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White Paper

Diversity and Innovation – A Swiss Paradox

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How a 25% share of women can increase the innovative power of Swiss companies. Innovation is the key to economic progress. Switzerland is a prime example. Its GDP per capita is US$61,000 (using purchasing power parity), the highest in the world excluding city states and oil-rich nations. It has the most competitive economy[1], the highest concentration of talent[2], and a consistently low unemployment rate of less than 4 percent. Switzerland is also rated the world's most innovative nation. In 2017, for the sixth year in a row, Switzerland took first place on the Global Innovation Index.[3]

The "innovation capacity" of an economy and the companies within it has many determinants, ranging from the broadly cultural to R&D tax policy, with much in between. But in a recent study, the Boston Consulting Group (BCG) wanted to examine just one potential determinant. In the context of a study entitled *The Mix that Matters: Innovation Through Diversity*, we asked German companies about the link between diversity and innovation. Building on this study, BCG Switzerland conducted a local survey to better understand the extent to which diversity of the management team can affect innovation and consequent revenue growth. The study focuses on six diversity criteria: gender balance, industry background, age, place of birth, career path, and academic background.

The results of the survey are clear: of the six diversity factors, gender and industry background diversity are the two most important drivers of innovation at Swiss companies. In addition, statistical analysis of the survey results shows that companies become significantly more innovative once at least 25 percent of their management positions are held by women. While all companies benefit from gender diversity, larger companies gain disproportionately from a higher level of diversity in gender and industry background.

With 25% of its population born in another country, Switzerland is diverse in nationalities. But it still has a lot of catching up to do in gender diversity. The biggest obstacles are structural

[1] World Economic Forum (WEF), Global Competitiveness Ranking
[2] Global Talent Competitiveness 2015/2016
[3] Published by Cornell University, INSEAD, and the World Intellectual Property Organization (WIPO)

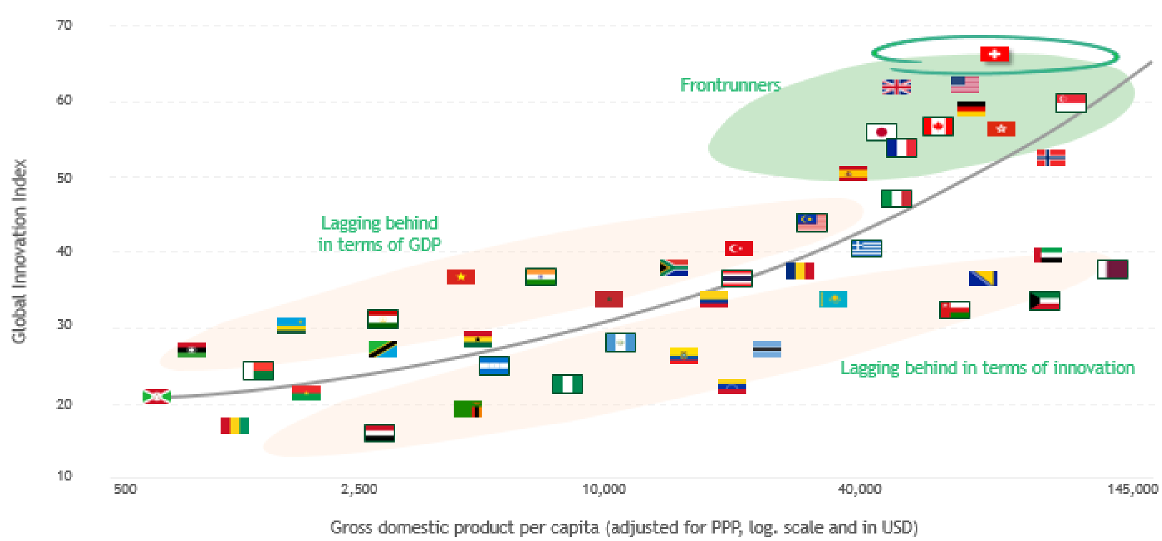
weaknesses, such as insufficient childcare options and few opportunities for flexible working for women in management.

This report explains why Swiss companies that aim to be innovative should also aim to be more diverse. Small moves will not suffice. To reap the benefits of gender diversity, more than 25% of management positions must be held by women. Having made the case for more senior women, we outline the measures that Swiss companies can take to cross the 25% threshold.

Switzerland – The Most Innovative Country in the World

The Global Innovation Index scores countries according to the foundations they lay for innovation, the "innovation input", and what results from these foundations, the "innovation output." Switzerland has been ranked the most innovative country in the world since 2011.

Exhibit 1 | Strong correlation between GDP per capita and innovation



Source: 2016 Global Innovation Index Report

On all innovation criteria, Switzerland is among the top ten countries in the world. Its high Innovation Efficiency Ratio (5th place) means it translates its innovative capabilities into valuable innovation output.

Switzerland's comparatively poor performance in the Innovation Index's institutional dimension (9th place) is due primarily to its poor ranking in business environment sub-criteria. For instance, it comes 57th for ease of founding a company and 84th for bankruptcy liquidation. Switzerland also ranks poorly for infrastructure (15th place), public online services (64th place) and e-participation (84th place).

Despite its good ranking on the Global Innovation Index, Swiss companies looking to innovate face significant structural challenges:

- A tension between companies' dependence on skilled foreign workers and strict immigration policy.

- Limited tax incentives for spending on R&D or private equity (PE) investment in innovative SMEs.

- A shortage of financing, with little investment by public savings banks or pension funds in innovative SMEs and a small PE community.

In this structurally difficult environment, however, Swiss companies may have a lever for becoming more innovative: namely, increasing the diversity of their workforce. In Germany, the relationship between a company's employee diversity and its innovative power has been confirmed. So BCG Switzerland conducted a similar study to determine the strength of this correlation in Switzerland. The study focused on six diversity criteria: gender balance, industry background, age, migration background, career path, and education level.

Diversity and Innovation – A Positive Correlation

The Swiss study focused primarily on product and service innovation, as the vast majority of the surveyed companies (70 percent) mentioned these as the greatest drivers of success.

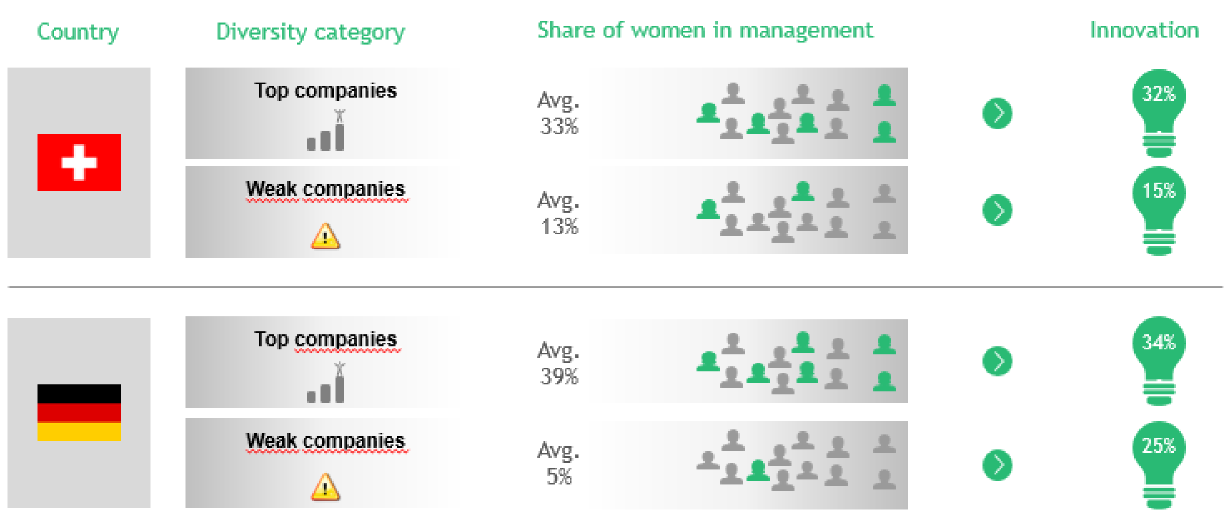
Based on the data set we obtained through our Swiss survey, we could identify positive relationship between diversity and innovation. A 0.1-point increase on Blau's index of diversity is linked to a 2.7-percentage-point increase in the share of revenues from innovative products.

Gender Diversity – The Key Diversity Driver of Innovation

BCG Switzerland's survey reveals that the percentage of women occupying management positions is nearly three times higher at the most innovative than at the least innovative companies. The same patterns were observed in BCG's German innovation and diversity survey. (See Exhibit 2.)

However, two key differences between Germany and Switzerland bear mentioning. First, the participating companies with the lowest gender diversity in Switzerland still had a considerably higher percentage of women in management than the comparable group in Germany (13 percent versus 5 percent). Second, gender diversity had a considerably higher impact on revenue growth through innovation in Switzerland than in Germany. The worst and best performing companies in terms of gender balance in Switzerland saw a difference of 17 percentage points in innovation-driven revenue, while in Germany that number was only 9 percentage points.

Exhibit 2 | Impact of the share of women on innovation is significantly higher in Switzerland than in Germany

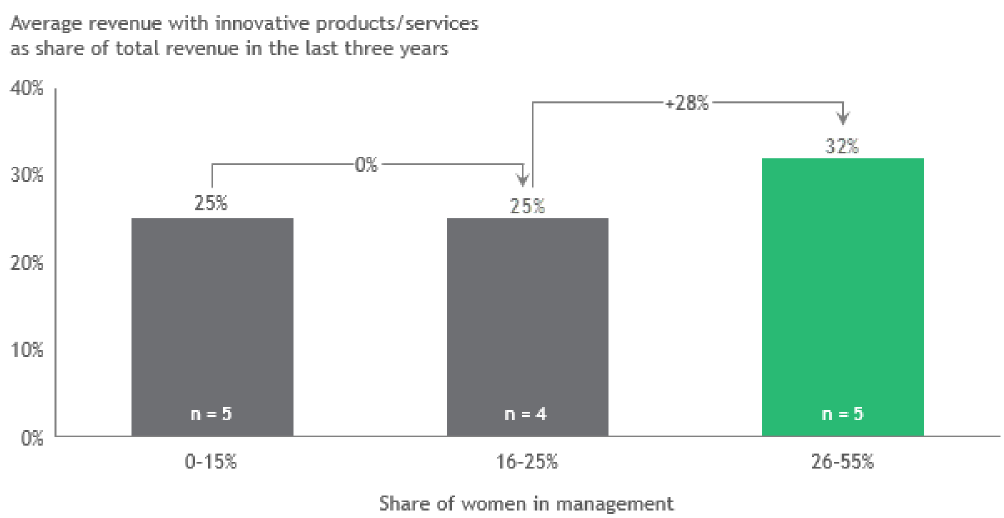


Source: BCG study Diversity and Innovation (2016); BCG study Diversity and Innovation (2017)

A 25 Percent Share of Women in Management Is the Threshold

The relationship between the share of women in management and the innovative capacity of a company is not linear. As long as the representation of women in management is below 25 percent, their influence on innovation is small. Only above this threshold do the effects on innovation become discernible. On average, the share of revenue made from innovative products is seven percentage points higher at companies with more than 25 percent of management positions held by women. Surpassing the 25 percent threshold thus carries significant potential for innovative capacity.

Exhibit 3 | Impact of gender diversity on innovation in Switzerland - a minimum threshold must be reached



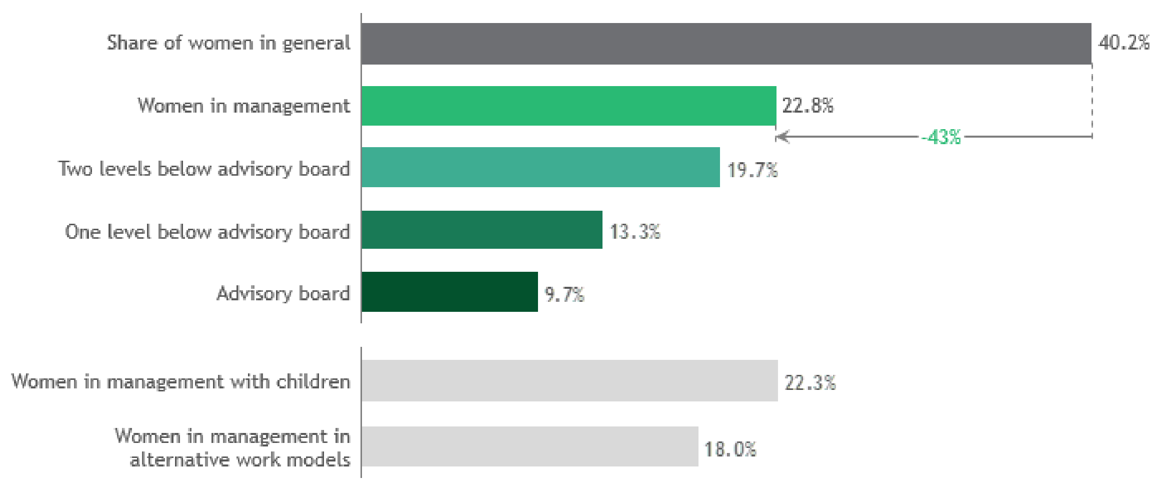
Source: BCG study Diversity and Innovation (2017)

Given the strong influence of gender diversity on innovation in Switzerland, and the 25 percent threshold for achieving it, Swiss companies should do all they can to bring capable women into management roles. Although 80 percent of the companies in our survey have kicked off initiatives to increase the number of women in management, their success to date has been modest. On average, Swiss companies employ 40.2 percent women. But the share of women in management is only 22.8 percent. At executive board level, the share of women falls to 9.7 percent.

One reason for the low share of women in management is that few female managers benefit from more flexible work contracts, such as part-time work or job sharing – only 18 percent in the companies we surveyed. This number does not vary significantly with the percentage of female managers in the firm who have children. As the BCG study *Dispelling the Myths of the Gender "Ambition Gap"* shows, women are no less ambitious in their careers just because they have children. The key determinant of whether a career-minded woman with a child remains ambitious is the company culture. If these women see that they can continue their career only by overcoming material obstacles presented by having a child, they will either reduce their ambitions or switch to a company that better matches their needs.

According to our two innovation and diversity studies, more Swiss women than German women use flexible work options – but still too few. Unless terms of employment make it easier for women to combine a career with children, Swiss companies will miss the opportunity to increase diversity in senior positions.

Exhibit 4 | Women remain underrepresented in management positions



Source: BCG study Diversity and Innovation (2017)

Creating the Right Environment to Promote Diversity

Diversity promises large benefits for an organization but it should not be promoted in isolation. Other, "cultural" factors also have an important influence on a company's innovation potential. In our survey, companies with strong cultural factors had an EBIT margin 17 percentage points higher than those with poor cultural conditions.

The most important cultural factors identified are:

- Management participation (identified as an important factor by 86 percent of respondents) – the ability of managers to assess and leverage contributions from all employees.

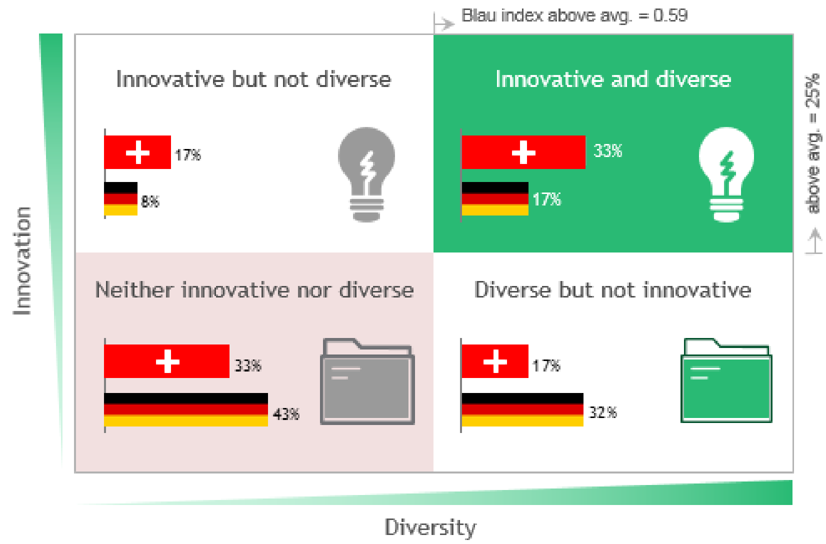
- Openness to cognitive diversity (71 percent of respondents) – an environment in which all employees can freely express their opinions.

- Active team composition (50 percent of respondents) – proactive staffing of project teams with different member profiles.

The majority of the companies we surveyed say that Swiss companies fulfill most cultural factors well. However, our study shows that only one third of the companies are truly "diversified and innovative." While that number is considerably higher than in other countries (17 percent in Germany), it is still low for the most innovative country in the world.

How can this be? Taking R&D as a proxy for innovation, about 50 percent of total Swiss spending comes from only two companies, both in the same sector: Roche and Novartis. The Swiss innovation landscape is extremely concentrated in a few "overperformers", with many large and medium-sized Swiss companies being underperformers.

Exhibit 5 | Share of diverse and innovative companies is still too low



Source: BCG study Diversity and Innovation (2016); BCG study Diversity and Innovation (2017)

How Can Swiss Companies Become More Diverse and thus More Innovative?

BCG has developed a simple, four-step approach to increasing diversity called "Smart Simplicity":

1. **Smart start:** The company analyzes which problems have arisen because of a lack of diversity. In parallel, increasing innovation potential must be clearly identified as a key success factor. Next, an overview is compiled of weaknesses in the different diversity dimensions and a vision is formulated to become more innovative. This step also includes developing a plan for change management and a commitment on the part of management to act quickly.

2. **Diagnostics:** The causes of the lack of diversity are identified. In particular, it must be determined in which context this deficit arose. With the knowledge gained about the

background and behavioral dynamics, a list can now be compiled of what exactly led to the lack of gender diversity at the management level.

3. **Solution approach:** A small number of measures are identified to address the problems. These measures should be formulated while following simple rules, such as: understand what your people do; reinforce integration drivers; plan for the future; reward cooperative employees.

4. **Implementation:** The usual elements of implementation must be put in place, such as defining the new leadership principles and developing a timeline and corresponding work blocks. But the company and its managers must also be enabled in this final step to live out the newly defined diversity principles in their daily routines.

The first target for Swiss companies must be passing the critical threshold of 25 percent women in management positions across the business. More specifically:

- Female employees must be given the opportunity to continue their career after maternity leave. This will require different flex-work options for both women and men (e.g., several months of paternity leave) to enable parents to share childcare responsibilities and continue their respective careers. Most importantly, the company must communicate clearly with staff about career options for men and women with children. Nordic companies lead by example in this area.

- Companies must ensure that women reach top management and board-level positions.

- The compensation and promotion systems should be revised with a focus on gender diversity. This could be done by implementing diversity KPIs that reward management for diversity best practices.

Our study shows that even in a country like Switzerland, which is widely recognized as the innovation leader, one third of companies are still neither innovative nor diversified. Swiss companies are thus neglecting an important lever for revenue growth. It is high time for diversity to advance from a pure marketing argument to a topic at the top of the management agenda.

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For further reading

Please visit bcg.com to access our other recent publications on the subject of diversity:

- *How Diverse Leadership Teams Boost Innovation, BCG, 2018*
- *Diversity at Work*, BCG, 2017.
- *Five Ways Men Can Improve Gender Diversity at Work,* BCG, 2017.
- *Getting the Most from Your Diversity Dollars*, BCG, 2017.
- *The Mix that Matters: Innovation Through Diversity*, BCG, 2017.

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