly vulnerable to job losses—and when women lose jobs, their families suffer. Basing its research on US Census Bureau data, the report says, “Women's increased vulnerability to recession can wreak havoc on family economic well-being. The typical wife brings home over a third of her family's income and the one quarter of children being raised in single-mother families have only their mother's salary to rely upon. ... The only families who have seen any increase in real income over the past three decades are those with a working wife.” Δ



Q&A: focusing on first principles

One of the leading global champions of women's empowerment is Melanne Verveer, co-founder, Chair and Co-CEO of Vital Voices Global Partnership, an international nonprofit that invests in emerging women leaders. Beth Brooke, Global Vice Chair, Ernst & Young, spoke with her about the vital role of women in rebuilding economies damaged by the current market turmoil.

Beth Brooke: *How might the current crisis present opportunities to look at women as a resource that can move businesses ahead and spur economic growth—particularly in developing countries?*

Melanne Verveer: One thing the crisis does is make us focus and look at first principles. It should have us looking at something many were not focusing on: the important role women play in advancing economic opportunities, and how critical it is for a country's prosperity and economic growth to invest in women and ensure they've got a level playing field so they can contribute in a significant way. We have studies and empirical data that support this point, but often don't have the will to do what needs to be done. In the developed world, you don't see enough women on boards. With even a few, it makes a difference in how companies progress. Even in terms of promoting women to higher corporate levels, there hasn't been much progress. In the developing world, the situation is different. Women are still on the margins of society. Studies are showing that if investments are made in women—giving them the capacity to be actors in the economic world, at the micro-business or SME level—and if there is a level playing field, i.e., no regulations or laws that are different for women and men, such as property rights and tax regulations—they can progress in ways that enhance and grow and build economies.

Beth Brooke: *The Economist magazine says that over the past few decades, women in general have contributed more to growth in the world's GDP than either new technology or the emerging economies of China and India. Why don't more people know about the productive power of women?*

Melanne Verveer: Often when we talk about women, it's viewed as a soft topic, not one seriously considered by people making economic and business decisions. Lloyd Blankfein, Chairman and CEO of Goldman Sachs, has made this point—firms want high yields, high returns on their investment. Goldman Sachs concluded that one of the most effective investments they can make is in building capacity for women. They've invested US\$100 million for business training and mentoring programs for women, an

encouraging sign. You've got more data coming out of the business community, but not enough people are acting on this information. Maybe in a time of great economic challenge and crisis, some people whose opinions matter will look at this first principle, that investing in women to drive economic growth is not just the right thing to do, but the smart thing to do as well.

Beth Brooke: *What are the biggest challenges facing developing countries as far as using women more productively? Are the constraints educational, budgetary, cultural?*

Melanne Verveer: All of the above. Women are hamstrung by their inability, in many cases, to access the tools they need: access to credit, an education that builds capacity or the tools of legal and economic reform that enable a woman to participate, as her male counterparts can, in the benefits of economic engagement. In some places, there are barriers that we [in the developed world] can't imagine: not having property rights, for example, or tax considerations that negatively affect women's participation. In too many societies women are still marginalized. All too frequently, laws, regulations and traditions keep women from participating fully in the lives of their societies, including economically. Efforts to address these obstacles are critically important for a country's prosperity. Let it be noted that in no country, no matter how advanced, has women's equality yet been achieved. There is much progress yet to be made.

Beth Brooke: *Studies show that companies with several senior-level women tend to perform better financially. Why might this be?*

Melanne Verveer: A World Bank study showed that investment in women correlates favorably to reductions in corruption. There are lots of positive outcomes associated with investing in women and allowing them to participate in decision-making at the highest levels. How those opportunities get taken advantage of will, in large measure, determine how much economic growth we'll see. △

Diversity: an equation for success

Academic research has established that diverse groups of people tend to outperform homogeneous groups if both groups' members have equal abilities. Perhaps more surprisingly, there is now research showing that under the right conditions, a group of intelligent problem solvers chosen completely at random will likely outperform a homogeneous group of even the best problem solvers.

The randomly chosen group has the advantage of diversity. In business, diversity is historically associated with affirmative action programs and the desire to ensure fairness in hiring. But Scott Page, a professor of complex systems at the University of Michigan at Ann Arbor, has a new take on the issue.

“We may want to encourage even greater functional diversity, given its advantages.”

Page is an economist who builds mathematical models designed to tackle hard questions about complicated systems with lots of interrelated parts: When are free markets likely to fail? What types of groups are likely to make the best decisions, and under what conditions?

Page's recent research centers on the value that diversity brings to groups charged with solving these complex tasks. Conducted along with Lu Hong of Loyola University Chicago, Page's research demonstrates that groups with greater diversity tend to perform better than homogeneous ones, even if the members of the homogeneous groups are more capable. In fact, the diversity of

the group's members matters as much as their ability and brainpower, if not more. Page recently spoke with Ernst & Young about his findings. “The diverse group almost always outperforms the group of the best by a substantial margin,” he says. Accordingly, companies facing a difficult and complex task (such as designing a new product or entering a new market) should consider the makeup of the groups it assigns to solve the problem. “You want diverse minds,” says Page. “You want people who categorize things in diverse ways.”

‘Diversity is strategy’

Page and Hong have condensed this finding into a mathematical formula called the Diversity Prediction Theorem. In its non-mathematical form, it states that Crowd Error equals Average Error minus Diversity. (For the mathematical version, see the equation below). Put another way, the collective ability of any crowd is equal to the average ability of its members, plus the diversity of the group. “This is always true,” Page says. “It isn't a feel-good mantra, it's a mathematical fact.”

Diversity Prediction Theorem

Crowd Error = Average Error - Diversity

$$(c-\theta)^2 = \frac{1}{n} \sum_{i=1}^n (s_i - \theta)^2 - \frac{1}{n} \sum_{i=1}^n (s_i - c)^2$$

For that reason, Page believes that companies and governments should think about diversity not only in the context of human resources, affirmative action and fairness, but also as a way to attain a strategic advantage. “The level of a firm's diversity should be thought of in the same way as you'd think of any other strategic

variable,” he says. “It's not about morality or fairness or doing the right thing; it's not even about hiring smart people. Instead, it's about honing a competitive weapon. Diversity is strategy,” says Page.

To some degree, this has all been captured by folk wisdom or common sense. But the aphorisms contradict each other: “Two heads are better than one” versus “Too many cooks spoil the broth.” Page and Hong have used math to figure out how many cooks are too many—that is, to identify the conditions under which two heads are better than one. First, all of the problem solvers must be smart: they don't need to be geniuses, but they have to be intelligent. Second, they must have diverse ways of perceiving the problem and devising solutions to it. Third, the problem must be difficult (otherwise, it could probably be solved by a single individual).

“In an environment where competition depends on continuous innovation and introduction of new products, firms with organizational forms that take advantage of the power of functional diversity should perform well,” Page and Hong write in an article published in the journal of the US National Academy of Sciences. “We should do more than just exploit our existing diversity. We may want to encourage even greater functional diversity, given its advantages.” Δ

The power of critical mass

There may be no quick fix to the current financial crisis, but a sure-fire, long-term resolution is to advance more women into leadership positions and provide the right environment for new perspectives to be heard. The evidence is clear that doing this improves corporate performance—and the numbers prove it.

“From supporting micro-enterprise in the Global South to ensuring gender parity in the executive suite, investing in women is the smartest economic venture that

A 2007 Catalyst report bears this out. The study, *The Bottom Line: Corporate Performance and Women's Representation on Boards*, found that on average, Fortune 500 companies with more women on their boards of directors turned in better financial performances than those with fewer women board directors. And three's the magic number: performance was notably stronger than average at companies with three or more women board directors. On measures of return on equity, return on sales and return

“When people of different talents, perspectives, and backgrounds are able to thrive in the workplace, when they have equal opportunity to succeed, it's not only individual employees who benefit. Customers benefit, shareholders benefit, and that means businesses benefit.”

Ken Chenault, Chairman and CEO, American Express

the corporate world can undertake,” says The White House Project's Marie Wilson. “Decades of research have proven that adding women to the leadership mix not only begets creative solutions and a focus on long-term results, but also higher profits. Advancing women is more than a powerful tool for advancing communities alone; it is also a critical tool for advancing the bottom line.”

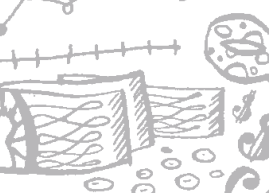
on invested capital, companies with the highest representation of women board directors outperformed those with the least by 53%, 42% and 66%, respectively. At companies with three or more women board directors, return on equity was 16.7%, compared to the average of 11.5%; return on sales was 16.8%, compared to the average of 11.5%; and return on invested capital was 10.9%, compared to





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the average of 6.2%. The correlation between gender diversity on boards and corporate performance also held up across industries, from healthcare to finance to information technology.

The relationship between corporate performance and the presence of women in leadership roles is also well documented in a McKinsey study, *Women matter*, published in October 2007. The McKinsey researchers surveyed 101 large corporations in Europe, America and Asia, across a spectrum of industries. The study showed that companies with three or more women in senior management functions scored higher than companies with no women at the top on nine criteria of organizational

companies with the highest level of gender diversity in top management posts and compared the financial performance of these companies relative to the average for their sector. The companies with gender diversity outperformed their sector in terms of return on equity (11.4% versus an average of 10.3%), operating result (EBIT 11.1% versus 5.8%) and stock price growth (64% versus 47% over the period 2005-07). "These statistically significant studies show that companies with a higher proportion of women on their management committees are also the companies that have the best performance," the researchers note. Δ

"It's in everyone's best interest to bring qualified women into leadership positions, especially now when fresh perspectives are needed. We can no longer afford to set gender boundaries around leadership. The power is in the purse strings: until women are equitably represented in leadership in the private, economic sector, they will be marginalized in every other arena. What's good for women is good for men, business and the global economy."

Ilene H. Lang, President and CEO, Catalyst

excellence: leadership, direction, accountability, coordination and control, innovation, external orientation, capability, motivation, and work environment and values. Performance increased significantly once a certain critical mass was attained—namely, at least three women on management committees for an average membership of ten people. Below this threshold, there was no significant difference in company performance. "Correlation is not necessarily cause, but the correlation between organizational excellence and women's participation in management bodies is nonetheless striking," say the McKinsey researchers.

McKinsey tested its findings by conducting a second study jointly with Amazon Euro Fund. They selected the 89 European listed



Q&A: turning crisis into an opportunity for change

To gain insights into how the current financial crisis creates an opportunity for positive change in women's advancement, Ernst & Young's Beth Brooke spoke with Laura Liswood, Senior Advisor at Goldman Sachs and the co-founder and Secretary General of the Council of Women World Leaders, an organization of current and former women presidents, prime ministers and heads of government.

Beth Brooke: *You've been quoted as saying there's really no glass ceiling blocking women's career prospects, just a "a thick layer of men." What does that mean?*

Laura Liswood: That's meant to be tongue in cheek. The layer is not impermeable, and most of the things pressing down on women and other out-of-power groups are unconscious—I call them "what grandma taught us." They're social constructs and archetypes and perceptions people have, all the things that create who we are and what we think. We get this from peers, school, the news media, even myths and legends of the world.

Beth Brooke: *So the bias against women is largely unconscious?*

Laura Liswood: I rarely use the word "bias." I usually talk about unconscious schemas or archetypes. If you want people to change, you'll find they're more open to hearing about schemas than about "bias," which is a loaded word. Of course, there is some conscious bias as well—for example, laws that constrain women from getting to positions of power.

Beth Brooke: *Is it possible to identify the main obstacles—conscious or not—holding women back?*

Laura Liswood: It's hard to pinpoint the biggest constraints. Looking at the

World Economic Forum's gender gap report, we actually see certain gaps between men and women narrowing within particular countries, but without seeing some of the benefits you'd expect. For example, gaps in education and access to healthcare are closing, but gaps in political or economic power are not. We thought that if we educated girls and women and gave them access to healthcare, the rest would follow. But it hasn't worked out that way. That tells us there is some other link missing. It could be cultural, something having to do with gender stereotyping or access to mentors. We're just not sure.

"We thought that if we educated girls and women and gave them access to healthcare, the rest would follow. But it hasn't worked out that way."

Beth Brooke: *You've said the gender gap is both an equity issue and an efficiency issue. How so?*

Laura Liswood: It's an efficiency issue because countries that fail to optimize their human resources don't get a good return on their investment in human capital. For example, the overall educational level of women is rising, but you're not seeing them go into positions

where they can use their knowledge, so there's no return on that huge investment. Similarly, corporations have diversity programs and spend time and money on women—and then they lose them or don't optimize their assets.

Beth Brooke: *How might the current financial/economic crisis present opportunities to look at women as a resource that can move businesses ahead and spur economic growth?*

Laura Liswood: Iris Bohnet, a professor of public policy at Harvard University's Kennedy School of Government, hypothesizes that failure in gender equity is like a failure of the markets. There's a lack of transparency; there's poor risk modeling (a less diverse group of people can lead to excessive risk taking); and there's irrational behavior resulting in poor return on investments. There may be incentives that reward the wrong behaviors, such as the pursuit of short-term results at the expense of long-term goals. Finally, there's a lack of leadership to monitor the overall system. One could argue that the current crisis does create the opportunity for change. My belief (and I'm quoting Thucydides here) is that people change for three reasons: fear, self-interest or honor. We're in a moment of fear. That presents a definite opening for the possibility of change. Δ

The power of collaboration

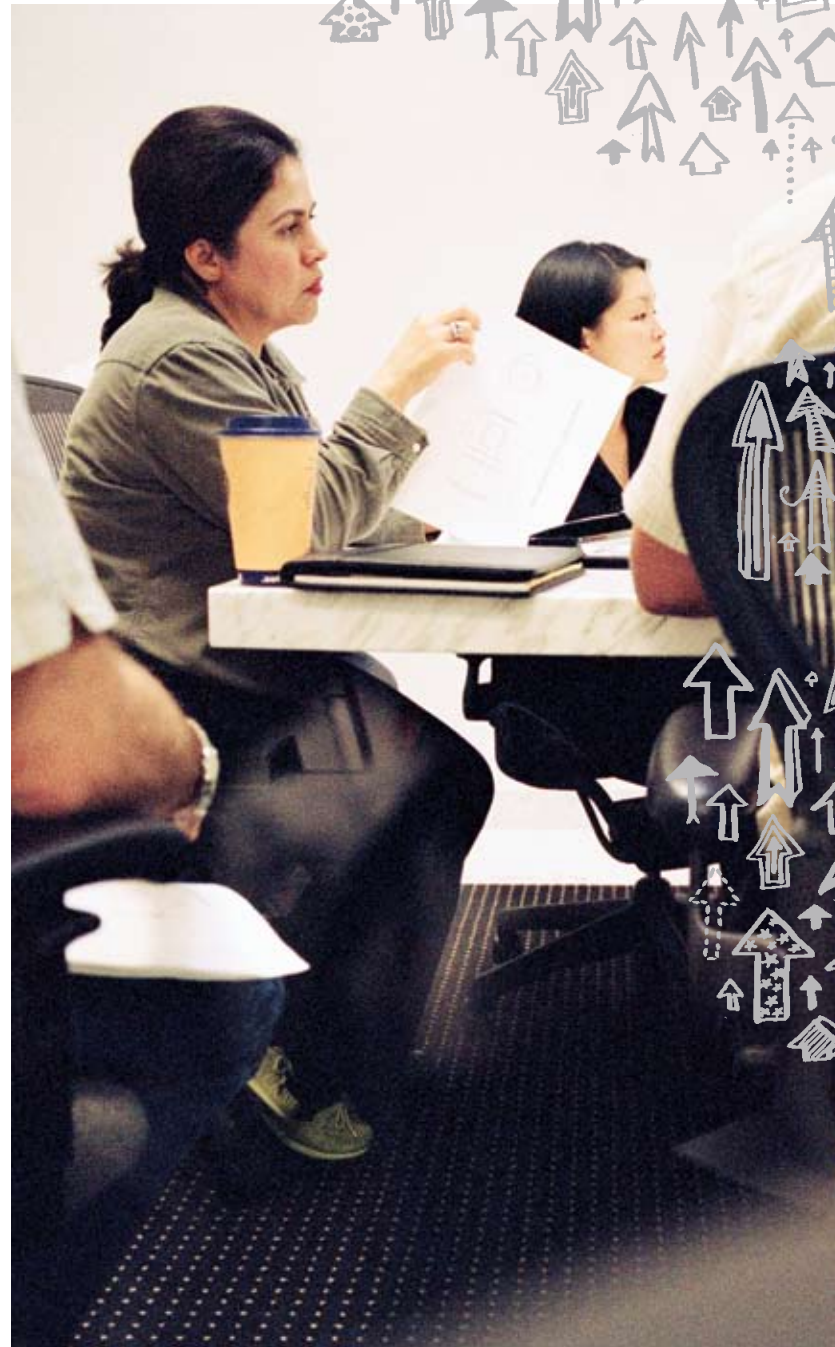
In the late 1990s, Roy Adler, a professor at Pepperdine University (Malibu, Calif.), conducted an extensive 19-year study of 215 Fortune 500 companies, comparing their financial performance during 1980-1998 to industry medians. Titled *Women in the Executive Suite Correlate to High Profits*, Adler's study shows a clear correlation between a strong record of promoting women into the executive suite and high profitability. Three measures of profitability (profits as a percentage of revenues, assets and stockholders' equity) were used to demonstrate that the 25 Fortune 500 firms with the best record of promoting women to high positions were between 18% and 69% more profitable than the median Fortune 500 firms in their industries.

The Conference Board of Canada (CBoC) went a step further when it not only demonstrated a relationship between the

“So often, it takes only one woman to make a difference. If you empower that woman with information, and training, or a microloan, she can lift up her entire family and contribute to the success of her community. Multiply that one woman's impact by a hundred or a thousand, and perhaps a million lives can change.”

Condoleezza Rice, former US Secretary of State

presence of women on boards and financial performance, but also discussed the positive qualities that diversity brings to corporate governance. In its report, *Women on Boards: Not Just the Right Thing...But the Bright Thing*, released in May 2002,





the CBoC described the results of its study of 141 Canadian boards. Notable results were that 94% of boards with three or more women ensured conflict-of-interest guidelines, compared with 68% of all-male boards, and 86% of boards with three or more women established a code of conduct for the organization, compared with 66% of all-male boards. "Divergence in

"Gender and women's empowerment is at the core of what we need to do in the field of development. Gender equality is also smart economics."

Robert B. Zoellick, President, World Bank Group

views – leading to constructive debate behind the boardroom door – encourages diligence in decision-making," the CBoC states. The organization also found that women have staying power. It tracked the financial health of firms with two or more women on their boards in 1995 to see where they stood six years later. It found that firms with women board members were more likely than companies with all-male boards to be leaders in their industry when ranked by revenue or profit.

An ongoing study by Cristian Dezsö at the University of Maryland and David Ross at Columbia University Business School reinforces these results. The study uses Standard & Poor's ExecuComp data on the top 1,500 US firms from 1992 to 2006 to examine the relationship between firm quality as measured by Tobin's Q (the market value of a company divided by the replacement value of its assets) and female participation in senior management below the CEO level and in the CEO position. In the July 2008 edition of the study, called *Girl Power: Female Participation in Top Management and Firm Quality*, the authors assert, "We have found that female participation in top management is strongly associated with firm quality, even after controlling for observable and unobservable, time-invariant firm characteristics and prior levels of firm quality." In addition, they say, women bring a distinctive leadership style that works particularly well when communication and teamwork are called for: "The positive effects of female participation primarily accrue to firms pursuing innovation, where the benefits of fostering collaboration are particularly important." Δ

Time to act

Despite women's proven input on economic growth and corporate performance, countries and businesses have yet to make significant progress toward narrowing the gender gap. That poses a serious risk to the prospects for global long-term growth. But the problem goes deeper. The potential for a disproportionate impact on women from the financial crisis puts the limited progress already made at great risk of backsliding and losing ground as the market turbulence ripples throughout the world.

It is clear that organizations must equip their current and future leaders with the ability to be aware of their own biases and frames of reference, as these so often shape our thinking and the decisions we make. Leaders need to possess the ability to successfully navigate the differences across gender and cultures. They must have the ability to hear and be open to new perspectives and develop strategies from the most diverse talent pool. By doing so, organizations increase their ways of achieving greater profitability.

Although we won't ever know the answer, it's a fair question to ask whether the economic and financial upheaval would have turned out differently if more diverse perspectives had been considered at key decision points. Would the frames of reference that women and other diverse professionals bring to issues have resulted in different discussions about risk, and would different decisions have been reached? Would different strategies have been tried? Would different actions have been taken?

There are no answers to these questions, but they are the right questions to ask. The unanswerable questions beg for a different approach to leadership going forward. The undeniable body of evidence in favor of women's empowerment presents a powerful case for building more inclusive leadership and more inclusive societies.

"All over the world we now have explicit consensus about the tragedy of ignoring the untapped resources of half the world's population," says Mahzarin Banaji, a Harvard University psychology professor who relates her work on human mental systems to theories of individual responsibility and social justice. "Why then is the situation still unresolved? It is because we do not have recognition that the problem lies in our own minds, that

as we make big and small decisions every day, we systematically ignore the potential and talents of women. Recognizing our own unconscious bias in this regard, testing it to prove to ourselves that we have it, and acting on the knowledge that we are each part of the problem is the way for us to be part of the solution."

Banaji, a leading researcher of implicit and explicit prejudices, believes that standard intelligence tests detect only certain kinds of intelligence—making it possible that many of the distinctive talents and capacities that women bring to the table are being overlooked. "It is clear that intelligence comes in myriad forms, not one," she says. "Perhaps because men were the creators of intelligence tests, the measures of intelligence were naturally more in tune with what they had themselves achieved and valued." Referring to the work of University of Michigan scientist Scott Page, whose recent research shows that diverse groups outperform homogeneous ones on complex tasks, Banaji speculates that the diverse groups perform better because "something that is not yet measurable as a form of talent and that the diverse team has isn't being picked up by standard tests."

This is something that businesses can turn to their advantage, Banaji adds. "If we are smart, we will ask, to what extent can we use such studies to motivate us to imagine alternative ways of detecting talent when talent comes in the bodies and minds of people who have never previously been associated with talent and power as we imagine it? Although there are so many categories to look at, for sheer size, we have to look at women and ask in what ways the intelligence they have, especially the kind that may not fit our standard notions of talent, is being missed. At our own peril."

At a time when our global economy is facing its greatest challenge in decades, we have to capitalize on the contributions women can make. While many corporations and governments have for years been making efforts to tap the hidden potential of women—and many have launched laudable initiatives to do so—now is the time to accelerate those efforts. It's time to place renewed emphasis on women as a resource to move businesses and economies ahead. The learning that comes from a crisis is a terrible thing to waste. Δ



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