

## Business Case for Diversity

1. Higher company performance based on earnings: In 2015, McKinsey & Company released a report “Diversity Matters.”<sup>1</sup> This study measured company performance based on earnings before interest and taxes (EBIT), from information of 366 companies across the United Kingdom, Canada, Latin America and United States. There were two strong correlations as follows:

- “The companies in the top quartile of gender diversity were 15 percent more likely to have financial returns that were above their national industry median.”
- “Companies in the top quartile of racial/ethnic diversity were 35 percent more likely to have financial returns above their national industry median.”

2. Diversity in management positively correlates to innovation: In a study published by Harvard Business Review<sup>2</sup>, more than 1,700 companies were studied across eight countries (the U.S., France, Germany, China, Brazil, India, Switzerland, and Austria). They studied EBIT in a variety of industries and company sizes, examining diversity in management positions. They followed six diversity factors - gender, age, national origin, career path, industry background, and education. Innovation was based on the percentage of revenues coming from products introduced in the last three years. They found that:

- Companies with above-average total diversity, measured across the six diversity dimensions, had both 19% points higher innovation revenues and 9% points higher EBIT margins, on average.

In addition, the research showed that the six diversity factors correlate with higher performance both individually and collectively.

3. Pro-diversity policies and cultures positively correlate with innovation: Another study<sup>3</sup> specifically correlated pro-diversity cultures with innovation. They found:

- Pro-diversity cultures positively correlated to more new products and more patents.
- Pro-diversity policies positively correlate with firm value due to greater innovation.
- Pro-diversity policies have extra benefit during times of economic downturn when investors, financial markets, and the economy at large suffer a crisis of trust.

Did you know that diverse candidates are 2 times as likely to accept a job offer where there is an establishing D&I plan? More and more candidates are seeking companies with formal plans as an indicator of the internal culture. It can make all the difference for a person who is deciding whether to accept your job offer.

4. Talent is Capital: Notably, the Mayer study notes that the positive correlation between pro-diversity policies and innovation are more pronounced “where intangibles including human capital and employees are more valuable.” Hiring talent is a key strategic and operational driver for most companies.

5. Employee engagement translates to higher productivity: In Fortune’s Great Places to Work 2018 study<sup>4</sup> of 79,000 tech employees, up to 30% do not feel they can bring their whole selves to work. And,

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<sup>1</sup><https://www.mckinsey.com/~media/mckinsey/business%20functions/organization/our%20insights/why%20diversity%20matters/diversity%20matters.ashx>

<sup>2</sup> <https://hbr.org/2018/01/how-and-where-diversity-drives-financial-performance>

<sup>3</sup> C. Mayer, Roger & S. Warr, Richard & Zhao, Jing. (2017). Do Pro-Diversity Policies Improve Corporate Innovation?. Financial Management. 10.1111/fima.12205.

<sup>4</sup> <http://fortune.com/2018/01/17/best-companies-tech-workplace-cultures/>

underrepresented groups are more likely to feel this way. Their study showed that: highly engaged team members are

- 6 times more likely to innovate
- 6 times more likely to recruit and refer friends to your company
- 5 times more likely to commit to long-term employment at your company
- 2 times more likely to work on highly productive teams.

6. Corporate Responsibility: Public perception impacts customers, shareholders, and potential job candidates. Social media gives customers power. In 2017, Uber lost 200,000 accounts due to public perception<sup>5</sup>. Shareholders are now holding their CEOs and executives to higher accountability. Organizations like Arjuna Capital<sup>6</sup> have mastered using shareholder proposals on behalf of very influential investors to get 21 global companies (so far) to commit to equal pay. And last, but not least, corporate responsibility impacts your ability to attract job seekers. Job seekers want to work at a place that aligns with their values. They are quick to share information about their experience at former workplaces that did not align with their values. In addition, sites such as Glassdoor provide them an unfiltered mechanism to share both the positive and negative aspects of places they have worked, holding companies to higher accountability for the internal cultures that are sometimes hard to ascertain from outside observers.

7. Inclusion communicate values: Diverse teams provide a wider range of experience and perspectives - both life skills and actual work skills. When solving daily business issues and even critical business issues, a diverse team brings different viewpoints, enhancing the number, variety, and range of solutions to choose from. Diverse teams can also exhibit higher adaptability. But this only happens if you build an inclusive culture. Effective inclusion programs truly help to build better work environments. Employees often spend more waking hours at work than with their families. When employees like where they work, they take that into the communities where they live. Don't underestimate the reputation that building effective work environments can have to communities that value lifestyle.

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<sup>5</sup> <https://www.nytimes.com/2017/02/02/technology/uber-ceo-travis-kalanick-trump-advisory-council.html>

<sup>6</sup> <http://fortune.com/2018/04/10/natasha-lamb-gender-pay-gap-change/>