

SHL.

Leadership Diversity:

A New Approach to the Gender Gap

Whitepaper

## **Executive Summary**

SHL conducted one of the largest and most comprehensive studies, creating a data driven framework to predict leader success in today's work environment. Our approach matches leaders to the contextual challenges of a role and helps drive performance. Improved prediction provides higher levels of performance from selected leaders and reduces the risk of leaders failing when placed in new situations. It also helps target leader development by focusing on context in which a leader may not naturally succeed or preparation for a particular role that fit current capabilities. This approach both strengthens the leadership and diversity pipeline, in terms of capabilities in different situations and demographic diversity.

Research shows that stereotypes influence perceptions of leader effectiveness and good leader sterotypes tend to focus on male-oriented characteristics. This makes unconscious biases likely against female leaders. One of the best approaches to address unconscious biases is to remove the subjective element from evaluations by using a data-driven approach based on assessments and context-specific algorithms.

Beyond reducing subjectivity, however, the leader attributes measured do not create a disadvantage for any protected gender or racial/ ethnic groups. In fact, women tend to have higher scores than men on scales that were most often positively related to within-challenge performance and lower scores than men on scales that were usually negatively related to within-challenge performance. The pattern of mean scores translated to a distinct advantage on the challenge-specific leadership solutions, as women ended to score higher than men on 21 of the 27 challenges.

Understanding different types of individuals can be successful depending on the context provides a more diverse set of candidates when making leader selection and development decisions. Traditional leadership strategies assume the same characteristics and competencies are needed throughout the organization, but focusing on a generic competency profile diverts attention away from individuals who possess diverse experiences, perspectives, and backgrounds. At the extreme, this practice inadvertently reinforces bias in decisions and results in leadership teams composed of people who sound and look the same. Shifting the focus

to context-specific prediction not only optimizes the fit between leaders and their context to drive better performance, but also increases the possibility that more diverse leader profiles will be considered for key positions.



## The Challenges Facing Leaders

Because of constant change and increasing complexity of the work environment, demands on leaders have increased in recent years. As the demands on leaders mount, leader performance suffers. Recent leadership research indicates that nearly half of all leaders who move into new roles fail to meet their objectives, and two-thirds are not adapting quickly enough to meet their business and strategic goals. Moreover, although 77% of leaders are effective at accomplishing their individual objectives, only 12% effectively contribute to and leverage the performance of other units or teams.

As a result of these changes, confidence in rising leaders has gone from bad to worse. In 2016, only 13% of organizations reported having a strong leadership bench (down from 17% in 2013), and senior leaders reported that nearly 75% of their business units do not have leaders in place who are prepared to handle the future needs of the organization. Not surprisingly, organizations with weak leadership benches tend to hire more external candidates for leadership positions who, unfortunately, are more expensive, slower to onramp, and more likely to fail.

We suggest four root causes of this failure of leadership management in many organizations. First, typical leader models assume stability and generalizability across situations, but the current level of volatility and uncertainty in the workplace is unprecedented. In 2015, a record 91% of organizations reported going through a major organizational change (i.e., significant restructuring, M&A, or senior leader transition), and 73% of executives expected that the frequency of change would continue to increase.vi

Second, one-size-fits-all competencies do not work to identify and develop successful leaders. Leadership programs tend to be predicated on a belief that a stable set of leadership capabilities will enable leaders to become "agile" and perform effectively in any leadership role. Most organizations capture and communicate these leadership capabilities through leadership models, which identify the competencies and other attributes that serve as the foundation for managing their leader talent. According to prior research, however, most successful leaders excel at a few specific capabilities rather than being effective across the board. In addition, 72% of HR

leaders report that stakeholders do not believe current leader success criteria are relevant predictors of potential for future leadership requirements.vii

Third, current succession activities fail to provide a diverse enough bench in terms of both variety in capabilities to handle different situations and demographic diversity. According to a recent survey of organizations' programs for high potential leaders, 74% of organizations have a lower percentage of women in the high potential pool than in the general workforce.

Finally, reliance on human judgment versus data yields succession failures. A great deal of information is required to make good decisions on leader placement, and it is too complex for people to easily process. Organizations must move beyond instinct and intuition when identifying and placing leaders into key roles; otherwise, they face unnecessary risks, increased leader failure, and a threat to diversity by perpetuating implicit biases. Instead of intuition, organizations should rely on precise, data-driven predictions of which leaders will succeed in handling current and future leadership challenges and evidence-based development plans for preparing for and enhancing performance.

<sup>&</sup>lt;sup>1</sup> Gartner 2012 High-Impact Leadership Transitions Research Report.

Gartner 2016 Q4 Executive Guidance: Driving Performance in Volatile Markets.

iii Gartner 2015 Creating Enterprise Leaders.

<sup>&</sup>lt;sup>™</sup> Gartner 2013 Succession Management Survey.

<sup>√</sup> Ibid.

vi Gartner 2016.

vii Gartner 2016 HIPO Study.

viii Ibid.

#### The Power of Context

To explore the drivers of leader effectiveness in today's more interconnected and collaborative work environment, we conducted a large-scale, three-year research study across multiple organizations. The purpose of this study was to enhance our ability to predict leader performance by investigating how the context the leader is in influences the relationship between the leader's individual characteristics and how he or she performs on the job. Context can be thought of as any aspect of the work environment that could influence the occurrence of behavior in an organization or the relationships between variables, like certain job requirements, team composition, or organizational climate. We expected that the prediction of leader performance would be enhanced by incorporating context because different leader characteristics are relevant to performance in different contexts. This research allowed us to identify which contexts matter when predicting performance and how relationships between leader characteristics and leader performance change depending on the context.

Based on this research, creating a data driven

framework to predict is key to success in today's work environment. Our approach matches leaders to the contextual challenges of a role and helps drive performance. Improved prediction provides higher levels of performance from selected leaders and reduces the risk of leaders failing when placed in new situations. It also helps target leader development by focusing on context in which a leader may not naturally succeed or preparation for a particular role that fit current capabilities. This approach both strengthens the leadership and diversity pipeline, in terms of capabilities in different situations and demographic diversity.

#### **Levels of Leadership Context**



#### **Leadership Validation Study**

Between 2014 and 2016, SHL conducted the largest validation study of its type to define a taxonomy of organizational context factors and investigate its usefulness in understanding leader performance. The SHL and Gartner 2016 Leadership Validation Study (LVS) included nearly 8,700 leaders, 5,900 supervisors, and over 33,000 direct reports from 85 companies representing more than 25 industries globally. Data were collected from leaders at all levels of the organization – from front-line managers to chief executives – on their personalities, work experiences, opinions, and work priorities. Leader performance was measured with a multisource performance rating instrument completed by each leader's supervisor and direct reports.

#### The Power of Context

All participants also completed surveys that were used to define the leader's broad work context. For example, leaders completed a survey to identify the most important aspects of their unique roles. Supervisors completed an opinion survey measuring business priorities and different aspects of the organizational culture. Direct reports completed an opinion survey measuring team functioning and characteristics. We created numerous context variables from these data that describe the unique work environment for any particular leader at the role, team, and organization level. Role-level contexts include aspects of the leader's job that often differ from role to role (e.g., the extent to which designing and driving new strategies is important to the job). Team-level contexts include the dynamics and makeup of the team, such as the need to transform a team with a high-conflict culture. Organization-level contexts include the business priorities and culture of the organization (e.g., the extent to which growing the business through innovation is a priority).

Most of the survey-based context variables can be thought of as representing challenges that leaders face as part of their jobs. These are the aspects of a leadership position that make it unique and that must be handled successfully in order for the leader to be considered successful in the role. Therefore, we refer to the context variables associated with Leader Edge as contextual leadership challenges, or just challenges.

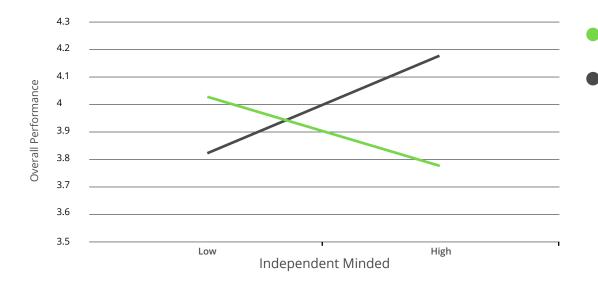
We found that taking context into account brings increased precision in measurement. Leader success is greatly influenced by contextual leadership challenges, in that the leader attributes that predict leader success depend on the contextual challenges faced by the leader. Predicting leader performance within contexts gave us three times better prediction on average than was possible when we did not incorporate context. For example, we found that the leader attribute Independent Minded predicts leader performance in opposite directions depending on the level of importance placed on creating an environment that consistently yields creative and innovative ideas, products, or services from team members. When driving creativity is important, more independent-minded leaders tend to

be seen as better performers. When driving creativity is less important, going along with the crowd tends to lead to perceptions of better performance.





### **The Power of Context**



We also found that developmental experiences can help compensate for a lack of leader attributes that would predict success in a challenge. This means someone who isn't a natural fit for a challenge could still be successful by gaining experience relevant to the challenge. Of course, the greatest likelihood of success and the least risk of failure comes when a leader's attributes and experience match well with the challenges they will face.

Low Creative Context

High Creative Context

## The Importance of Diversity

Diversity is an extremely important concept in HR and leadership these days. A number of studies have shown that organizations with diverse cultures realize benefits not shared by their less-diverse peers. A study by McKinsey and Company<sup>ix</sup> looked at the relationship between organizational diversity level (as defined by a greater share of women and racial/ethnic minorities in their leadership) and company financial performance across hundreds of organizations and came to the following conclusions:

Companies in the top quartile for gender diversity were 15% more likely to have financial returns above their national industry median.

Companies in the top quartile for ethnic diversity were 35% more likely to have financial returns above their national industry median.

Companies in the bottom quartile for both gender and ethnic diversity were 25% more likely to underperform than companies in the other three quartiles combined.

In another study examining the relationship between workforce diversity and business performance, Herring<sup>x</sup> found that racial diversity was correlated with sales revenue, number of customers, market share, and relative profits. Gender diversity was correlated with sales revenue, number of customers, and relative profits.

Organizational diversity is related to more trusting climates, especially when the environment is seen as more inclusive, which leads to greater employee engagement. \*i This relationship cannot be understated because higher employee engagement has been linked to greater customer satisfaction, profits, productivity, safety, and employee retention at the business unit level. \*ii

## **The Influence of Stereotypes**

In the United States, women and minorities are underrepresented in managerial positions in comparison to their percentage in the general workforce. XII, XIV There are many potential reasons for this disparity, but research suggests that stereotypes influence perceptions of leader effectiveness and potential. Much of this research has been focused on gender stereotypes. For example, men are perceived to be more effective in roles defined in more masculine terms, while women are perceived to be more effective in roles defined in less masculine terms.xv Compared to men, evaluations of women in traditionally male domains increase less as performance improves and decrease more as performance declines.xvi

In one of the most comprehensive real-world studies of the influence of gender stereotypes on leader evaluations, Cochranxvii evaluated the relative importance of 16 specific performance areas to evaluations of overall performance and advancement potential on a multirater feedback instrument. Fach leader had at least one male supervisor and at least one female supervisor, so rater perceptions could be studied for (a) men rating men, (b) men rating women, (c) women rating men, and (d) women rating women. Gender stereotypes were measured with a survey that asked respondents to rate each performance area on the extent to which it was stereotypically masculine or feminine. Relative importance of each performance area to overall evaluations was determined statistically based on the ratings.

Neither rater nor leader gender had any impact when rating overall performance. In other words, the same performance dimensions drove perceptions of overall performance regardless of rater or leader gender. When rating advancement potential, however, both rater and ratee gender influenced which dimensions were perceived as most important. Male and female raters had similar perceptions of what

was important to advancement potential for men, but differed in what they saw as important when rating a woman. For example, both male and female raters perceived understanding and explaining the business to be more important to advancement potential for a man than for a woman but male raters perceived knowing the job and industry to be less important to the advancement potential of women than did female raters.

Although women tended to receive higher scores than men on most performance areas, both male and female raters perceived women to have significantly less advancement potential. This was because there were no differences between men and women on the performance areas that were most important to advancement potential. Masculine performance areas were consistently perceived to be more important to advancement potential than were feminine performance areas regardless of the gender of the rater or the leader. If men are seen as excelling on stereotypically masculine performance areas and women are seen as excelling on stereotypically feminine performance areas, men will consistently be seen as having more advancement potential than will women.xviii

## The Influence of Stereotypes

It is fair to wonder if gender stereotypes still have as much influence today as they did when much of the gender stereotype research was conducted, since female leaders are more common than they were in the past. Recent research has in fact demonstrated that gender stereotypes have not changed much during the last 30 years. Thus, reducing the influence of stereotypes is still a necessary pursuit in the effort to increase diversity in organizational leadership.

- <sup>xiii</sup> Bureau of Labor Statistics (2017). *Current population survey (Table 11 Employed persons by detailed occupation, sex, race, and Hispanic or Latino ethnicity).* Retrieved from https://www.bls.gov/cps/cpsaat11.htm).
- <sup>21</sup>V C. Fernández-Aráoz, A. Roscoe, and K. Aramaki, "Turning Potential into Success: The Missing Link in Leadership Development," *Harvard Business Review* (November-December, 2017): 2-9.
- x A. H. Eagly, S. J. Karau, and M. G. Makhijani, "Gender and Effectiveness of Leaders: A Meta-analysis," Psychological Bulletin 117 (1995): 125-145.
- F. Manzi, and M. E. Heilman, "The Effects of Gender Stereotypes on the Updating of Competence Perceptions," in B. B. Csillag, L. Zhou, & E. M. Campbell (Chairs), *Gender Matters in Interpersonal Interactions in the Workplace: Job and Career Implications*, symposium conducted at the 77th Annual Meeting of the Academy of Management, Atlanta, GA, August, 2017.
- xiii C. C. Cochran, Gender Influences on the *Process and Outcomes of Rating Performance*, unpublished doctoral dissertation (Minneapolis: University of Minnesota, 1999).
- xiii J. W. Johnson and C. C. Cochran, "Studying the Influence of Stereotypes on Personnel Decisions in the Real World," *Industrial and Organizational Psychology: Perspectives on Science and Practice* 1 (2008): 423-425.
- xix E. L. Haines, K. Deaux, and N. Lofaro, "The Times They Are A-changing... or Are They Not? A Comparison of Gender Stereotypes, 1983–2014," Psychology of Women Quarterly 40 (2016): 353-363.

## **Reducing Stereotype Influence and Increasing Diversity**

A contextual approach to leader selection and development should help reduce the influence of stereotypes and increase the proportion of women and ethnic minorities in leadership positions in three ways. First, a data-driven approach based on assessments and contextspecific algorithms removes the subjective element from initial evaluations. It is not possible to completely remove subjectivity from leaderrelated decisions, but this approach can provide an initial pool of candidates to decision makers that quantifies the degree of fit between each candidate and the context of the role. A datadriven approach more objectively evaluates an individual's potential to succeed in a particular situation, giving people who may not have much relevant experience an opportunity to get into a position in which they may be a very good fit based on their attributes.

Second, understanding that different types of individuals can be successful depending on the context opens the door to considering a more diverse set of candidates when making leader-related decisions. Traditional leadership strategies assume that the same characteristics and competencies are needed throughout the organization, but focusing on a generic competency profile assumes that all leadership positions require the same characteristics and diverts attention away from individuals who possess diverse experiences, perspectives, and backgrounds. At the extreme, this practice inadvertently reinforces bias in decisions and results in leadership teams composed of people who sound and look the same. Shifting the focus to context-specific prediction not only optimizes the fit between leaders and their context to produce better performance, but also increases the possibility that more diverse leader profiles will be considered for key positions.

Finally, the type of leader attributes on which we focused in this study are unlikely to create a disadvantage for protected gender or racial/ ethnic groups. Research on group differences in personality scales shows that there are typically small mean differences between racial/ ethnic groups, if any, and there is no consistent advantage for one group over another when examining multiple scales. There are larger mean differences between men and women but, again, not consistently in one direction.\*\* Thus, the use of personality measures to evaluate potential for success in leadership positions should provide an unbiased picture that does not consistently favor any particular group.

L. M. Hough, F. L. Oswald, and R. E. Ployhart, "Determinants, Detection, and Amelioration of Adverse Impact in Personnel Selection Procedures: Issues, Evidence, and Lessons Learned," *International Journal of Selection and Assessment* 9 (2001): 152-194.

## **Group Differences in Context**

We examined group differences across race/ ethnicity and gender group with our data-driven framework, SHL Leader Edge, for (a) the scores used as input and (b) the scores generated.

#### **Scores Input**

SHL applies unique algorithms to our personality assessment and OPQ scores to predict performance within and across contextual leadership challenges. Consistently large group differences in OPQ scores would therefore tend to result in similarly large differences in the scores provided by Leader Edge. As expected, however, group differences in OPQ scale scores were either

trivial or did not consistently favor one group over another. When comparing racial/ethnic groups, most subgroup differences were trivial. There was no consistent pattern across OPQ scales showing an advantage for one subgroup over another. These results are consistent with what is usually found with personality scales.<sup>xxi</sup>

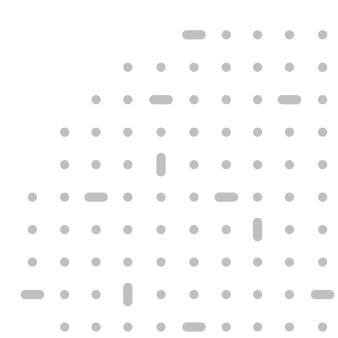
When comparing men and women on OPQ scale scores, women tended to score higher than men on a larger number of OPQ scales. There were 11 scales favoring women but only six scales favoring men. The figure below shows gender differences for the OPQ scales that tend to be positively

weighted in challenge solutions, meaning higher scores on those scales are associated with better performance within multiple challenges. For these 10 scales, men only had significantly higher average scores on the Persuasive scale, whereas women scored higher than men for being more trusting, affiliative, democratic, conscientious, behavioral, and caring.

xxi Hough, Oswald, and Ployhart (2001).

# Gender difference on OPQ scales that tend to be positively related to leader performance





## Gender difference on OPQ scales that tend to be negatively related to leader performance



On the other hand, four scales were negatively related to performance within multiple challenges. Of those four scales, men scored significantly higher than women, on average, for three of them (Competitive, Data Rational, and Emotionally Controlled). Women tended to score higher than men on Rule Following, but not to a significant extent. Although men tended to have higher scores than women on these three scales, this actually puts them at a disadvantage when considering how well they would be expected to perform in certain challenges, because they are usually negatively weighted.

#### **Leadership Scores**

SHL computes scores for each of 27 potential challenges based on how well the leader would be expected to perform in a work environment for which that context is important. These scores are based on the OPQ scales that best predict leader performance within each challenge. The user selects about five to ten challenges that are most important for describing a work environment and the scores for the selected challenges are reported to the leader. Leader Edge also computes an overall fit score that reflects predicted performance in a work environment consisting of all of the selected challenges.

As expected, these higher mean scores on so many OPQ scales translate to a distinct advantage on the challenge-specific leadership solutions. Women had a substantially larger mean score than men on 21 of the 27 challenges. This chart shows five examples. The only challenge on which men had an advantage was on Lead Geographically Dispersed Teams, and that was a relatively small difference. Women had much larger advantages on the other four challenges presented here.

#### **Example Mean Challenge Scores by Gender**





We also looked at race/ethnicity differences in challenge scores. For comparisons between White and Hispanic subgroups and White and African American subgroups, there was no consistent advantage for one subgroup over another. Most differences were trivial, while larger differences sometimes favored one subgroup and sometimes favored the other. The chart below shows the seven challenges on which there were meaningful differences between White and African-American mean challenge scores. We do see some meaningful differences between White and African-American mean challenge scores, but they are not consistently in one direction. White mean scores were higher on three challenges and African-American mean scores were higher on four challenges.

#### Mean Challenge Scores by Race (White vs. African-American)



Generally, these results show that shifting the focus to context-specific selection not only optimizes the fit between leaders and their context and results in better performance but also opens the door for more diverse leader profiles to be considered for key positions. For example, we found that women in our dataset are underrepresented in high potential pools and in senior leadership positions compared to the general employee population in organizations. Women tend to score higher than men, however, on most of the challenge-specific solutions. If the selection program is based on predicted

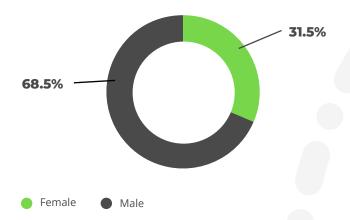
performance across a variety of contexts, the result should be the selection of more women into leadership positions. Thus increasing diversity in the leadership pool and providing more opportunities to individuals under a more traditional program with a narrower concept of leadership.

## **Illustrative Case Study**

We can illustrate how the general points that have been presented can translate to the real world by presenting a simplified case study example. Consider a hypothetical leader role that faces two primary contextual challenges. The first is Growing the Business Through Geographic Expansion. This is an organizational-level challenge that prioritizes growth by making products and services available in new geographic markets. The second challenge, Lead Global/ Cross-Cultural Teams, is related to the first because geographic expansion is creating the need for the leader to lead a team that includes team members and operations in multiple countries with different cultures.

Going to our LVS database, we selected all leaders that were facing this combination of challenges, were at the mid- or senior level, and had at least a Bachelor's degree. Our sample included 57 women and 124 men, which is 68.5% male.

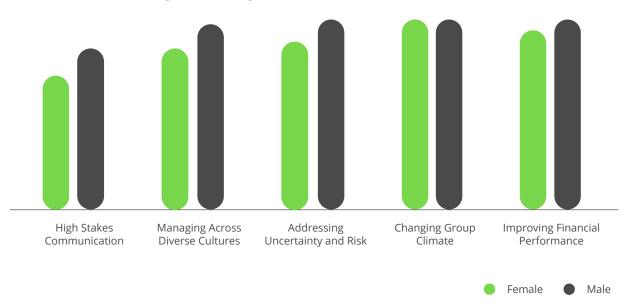
There are a number of factors that can influence selection or promotion into a particular leadership role, so we examined the sample characteristics to see if there were meaningful differences in these factors by gender. The average overall performance rating was nearly the same between men and women, so there were no differences in how men and women performed in this situation.



We also saw no differences in the average years of total work experience, with men averaging 21 years and women averaging about 7 months less than that. All leaders had at least a Bachelor's degree, but beyond that we found that 49.1% of women had a graduate degree and 51.6% of men had a graduate degree. The percentage of the sample that had been formally identified as High Potential was nearly the same, with women at 43.6% and men at 43%. Therefore, there were virtually no differences between men and women on performance, years of experience, education, or access to high potential programs.

We also administered an experience inventory that asked leaders about the types of developmental opportunities they had experienced. These experiences were classified into five categories and we computed mean category scores for men and women. There were no differences on two of the experience categories, but we did see significant differences favoring men on experience with High Stakes Communication, Managing Across Diverse Cultures, and Addressing Uncertainty and Risk. These are the kinds of experiences that we would expect to be related to being in a leadership role that requires growing the business through geographic expansion and leading global teams.

#### **Mean Level of Developmental Experiences**

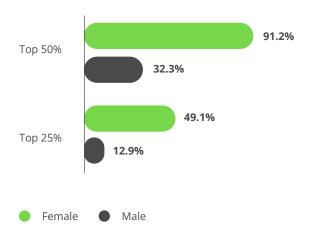


Men in this sample had significantly more developmental experiences that are relevant to the challenges they are facing than women. That additional experience, however, did not translate to a higher average level of performance. The question, therefore, is how are women making up for this lower level of relevant experience compared to men to maintain the same level of performance as men?

The answer appears to be that women are more likely to have the innate attributes for succeeding in the position. The chart below shows that 91% of the women in our sample scored in the top half of all leaders for this configuration of challenges, compared to only 32% of men. In addition, 49% of women had scores in the top 25% of the distribution, compared to 13% of men.

This suggests that the leader attributes women tend to have more than men makes up for the relative lack of relevant experience to help them perform well in this situation. More relevant experience is a likely explanation for why we see such a large percentage of men in these leadership positions. Selection or promotion decisions were probably made based on relevant experience, and for whatever reason, men tended to have more relevant experience than women. If these decisions were made based on both experience and individual characteristics relevant to the situation, we would probably see a more equal number of men and women in these positions.

## Percentage of Men and Women with Composite Scores in the Top 50% and Top 25% of the Distribution



## **Conclusions**

Understanding different types of individuals can be successful depending on the context provides a more diverse set of candidates when making leader selection and development decisions. Traditional leadership strategies assume that the same characteristics and competencies are needed throughout the organization, but focusing on a generic competency profile diverts attention away from individuals who possess diverse experiences, perspectives, and backgrounds. At the extreme, this practice reinforces bias in decisions and results in leadership teams composed of people who sound and look the same. Shifting the focus to context-specific prediction not only optimizes the fit between leaders and their context to produce better performance, but also increases the possibility that more diverse leader profiles will be considered for key positions.

The demands placed on leaders are increasingly dynamic and constantly changing in today's work environment. Despite the unpredictability of the work environment and the diversity of challenges within leadership roles, organizations continue

to use generic, one-size-fits-all approaches to selecting and developing leaders. Unfortunately, this approach to managing leadership talent fails to optimize the fit between leaders and the challenges they must navigate, costing organizations deeply in terms of underleveraged and underprepared leaders.

By examining the fit between leaders and contextual challenges and by relying on datadriven insights, organizations can gain an edge on their competitors and realize the benefits of intelligent, specific, and timely leader selection, development, and placement. Optimizing this fit will help organizations select more effective leaders by better matching their attributes and experiences to the challenges they will face in the role. Once leaders are in a role, a contextdriven strategy will improve their development by ensuring they get the development experiences they need to navigate current and future leadership challenges. Finally, aligning leader characteristics to contextual challenges will optimize placement by improving high potential identification, deepening leadership benches, and building stronger and more diverse leadership pipelines. Adopting a flexible, datadriven, context-specific approach further enables organizations to drive performance and business results.

#### **About SHL**

SHL exists to help you win. At a time of unprecedented change, we provide deep people insights to predict and drive performance.

Our world-class talent solutions empower leaders and their teams to make unbiased decisions throughout the employee journey. With 40+ years of talent expertise, cutting-edge assessment science and more than 45 billion data points, we have an unparalleled view of the workforce. SHL partners with organizations of all sizes – from start-ups to multinational firms – worldwide to deliver proven business results from people investments.



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SHL brings powerful and transparent AI technology, data science, and objectivity to help companies attract, develop, and grow the workforce they need to succeed in the digital era.

We empower talent strategies to unlock the full potential of your greatest asset—people.