Comment

Maintaining diversity during an economic crisis

25 Jun 2020 By Lorna Fitzsimons

As Lorna Fitzsimons explains, firms need to avoid thoughtless restructures during difficult times and preserve the minorities in their workforces

The Pipeline's research and longitudinal studies tell us it is less likely that women will be promoted or retained during an economic crisis. Historically, empirical research has focused on how women at the bottom of the economic ladder will be affected, because this is where the majority of women in the labour market have been for most of history. It is only in recent times that there has been an increase in the number of women at middle and senior levels of organisations. For this reason, there is relatively little research on the gendered impact of the economic crisis at the leadership level of companies. Nonetheless, adding the data together, it paints a compelling case for action.

Seniority and profit and loss roles

We know women are over-represented below the midpoint in most organisations and under-represented above the midpoint. Research from McKinsey shows that while entry level seems to be around 50 per cent men and 50 per cent women, as seniority rises, the representation of women falls. By senior management level, there's around 65 per cent men and 35 per cent women. And by the C-suite, it's almost 80 per cent men. The research also emphasises how exaggerated this inequality is for women and men of colour, who make up about 4 per cent and 10 per cent of the C-suite, respectively.

Research from The Pipeline shows that, this year, women make up 4 per cent of CEOs in the FTSE 350. Women also make up just short of 20 per cent of executive committees. Even when women do reach the executive committee, they tend to be in functional or support rather than profit and loss (P&L) roles. Women make up 10 per cent of all P&L roles on executive committees; the other 90 per cent are held by men. Seeing as the proportion of female executive directors in P&L roles is around 30 per cent, this means that approximately 70 per cent of female executive directors are in functional roles. In contrast, around 80 per cent of male executives are in P&L roles, meaning only around 20 per cent are in functional posts.

During reorganisations, companies have historically cut below the midpoint. They have also tended to cut functional roles rather than P&L ones. This puts women and people of colour at significantly higher risk of losing their jobs.

Visibility and opportunity

We also know that reorganisations will happen fast as companies change their operating models to meet the new post-Covid-19 market. As such, employees need to be visible and known to the decision-makers. Employees need to know their career goal and their spike (key strength), and must be able to promote themselves. They also need a good strategic network and sponsorship. The evidence shows that women and people of colour are far less likely to have these structures in place.

Economist Sylvia Ann Hewlett's extensive research on sponsorship, Professor Herminia Ibarra's research with Catalyst and The Pipeline's evidence from its diagnostic tool, Genie, are consistent: women and BAME candidates are less visible and less likely to have these structures in place. However, they are all essential for succeeding in any reorganisation. The research shows us:

Sponsorship. Men are 46 per cent more likely than women to have a sponsor and white people are 63 per cent more likely than BAME people to have a sponsor.

Strategic networks. One third of women have never had a substantive interaction with a senior leader about their work, compared to 27 per cent of men. This is even worse for black women, 41 per cent of whom have never had a substantive interaction with a senior leader about their work

Career goals. Female graduates in their 20s tend not to set themselves any medium or long-term career goals, whereas their male counterparts have a three-to-five-year horizon.

This year, we surveyed 200 women who had previously been on our programmes. We asked them whether their organisation had helped them to implement a strategic network or find a sponsor. Almost 60 per cent of respondents said their companies had not helped them to obtain a strategic network or a sponsor.

In 2008, in the face of the banking crisis, businesses blinked, and they had lost two-thirds of their senior women without realising. They were not conscious of everything discussed above. They also did not start with the ambition of improving, or at least maintaining, their female and BAME colleagues. Considering this, along with the inevitable social conservatism and regression that happens after every crisis, where we snap back to the leadership profile of the past, and you have a perfect storm.

However, it is worth companies working hard to retain their women in times of economic crisis. We see this prominently in two pieces of research: MIT's work on high-performing teams where gender balance is key (Woolley and Malone, HBR, 2011). And The Pipeline's research, which shows the disproportionate benefits for companies across the globe when they have gender-balanced leadership teams. The Pipeline's research shows there is an additional almost 14 per cent profit margin for companies with more than 33 per cent women on their executive committees, in comparison to those companies with no women on their executive committees.

The evidence shows that women and people of colour are at a disadvantage when it comes to organisational restructures in times of crisis. Given the clear correlation between having more women in leadership and improved financial performance, now more than ever, companies need to pay attention. They must avoid the pitfall of thoughtlessly restructuring and reducing numbers of female and BAME colleagues within their organisation. The stakes are far too high.

Lorna Fitzsimons is co-founder of The Pipeline

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