The Global Women and Leadership Research & Policy Brief Series

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Why Do We Need More Women Leaders in Central and Eastern Europe?

The majority of top leadership teams do not fully realize the value of having women in key positions. A large body of research has shown this is the case across all sectors, including business, government, political, nonprofit, and education.[1] Depending on the entity, this may include women in both paid and unpaid roles ranging from positions such as supervisor, coordinator and manager, to school principal, council member, CEO, or board director. Gender inclusivity benefits not only businesses, but also entities such as legislatures, universities, schools, and city and municipality councils. Organizations will increasingly thrive when both men and women hold management and leadership roles.[2] This is true for organizations around the world, and it is also true for organizations in Central and Eastern Europe.

Understanding the value of inclusivity in these groups and organizations is critical and timely for this region in light of the drop in the gender gap rank of all countries of the region, except Slovenia and Estonia.[3] Compared to 2006, in 2015, the ranking dropped for the following countries (of 145 countries ranked): Albania (61 to 70), Bulgaria (37 to 43), Croatia (16 to 59), Czech Republic (53 to 81), Hungary (55 to 99), Latvia (19 to 20), Lithuania (21 to 31), Macedonia (28 to 69), Poland (44 to 51), Romania (46 to 77), Slovakia (50 to 97), and Ukraine (48 to 67). Heightening the awareness of the value of women in leadership within the region is essential if we want to address the gender gap and to increase the regional leadership potential.

Research affirms that there are internal and external barriers for women in becoming managers and leaders. Although this brief can assist women in understanding why they should lead (overcoming an internal barrier), its primary purpose is to help managers, leaders, voters, and other key stakeholders to better understand the benefits of attracting, retaining, promoting, and empowering women within their organizations and countries. The benefits of having more women in leadership positions is introduced in the following sections: (1) improving financial performance, (2) strengthening organizational climate, (3) increasing corporate social responsibility and reputation, (4) leveraging talent, and (5) enhancing innovation and collective intelligence of organizations.

Improving Financial Performance

A series of recent studies has shown organizations that have more women in management and on boards, on average, attain better financial results than the ones who have dominantly male leadership teams.[4] According to the Catalyst Information Center report, *Why Diversity Matters,* a 2011 study found that "companies with the most women board directors out-performed those with the least on return on sales (ROS) by 16 percent and return on invested capital (ROIC) by 26 percent."[5] In 2012, Bloomberg published a large study (2,360 companies) conducted by the Credit Suisse Research Institute, which found that "companies with a market capitalization of more than \$10 billion and with women board members outperformed comparable businesses with all-male boards by 26 percent worldwide."[6] A number of other recent studies have also found that companies of various sizes with "more women directors rank higher on various performance measures than other boards"[7] and that there are "positive correlations between gender diversity on boards and improvements in corporate governance and financial performance."[8]

Other financial performance indicators have also been studied. The *New York Law Journal* reported that companies with at least one female director "averaged higher net income growth, lower net debt-to-equity ratio, and faster reduction in debt compared to companies with no female directors."[9] A U.K. study found clear evidence that companies with women directors had a lower risk of insolvency than did other companies.[10] A recent Canadian study found that having women on corporate boards helps companies strike better business deals. The study "shows companies with female directors bring down costs of acquiring other firms, [and] make less risky bids."[11] Women directors can help their companies make fewer errors that financially hurt their shareholders.[12] The researchers claim that women tend to be less overconfident than men, especially in times of uncertainty. Another study indicated that "women appear to be less motivated by empire-building" and are "less likely to take on an acquisition unless they feel very sure that it will be good for the shareholders."[13] Finally, there is a plethora of studies done by top scholars that showed the following benefits: higher operating results, better stock growth, better economic growth, higher market-to-book val-

> **Improving Financial Performance**
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> Better corporate governance
> Better corporate oversight
> Improved organizational sustainability

ue, better corporate governance and oversight, improved corporate sustainability, and overall increased profitability.[14]

Overall, data from a host of studies around the world have shown a trend that companies with females in leadership teams and on executive boards have experienced better financial performance, and this applies in European organizations as well.[15] In fact, according to an article published in *Time Magazine*, private investors are now strategically invited to invest in companies that have hired women on boards.[16] Although most of the studies have been conducted within the business arena, research shows that these and/or related benefits can also extend to other sectors. It is important to note that some of the cited studies found that in order to obtain some of the above-listed financial performance benefits, a critical mass of women (about 30%) on boards or leadership teams must be present.[17]

Strengthening Organizational Climate

Researchers have also discovered a host of organizational climate benefits associated with the number of women serving in management and leadership. Some studies have found that an organizational climate that is open to diversity is linked to employees' lower intentions to leave.[18] One study of government agencies in the U.S. found that employees were more satisfied when they perceived that diversity was effectively managed and that managers were fair to all employees.[19] Other studies confirm that women leaders typically help ensure that more women are hired and in the pipeline for future leadership.[20] Having more women in senior leadership roles is also linked to a smaller gender pay gap and wage increases, particularly for women at higher levels of companies.[21] The Corporate Leadership Council discovered a link connecting commitment to diversity and inclusion with the level of employee engagement.[22] Finally, one report stated that "mirroring the community can lead to a boost in productivity, customer satisfaction, and earnings."[23] For example, one retail company discovered that when their store employees matched the demographic profile of the community, it had increased sales. Since women constitute the majority of consumers today, it is important to have diversity throughout the organization that reflects the consumer base demographics. Research supports this finding since companies are discovering that it makes sense to have more female

Strengthening Organizational Climate

Decreased turnover intentions
Higher employee satisfaction
More women hired for pipeline
Smaller gender pay gap
Increased employee engagement
Increased productivity
Higher customer satisfaction
Lower corporate fraud
Reduced groupthink
Higher team performance
More considerate team members
More ethical decisions

employees who better understand the needs of female consumers.[24]

Women leaders also tend to look more carefully at issues of fairness in policies and practices for all employees. A Chinese study found that boards with higher numbers of women were less likely to violate security regulations and to commit fraud. This study concluded that female board members appeared to contribute to reduced groupthink, better board independence, and improved monitoring.[25] Additional studies have confirmed these findings in other countries and contexts.

Women also bring beneficial competencies and skills to teams. One field study experiment in Amsterdam found that mixed-gender teams had higher team performance. Performance peaked when student teams were composed of about 55% women.[26] Other scholars found that participants of more diverse teams felt that their teams were more considerate and that team leaders were better able to see each member as unique and as a valued contributor.[27] In addition, inclusive leadership styles, most commonly found in women, are also linked to reduced turnover and improved performance of diverse teams.[28] Finally, researchers continue to confirm that more diverse groups and teams result in more effective and ethical choices and decisions.[29]

Increasing CSR & Organizational Reputation

Corporate social responsibility (CSR) is a hot topic of discussion for companies around the world, and companies in Central and Eastern Europe are no exception. One question is whether women influence the CSR or related social or community involvement of an organization. The *Why Diversity Matters* report states that "gender-inclusive leadership is associated with increased corporate social responsibility."[30] It also cites research linking the number of women in leadership positions to a positive impact on a company's social responsiveness. In addition, the Committee for Economic Development argues that having more women on boards helps companies better engage with society.[31] For example, a study of privately owned Chinese firms showed that companies with more women on their boards were more likely to respond philanthropically to natural disasters.[32] Multiple studies found connections between greater numbers of women leaders and significantly higher levels of corporate philanthropy.[33] In sum, research has found that women tend to be more concerned with CSR and feel more compelled to be involved with efforts to help society, particu-

Increasing CSR & Organizational Reputation

Increased CSR
Higher-quality CSR initiatives
Greater social responsiveness
Better engagement with society
Greater philanthropic responses
Improved corporate reputation
Better corporate social performance
Increased social performance indicators

larly families, children, the needy, and others who are under-served. The findings are important for any sectors in which individuals volunteer or are employed.

Research clearly shows that CSR activities have a positive impact on an organization's reputation, and as the authors of one report stated, "Companies viewed as ethical or good corporate citizens were more likely to have more women board directors than companies without those reputations."[34] Internal culture and practices can strengthen organizational reputation. For example, gender-diverse leadership teams and boards have been found to improve corporate reputation. Another study found that having women on boards was clearly connected to a number of key social performance indicators linked to both internal and external reputation (e.g., community, corporate governance, diversity, employee relations, environment, human rights, and product-related social issues).[35]

Leveraging Talent

Women tend to exhibit different leadership characteristics and attributes than men, much of which has been found to be linked to the differences between genders in socialization.[36] One scholar noted that typically female attributes are particularly valued in today's economy because of the fast changing global environment, which includes cultural diversity and social, political, and economic uncertainty.[37]

Women tend to be more holistic rather than linear thinkers. They usually look for win-win instead of win-lose solutions and are often more process-oriented than men are.[38] Women also ask different questions. For example, within the political and governmental sectors, women bring diverse life experiences, policy perspectives, and concerns that differ from those of men.[39] Women are also known to be more sensitive to nonverbal communication cues and are often more comfortable with ambiguity.[40] One researcher reported that new pathways to better decision making have been forged through women's diverse leadership styles and their focus on inclusiveness and cooperation.[41] In addition, women tend to be more nurturing and often care about developing others around them, which makes them particularly powerful role models, mentors, and coaches for women and men alike.

Leveraging Talent

Think more holistically
Seek win-win solutions
More process-oriented
Ask different questions
Bring difference experiences
Sensitive to nonverbal cues
Comfortable with ambiguity
Use different leadership styles
Focus on inclusiveness
Focus on teams and cooperation
More nurturing
Focus on developing others
Make more ethical decisions
Have higher integrity/honesty
Focus on self-development

In today's world, there continues to be a myth that men are better leaders than women, but—according to a host of studies in the last two decades—that is factually not the case. In fact, women have outperformed men on numerous leadership competencies in a number of recent studies. For example, one study of 3,000 executives from nearly 150 countries found that subordinates rated women leaders higher than men on competencies such as energizing others, design and aligning, tenacity, and outside orientation.[42] Other researchers looked at data from 7,000 leaders and found that, according to subordinates, peers, and superiors, women outperformed men on 12 of 16 measures of outstanding leadership competencies and scored the same as men in the other four.[43] Most significantly, women's scores lead those of men in taking initiative, practicing self-development, displaying high integrity and honesty, and driving for results.

Enhancing Innovation and Collective Intelligence

Studies continue to report that diverse and inclusive leadership teams produce more creative and innovative results. Homogenous groups often suffer from groupthink that happens as a result of overconfidence, premature consensus, and misplaced comfort.[44] *Scientific American* article "How Diversity Makes Us Smarter," based on decades of research from organizational scientists, psychologists, sociologists, economists, and demographers, states: "The fact is that if you want to build teams or organizations capable of innovating, you need diversity.

Enhancing Innovation & Collective Intelligence

Increased innovation
Improved creativity
Better team decision making
Greater team problem solving
Better team performance on highly complex tasks
Increased knowledge formation and patents
Higher collective intelligence
Higher social sensitivity

Diversity enhances creativity. It encourages the search for novel information and perspectives, leading to better decision making and problem solving. Diversity can improve the bottom line of companies and lead to unfettered discoveries and breakthrough innovations. Even simply being exposed to diversity can change the way you think."[45]

The Catalyst Information Center reports that "better problem-solving and increased creativity are positively associated with a variety of diversity attributes."[46] For example, German researchers found in one study that teams with women and minorities performed better on highly complex tasks primarily because of the wider range of thinking processes and increased creativity.[47] Another study found that mixed-gender U.S. teams in the IT industry produced more patents for new products than all-male teams.[48] Other researchers agree that having more women in groups has been linked to effectiveness in solving difficult problems.[49]

Researchers from MIT, Carnegie Mellon University, and Union College studied collective intelligence levels in high-functioning group.[50] They found that the number of women was a major factor in creating groups with the best

internal dynamics for ultimate collective intelligence. Social sensitivity was identified as a critical component for success, and these researchers found that women had higher levels. Their research findings revealed that the "number of women in the group significantly predicted the effective problem-solving abilities of the group overall."[51] As with other studies, the researchers also found that the collective intelligence of the group exceeded the cognitive abilities and aptitudes of the individual members of the group. This collective intelligence is critical to effective decision making and problem solving, as well as high levels of innovation and creativity.

Conclusion

The summary of the research in this brief provides a compelling case that gender is an important consideration in crafting the composition of management and leadership within groups, organizations, and other social entities. Bringing together the strengths of both men and women can result in more effective, productive, and innovative teams and organizations within Central and Eastern Europe. Gender inclusivity can benefit everyone. So, how do we accomplish this? Here are a few suggestions:

First, it is important to understand the present situation. According to the European Commission Database from 2016,[52] women make 21% of the executive positions in Central and Eastern Europe, while only 8% of the CEOs are women. Women make 22% of the Parliaments, and only 20% of Ministerial positions. Overall, women make 34% of legislators, senior officials, and managers in the region. A host of publications can provide additional insight, but country level data on the status of women in all sectors and industries will be helpful in strategically moving forward.

Second, more individuals, groups, and organizations must come together to build a coalition that will more effectively coordinate the existing efforts, initiatives, and strategies to build new resources and programs to help train and develop women and those who influence them (e.g., voters, peers, managers, and leaders). Country specific coalitions will be most beneficial in producing change efforts that lead to results. Unless both internal and external barriers are addressed, moving forward with the united force for change that is needed within our communities will be challenging.

Third, since literature is full of the best practices and researched interventions for such efforts, it is critical that the programs, initiatives, and resources be thoughtfully designed and implemented. Managers and leaders in groups and organizations of all kinds must be encouraged to be more open-minded and strategic in terms of recruiting, promoting, and retaining prepared and competent women into positions of influence. Individuals, groups, and organizations need to be encouraged to provide leadership development training and other related opportunities such as networking and mentoring for women. To be effective, it is critical that efforts, pro-grams, and initiatives be designed and implemented by those with the appropriate knowledge, expertise, and experience.

The bottom line is that the most successful organizations of the future will be those that attract, retain, and grow talent in ways that provide more women with the opportunity to succeed at all levels, and we need more of these types of organizations within the region. Organizations and societies that fail to fully use female talent will limit both their own economic and noneconomic growth and opportunities.[53] Without the active participation of women and the incorporation of women's perspectives at all levels of decision making, we will not effectively achieve the economic and societal goals of (Eastern) Europe and its residents. It is our hope that the data and insights shared in this brief will spark new discussions and assist organizations and society at large in making the needed changes to help countries within Central and Eastern Europe strengthen its inclusivity.

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Note: The *Global Women and Leadership Research & Policy Brief Series* is a new series started in 2016 that will release briefs that will add to new knowledge on women and leadership on countries and regions around the world. If you are interested in contributing to this series, contact Professor Madsen at madsensu@uvu.edu.