



Why Diversity Efforts are Crucial

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Diversity, equity, and inclusion (DEI) programs, often led by human resources departments, are seen as measures that offer valuable education and interactions, while also adding to an organization's moral and ethical "compass." But DEI efforts are also seen as measures that do not add to the financial bottom line. This article will explore ways of offsetting this narrow view and more fully realizing the business case for diversity.

Organizations with strong DEI initiatives are more likely to meet or exceed financial targets.

A comprehensive 2014 to 2019 study by McKinsey & Company found that workplaces with strong gender and ethnic diversity are more likely to produce better financial results than less diverse competitors.¹ The study found that in 2019, companies in the top quartile for gender diversity on executive teams were 25 percent more likely to have above-average profitability than companies in the bottom quartile. What's more, in terms of ethnic and cultural diversity, top-quartile companies outperformed those in the bottom quartile by 36 percent in profitability that same year.

Organizations with strong DEI initiatives are more likely to have high-performing teams.

The business case for diversity goes beyond quarterly financial reports. Competition for talent in the business world is often fierce, and organizations seen as prioritizing DEI are in a better position to succeed. The job search engine Glassdoor reports 67 percent of job seekers indicate that a diverse work environment was a key factor in their decision to work for an employer.²

The investment community is also prioritizing DEI criteria. The Institutional Limited Partners Association's (ILPA) Diversity in Action initiative requires participants to track hiring and

promotions by race and gender and to report employee demographic data while raising funds. Private equity firms that are low in DEI indicators risk losing coveted investments from large-scale institutional investors.

Organizations with strong DEI initiatives are more likely to be considered agile and innovative.

In today's fast-moving corporate environment, agility and innovation are imperative to success. Business agility is the ability to adapt quickly and effectively in the market and the environment. Agility embraces a people-centered, organization-wide capability that strongly encourages continuous improvement, trust, and collaboration. Agility empowers teams, individuals, and companies to satisfy customers' changing needs and expectations, in turn driving innovation.

Barriers that impede agility and innovation include:

- **Lack of prioritization.** An organization may take its customers (both employees and residents) for granted, assuming they are satisfied with periodic improvements. And that government may not invest enough in innovation, in turn neglecting customers' needs and failing to reward the strong innovators on their teams—some of whom may accept positions elsewhere.

- **Apathy dampens original thinking.** "Success breeds success," but it can also lead to complacency and to procedures that are more about protecting that success than ensuring its evolution or identifying the next big idea. There is no question that certain standardized systems and practices are important; the danger lies in accepting only one right way of doing things.
- **Humility is overlooked and undervalued.** Any organization needs confident, assertive leaders. But problems occur when they are not approached with humility—that is, an acknowledgment that someone else may have a piece of the puzzle that others have not discovered. A lack of true empowerment can lead to arrogance, stifling agility and innovation.

Organizations with strong DEI initiatives are more likely to achieve or exceed financial outcomes.

A 2018 study by Boston Consulting Group (BCG) found that companies with above-average diversity among their leadership ranks have a greater financial return on innovation and higher earnings before interest and tax margins.³ Moreover, BCG found that firms with above-average diversity on their management teams reported revenue that was 19 percentage points higher than organizations with less diverse management.

Conclusion

While important, finance concerns should not be the only reason to act. There is a compelling moral and ethical case to pursue DEI programs, as all workers deserve the right to be treated with dignity and compensated equitably. ■

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¹ "Diversity Wins: How inclusion matters," McKinsey & Company, May 2020.

² "What Job Seekers Really Think About Your Diversity and Inclusion Stats," Glassdoor, July 12, 2021.

³ Rocio Lorenzo, Nicole Voigt, Miki Tsusaka, Matt Krentz, and Katie Abouzahr. "How Diverse Leadership Teams Boost Innovation," Boston Consulting Group, January 23, 2018.