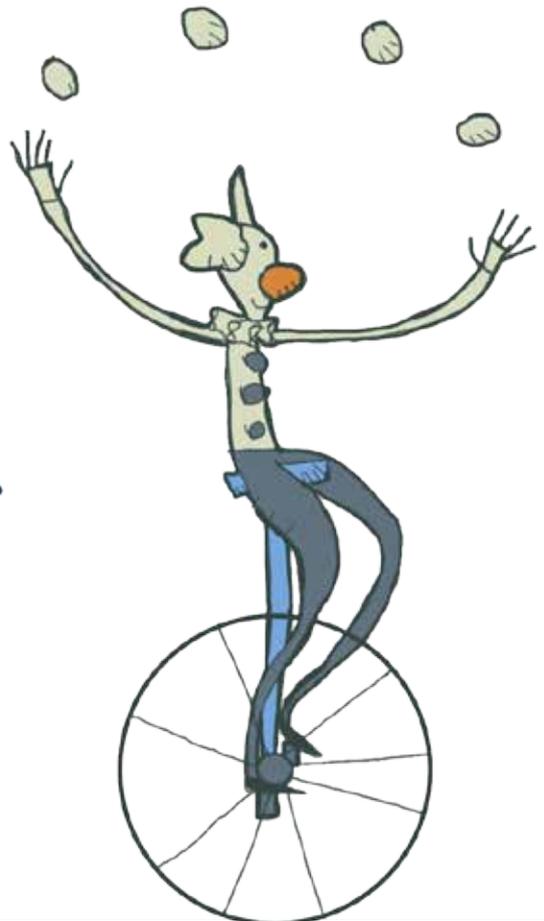
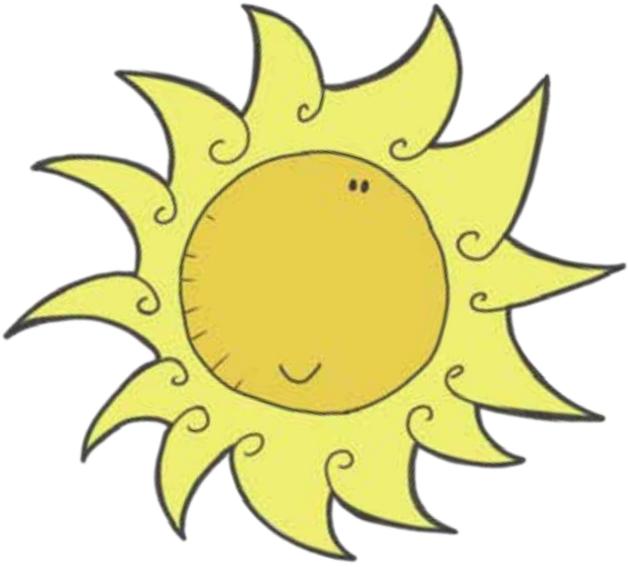


GIRLS ALLOWED

How a renewed focus on culture
can break the diversity stalemate.





EXECUTIVE SUMMARY

The argument is clear: 'More women in business equals better business'. The link between financial performance and gender diversity has been researched and reported on over the last decade and is now widely acknowledged to be a simple truth.

At the same time, however, high-profile attempts to accelerate women up the organisational ladder have had only a minor impact on diversity statistics. Shell became the latest corporate giant to admit the topic 'needed a little bit more time' when non-executive chairman Jorma Ollila said the company was still searching for "females who really have the ability to contribute" to the board.

So we asked the question: "are we missing something here?"

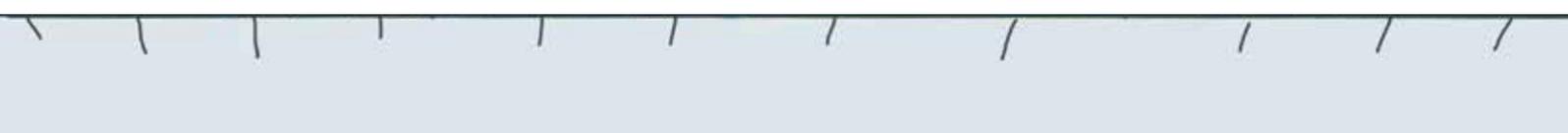
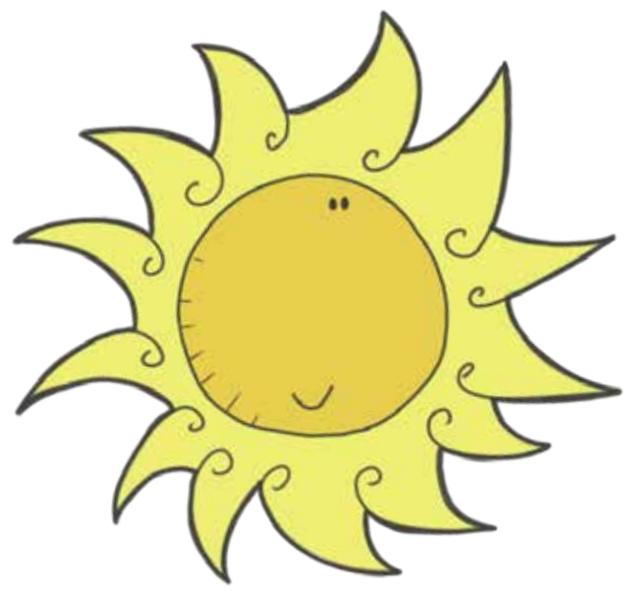
In a nutshell, the answer our research led us to is 'culture'.

Organisational culture has been largely overlooked in the gender diversity debate. Research shows that a high-performance culture is critical to success, yet certain cultural conditions – such as long hours and a lack of flexible working – have been identified as barriers to greater diversity. Organisations may employ programmatic interventions to address these challenges, but the problems are often created by an ingrained workplace environment.

Studying the performance and workforce equality of 50 leading organisations, we asked, "what is the relationship between high-performance cultures, the number of women on executive teams and the gender diversity challenge? Are high-performance cultures and gender diversity mutually exclusive?"

Our findings indicate that:

1. a high-performance culture is more likely to exist when there is gender diversity at the most senior level
2. organisations with the strongest cultural and financial performance also have the highest proportion of women on their executive boards
3. high performance cultures could hold the key to creating the conditions for women to be more willing and able to rise to the top in organisations.



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GIRLS ALLOWED

Robert, the Head of Talent, has invested thousands of pounds and hundreds of hours in programmatic interventions to crack his organisation's gender diversity challenge. The combination is a familiar one: leadership programmes designed to move women through the business and into more senior positions, flexible working benefits to allow for work-life balance and targeted interventions designed to make things easier for women to progress in their careers. However, the outcome is also familiar. This combination of measures has an effect but the result falls way short of the ambition.

So despite hundreds of 'Roberts' across the world seemingly doing all the right things and ticking all the right boxes, why are organisations only a small way up the road to cracking the problem?

Despite incentives, diversity is happening too slowly

More women in business means better business

A great deal of research has focused on the link between gender diversity and its positive impact on business performance. In particular, a significant relationship has been established between the presence of women on boards and a stronger financial performance.

One prominent piece of research (Credit Suisse Research Institute, 2012) found that, with respect to rises in stock price, organisations with at least one woman on the board outperformed boards consisting of only men by 26% over the course of a six-year period.

In our recent exploration of culture, gender and performance, we also found a positive correlation between a broader measure of total shareholder return (TSR) and the presence of women on the board.

The pace of change is insufficient

Despite this evidence, a 2011 report into the representation of women at board level in the UK identified that "at the current rate of change it will take over 70 years to achieve gender-balanced boardrooms in the UK".

Data shows that 46% of UK companies listed on the FTSE All Share Index have no women on the board. This picture is not vastly different in other markets: 15% of North American companies in the FTSE All World Developed Index have no women on the board and in the Asia Pacific region the figure is 73%.

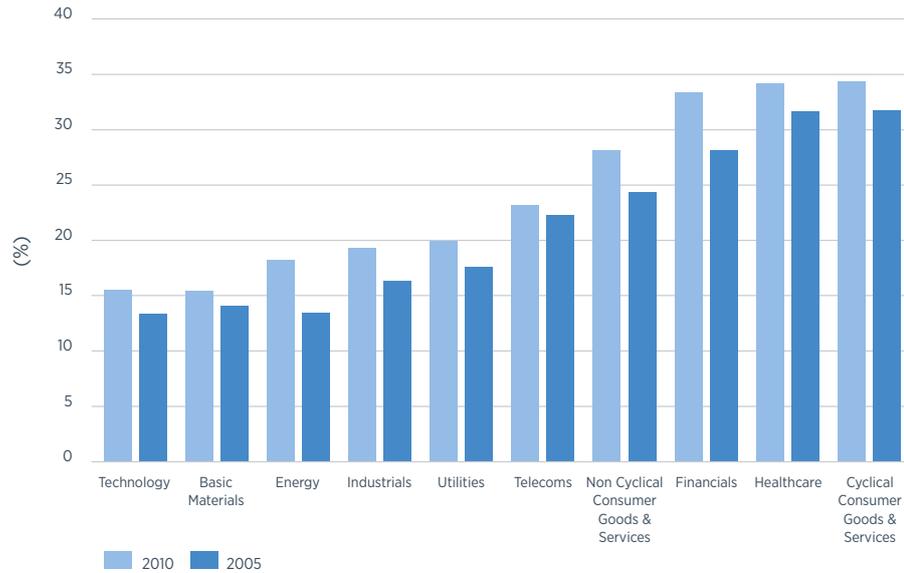
The general consensus appears to be that these participation rates are unacceptable and that the rate of progress is too slow.

Looking at wider female participation at management levels does not improve the picture, with five-year data showing only marginal improvements across most sectors (see Figure 1).

FIGURE 1

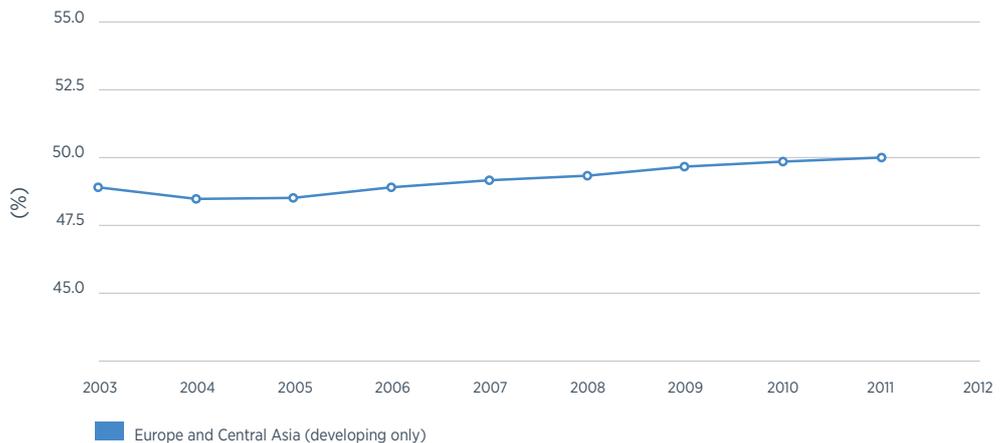
Labour participation rate
(% of female population
ages 15+)

Source: The World Bank

**FIGURE 2**

Average of women
managers as a percentage
of total management.

Source: Thomson Reuters



Corporate initiatives to improve the mix have failed

Most organisations would admit that they have not made the progress they would like in terms of shifting the gender mix at senior levels. This is despite the range of diversity programmes which have been implemented by many progressive organisations – programmes such as development to improve the ‘unconscious bias’ of senior leaders, flexible working, mentoring, networking events and targeted recruitment initiatives.

In May 2013, Shell became the latest corporate giant to admit the topic ‘needed a little bit more time’ with non-executive chairman Jorma Ollila indicating that the company planned to appoint more women over the upcoming 12 months but was still searching for “females who really have the ability to contribute” to the board.

Pressure to change is growing, and so is the challenge

The European Justice Commissioner recently launched a public consultation to generate proposals to increase the percentage and pace of women’s participation at senior levels. And this comes just over a year after Lord Davies published a UK government-backed report that set a target for a minimum of 25% female board representation in FTSE-100 companies by 2015.

Assuming this trend continues, the pressure from women to be equally represented at senior levels will grow, amplifying the need for organisations to make noticeable progress on their gender diversity (see Figure 2).

Previous research has underestimated the importance of culture

Joining the dots between gender mix, performance and culture

A number of sources have identified the barrier that organisational culture – the ways of working, behaviour, and values in an organisation – can pose to diversity. This was addressed in an evidence paper by the Women's Business Council (Maximising women's contribution to economic growth), which discussed the impact of certain behaviours and practices, eg how a long-hours culture and the availability of flexible working in senior positions impacts on a woman's aspirations and personal career choice, which in turn affects the pipeline. The link was reiterated by the Confederation of British Industry, the Legal Services Board in England and Wales, and in RSA's UK survey.

At the same time, research has shown that organisational culture is critical to success. In particular, research shows the importance of a high-performance culture, which we define as one where employees, shareholder and leadership objectives are achieved, where the measurements of the business are evaluated with these objectives in mind, and where a continuum of achievement is the overarching culture of the business.

Heskett and Kotter (1992), for example, found that firms with an embedded high-performance culture were shown to have increased revenues by an average of 682%, compared to 166% in other firms. Denison Consulting (2006) showed that firms with very high cultural scores on the Denison model of Organizational Culture © have demonstrated a return on equity that is 15% higher than the lowest scorers. De Waal (2008) found that organisations with high-performance cultures were 29% more profitable and have 20% higher returns on investments. And the Work Foundation (2008) found that the top third of firms ranked using the Company Performance Index, which measures strategic effectiveness translated through 'intangible' factors including culture and employee relations, outperformed the bottom two thirds by £1,600 per worker per annum.

It is surprising that no one has yet connected the dots between the different areas of research mentioned above and found the link between an organisation's performance and culture, its gender diversity, and its financial performance.

THE MISSING LINK BETWEEN CULTURE, DIVERSITY AND PERFORMANCE.

What we found

Our research establishes a clear relationship between organisations with strong financial performance, a higher percentage of women in executive leadership teams and a high-performance culture.

It is difficult to say which came first: was the high-performance culture more attractive to senior women, thereby driving better financial performance; or did the presence of senior women help to create the high-performance culture?

Our data is inconclusive on this point – but conclusive on the existence of a ‘virtuous circle’: culture, gender diversity and performance are inherently linked and the message to organisations appears to be ‘ignore the cultural element of the diversity puzzle at your peril’ (see Figure 3).

In this section, we will outline the approach that led us to this conclusion and then discuss each of the three elements of our virtuous circle in turn.

Our approach

Much of the previous research which has dealt with the issues of performance and gender diversity could have been enhanced by:

- providing a more robust commercial conclusion by separating firms in the not-for-profit organisations from the mix
- being clearer about the actual proportion and weighting of different organisations in the sample
- providing insight into the senior position that makes the performance difference. Most current research provides an overgeneralised mix of women’s roles such as ‘on governing bodies’, ‘at the top’, ‘in the senior management functions’, ‘in management bodies’ and ‘in the higher echelons’. It is the executive committee that is accountable for the business, and this is where the gender balance is crucial.

FIGURE 3

The virtuous circle: culture, gender diversity and performance



To address this gap, our research explores the relationship between gender diversity, culture and performance. In conducting research, we have collaborated with Denison Consulting, a leading consulting firm in the area of culture diagnostics. We also set the following parameters:

- we defined our financial criteria for performance as TSR, the percentage change in the value of an investment in the shares of a company from Year 0 to Year 5 when dividends are reinvested in those shares. Interestingly, this study uses TSR data obtained for organisations over the period 1 January 2007 to 31 December 2012. This range covers the global financial crisis, and we know from research on the ‘glass cliff’ effect that women are more likely to be put in leadership positions when there is a greater risk of failure and criticism. Similar caveats have been raised in previous research eg in the Credit Suisse (2012) report which also highlighted that gender diversity on boards tended to improve when markets were failing. It is therefore possible to assume that the proportion of women on executive leadership teams in some of the organisations may be influenced by this particular phenomenon.
- we have defined the ‘top’ as membership of the executive leadership team of the organisation. This is important, as our definition generally excludes non-executive directors and focuses on those roles which have real executive power. We feel that non-executive numbers are misleading in determining the influence women have on business decisions (although a higher number of women in non-executive roles does improve board function and governance). It is the impact of women in executive roles that really changes the culture and creates the pipeline.
- we define high-performance cultures as those where employee, shareholder and leadership objectives are achieved; where the measurements of the business are evaluated with these objectives in mind; and where a continuum of achievement is the overarching culture of the business.
- our sample is exclusively made up of 50 private sector companies which are publicly listed, with global headquarters in the UK and North America.
- our analysis of organisational culture was based on the substantial database of Denison Consulting, whose cultural tools are widely acknowledged to have strong links to organisational performance outcomes.

At the heart of an organisation’s culture lie the ‘beliefs and assumptions’ the organisation holds. These beliefs and assumptions are the deeply held aspects of an organisation’s identity – and they can be measured. They also drive the behaviour in the organisation which, in turn, creates the organisation’s culture. This is illustrated in Figure 4.

We asked organisations to respond to 60 questions which tap into the behaviours that are driven by their beliefs and assumptions. These 60 questions are clustered under four traits:

- **Mission:** Do we know where we are going?
- **Adaptability:** Are we responding to the market place and the change challenge of the external environment?
- **Involvement:** Are our people aligned and engaged?
- **Consistency:** Do we have the values, systems and processes in place to support performance?

FIGURE 4

Denison Consulting's model of organisational culture

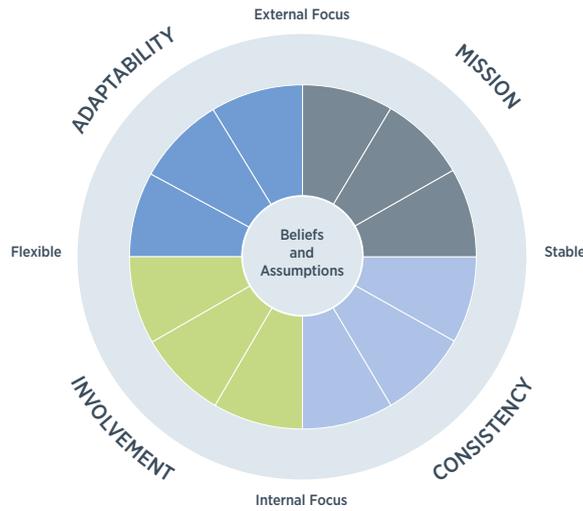
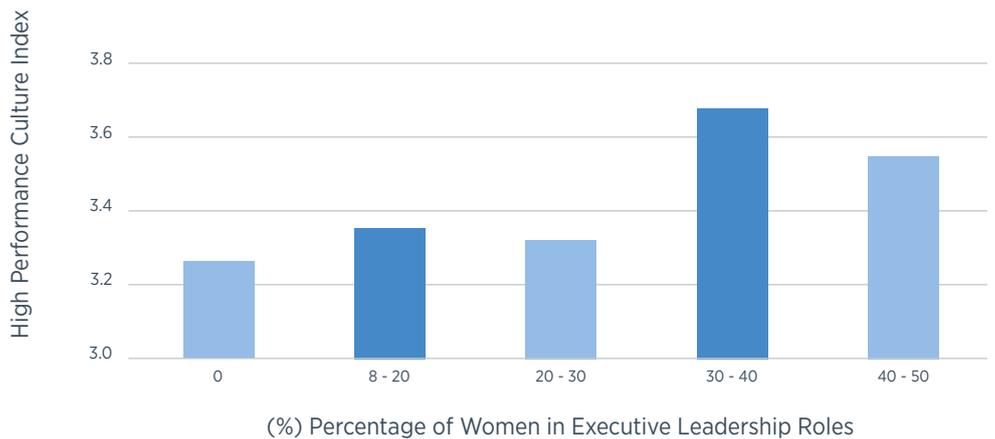


FIGURE 5

The relationship between the percentage of women in executive leadership roles and high-performance cultures.



The virtuous circle: culture, diversity and performance

Organisational culture and the proportion of women on executive leadership teams

The first insight to emerge from the data (and to support our virtuous circle) was a direct correlation between the number of women in executive leadership roles and the presence of a high-performance culture. Once the overall culture scores against the 60 culture measures in the Denison model were correlated against the proportion of women on executive leadership teams, a positive correlation of 0.34 was obtained.

The graph below further supports this; illustrating that organisations with women on their executive leadership teams show a stronger rating against the Denison index of a high-performance culture than those without (see Figure 5).

The key differentiator between those organisations with high scores on the culture index was their rating on the extent to which they have a clearly defined mission. Given these organisations also have a higher percentage of women in executive leadership roles, this suggests that the presence of a clear mission and purpose is a critical factor in engaging senior women.

FIGURE 6

The impact of having women in executive leadership roles on performance.

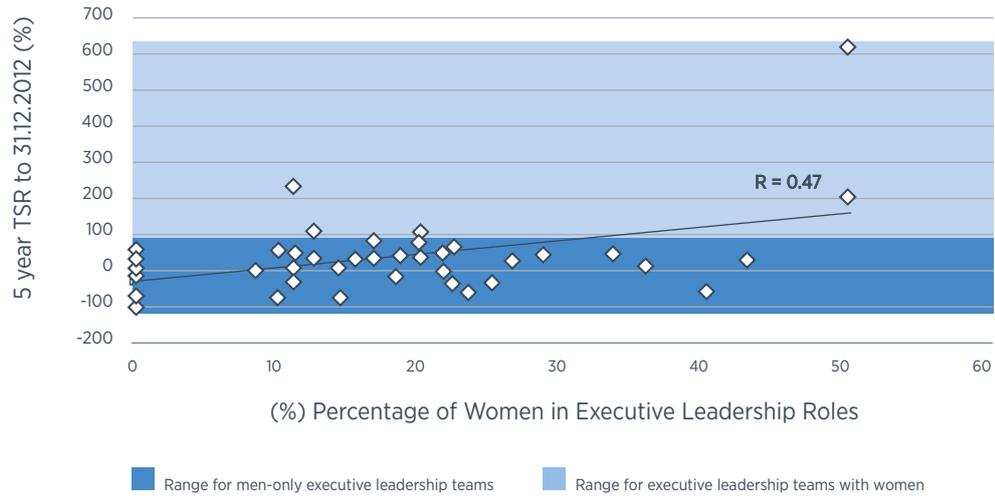


FIGURE 7

The impact of having women in executive roles on culture

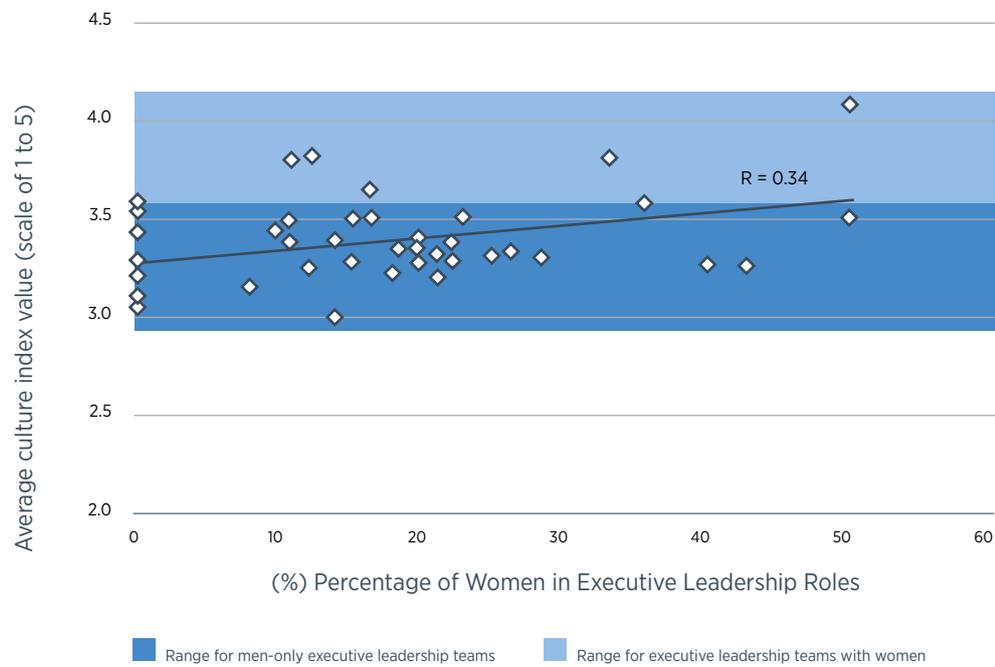
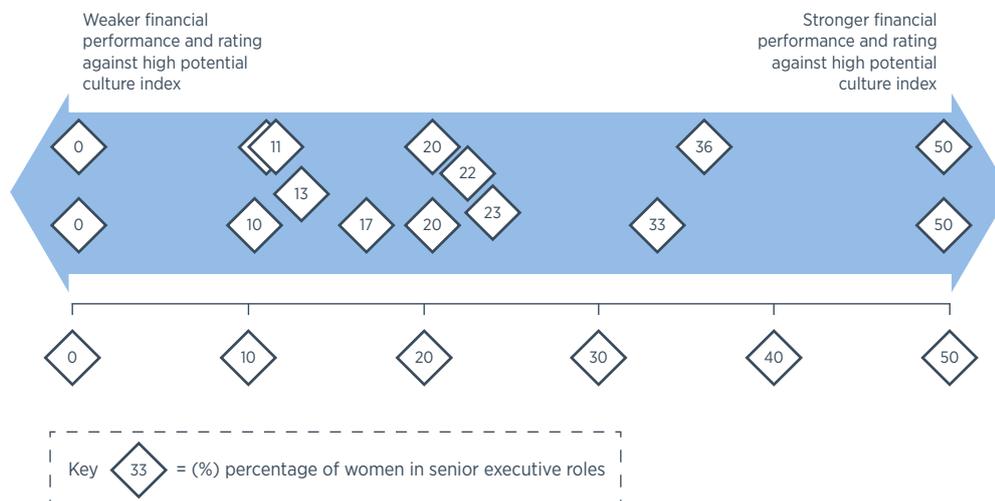


FIGURE 8

The relationship between culture, financial performance and gender diversity.



The presence of women on executive leadership teams and consistently high-performance

Unsurprisingly, our analysis found that some organisations that did not have women on their executive leadership teams had good financial performance and culture scores similar to those with women on their executive leadership team. However, what was noteworthy was the range in which these performance and culture scores fell.

The graphs on the previous page illustrate the range and spread of organisations with women on executive leadership teams, and those that only have men on those boards. What is interesting here is the difference between the spread of the range. Where there is a female presence on executive leadership teams, there are a few instances where organisations have been able to generate a TSR of up to 600%, while the maximum TSR generation for organisations with men-only boards is under 100% (see Figure 6 overleaf).

Similarly, the graph on culture illustrates that some executive leadership teams with a proportion of women present have a maximum culture score of 4, while those with men-only boards have a maximum culture score of 3.5 (see Figure 7 overleaf).

We recognise that the majority of the organisations fall within the same range as those with men-only executive leadership teams. What this suggests is that performance increases as women are present on executive

leadership teams. These 50 organisations demonstrate that the presence of women in senior positions only serves to increase the organisation's culture and performance.

The link between gender diversity, performance and culture

So what about our virtuous circle?

In order to understand whether there was a relationship between the three elements of our virtuous circle, we isolated the data from the top 15 organisations (as measured by their ranking on the high-performing culture index and their TSR result) and overlaid the percentage of women in senior executive roles.

As Figure 8 on the previous page shows, the organisations with the strongest performance as measured by both cultural and financial indicators also have the highest proportion of women on their executive leadership teams.

In fact, the organisation that came top in both performance and culture had the greatest proportion of women (50%) on their executive leadership team. Our analysis found that this particular organisation performed best at communicating their core values, strategic direction and organisation goals over and above the other culture criteria.

Noticeably, there were only two organisations without any women on their executive leadership teams. Interestingly, these two firms sat in the bottom five positions of both the culture and performance measures.

Is it too late to change your culture?

Drive and release

So can you impact your organisation's culture, even when it is deeply ingrained?

Our experience says that you can. Through measurement of your current ways of working, behaviour and values and by harnessing the two forces of 'drive and release', an organisation can re-shape its culture. The 'drive' force is all about understanding the ways of working (processes, rules, structure and accountabilities) that may be limiting the kind of organisation you want to be. In order to 'release' change, organisations need to help leaders to role model any change in behaviour necessary to signal that things are different. They also need to engage with the wider population and, through dialogue, build commitment to the new ways of working. In practice, to create the type of high-performance culture that this research suggests will support the diversity agenda, organisations need to measure how they stack up against the high-performance culture indicators, diagnose where the change needs to occur (is it mission? Or is it consistency around performance?) and use the forces of 'drive and release' to enable the necessary change.

PA's model of driving and releasing culture change

'Buying' female talent is not the best option.

It is very tempting to think that the quickest solution to the challenge of raising the percentage of senior female leaders is to 'buy' the talent from outside. Although this might seem like an immediate solution to the problem, our research shows that those organisations with a higher percentage of internal appointments within their executive committee demonstrate a much higher total shareholder return. So the injection of external female talent may solve the short-term problem but may not drive sustained performance over time (see Figure 9).

With culture being such a strong driver of high-performance, it is also likely that those individuals who have worked within an organisation at more junior levels may be more likely to know 'how things work around here' and help to reinforce positive cultural norms (see Figure 10).

FIGURE 9

PA's model of driving and releasing culture change

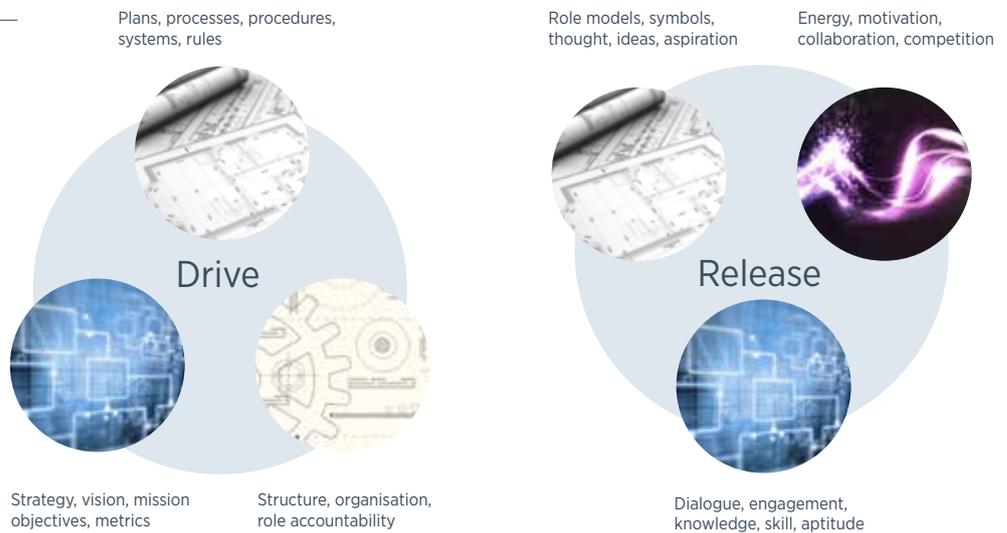
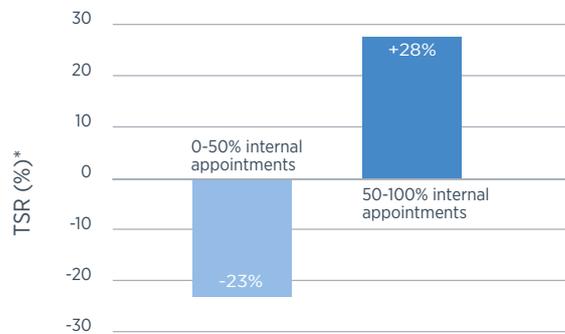


FIGURE 10

The impact of internal appointments on performance



* Total Shareholder Return (TSR) is defined as the percentage change in the value of an investment in the shares of a company from Year 0 to Year 5 when dividends are reinvested in those shares.

SO WHAT DO WE RECOMMEND?

The insights from our analysis are quite striking and lead us to suggest some clear recommendations for diversity in executive leadership teams.

Start with the organisation's culture

Based on our findings, we believe that diversity needs to be embraced from a cultural perspective first, rather than focusing efforts on programmatic interventions.

This may mean fundamentally reviewing an organisation's current operating model, the culture this model drives and – particularly – the clarity of the mission and purpose of the organisation. Without a grass-roots review of the culture and behaviour in the organisation, any programmatic interventions will only shift the gender diversity so far. This goes beyond the level of personal behaviour change often tackled through programmes on 'unconscious bias' and speaks more to the systemic cultural patterns of behaviour and reward that might be the direct opposite of those indicators of a high-performance culture. For example, an organisation with an operating model based on the notion of individual success driving collective organisation performance and with a reward system that benefits individual effort will struggle to score well on the high-performance indicator of consistency. In this environment, no amount of 'unconscious bias' training will enable the accelerated development of female talent who achieve good results through collaboration, if their male colleagues dominate the 'performance league table' through single-minded individual achievement.

The 'value chain' that should be in place to achieve the change needed, therefore looks like Figure 11.

Focus on building talent from within – and this means challenging roles

Our research has demonstrated that there are only positive upsides to getting more women into leading executive roles. Women enter the white-collar workforce in greater numbers than men and make up 49% of the entire employee population. However, representation drops as we move up the ranks with only 13.3% representation of FTSE250 board members (The Female FTSE Index, 2013).

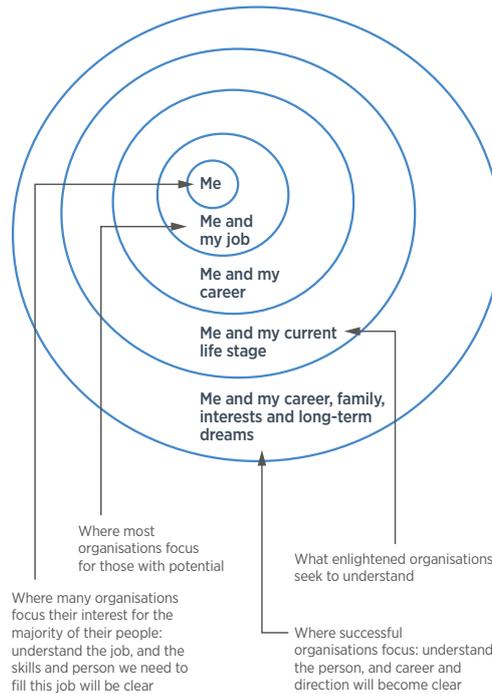
This suggests that the lack of diversity should be rooted out on the road to executive leadership as well as within the executive leadership team itself. To support this, there should be a clear career path for top talent, male or female, to reach executive leadership teams. In practice, this means ensuring the next challenging role is visible and achievable, rather than vague and distant. It also means the experience and skills needed to reach the top are clearly articulated and transparent.

An integrated talent strategy which covers all the elements of talent attraction, identification, development and deployment, and that focuses on how to ensure female talent is given the challenging opportunities necessary to navigate the career path within organisations, is also key.

FIGURE 11
The diversity 'value chain'.



FIGURE 12
What organisations understand about their people.



Challenge the language of merit

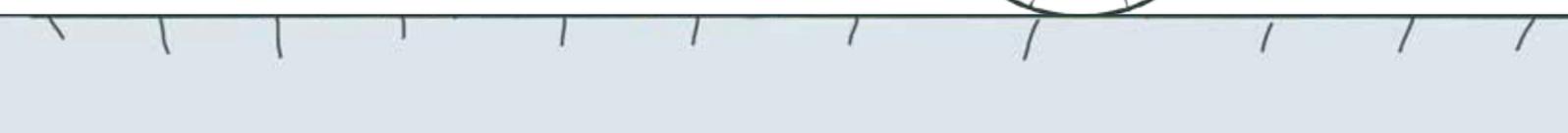
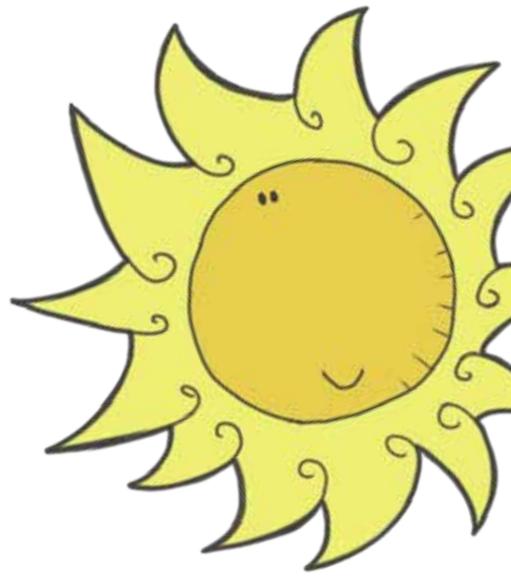
Organisations all too frequently retire to the safety of the 'merit' argument when excusing themselves for not having gender diversity at the top of their organisation. The findings in our research challenge this view head on – in the 50 organisations we looked at, there is no proof that women in executive leadership teams derails an executive committee. In fact, we have illustrated that, in some instances, there are positive benefits to having women at the executive levels. We therefore question the merit in keeping women out of senior leadership positions.

Look to the future

Our findings show that there is a relationship between how clearly an organisation can articulate its mission and purpose and the percentage of women in executive roles. Understanding what the next generation of female leaders truly want from their relationship with the organisation will provide a key to the long-term engagement of the best female talent. In practice, this means not being distracted by the noise around 'typical' generation X and Y wants and needs, and instead truly getting to know your female talent of the future in the broadest sense (see Figure 12).

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