McKinsey & Company

Diversity wins

How inclusion matters

May 2020



Preface

In the COVID-19 crisis, diversity and inclusion matter more than ever

For business executives the world over, the COVID-19 pandemic is proving to be one of the greatest leadership tests of their careers. Not only must they protect the health of their employees and customers, they must also navigate far-reaching disruption to their operations, plan for recovery, and prepare to reimagine their business models for the 'next normal'.

In this challenging context, the task of fostering inclusion and diversity (I&D) could easily take a back seat—and the painstaking progress made by many firms in recent years could be reversed. As this report shows, however, I&D is a powerful enabler of business performance. Companies whose leaders welcome diverse talents and include multiple perspectives are likely to emerge from the crisis stronger. In short: diversity wins, now more than ever.

This report was originally due for release in March 2020, but we put publication on hold as the COVID-19 crisis ensued. Since then, in talking to CEOs, CXOs and CHROs and assessing the radically changed business landscape, we have come to the conclusion that its findings are even more relevant right now.

The report demonstrates that the business case for gender and ethnic diversity in top teams is stronger than ever. Since we first published Why Diversity Matters in 2015, the likelihood of diverse companies outperforming industry peers on profitability has increased significantly. The data also shows that there is a clear divergence in how companies are engaging with I&D. A third of the firms we have tracked over the past five years have significantly improved both gender and ethnic diversity on their executive teams, while the majority have stalled or gone backwards.

We also find that the dynamics around inclusion are a critical differentiator for companies. Our evidence is that an emphasis on representation is not enough; employees need to feel and perceive equality and fairness of opportunity in their workplace. Companies that lead on diversity have taken bold steps to strengthen inclusion.

Early signs suggest that the COVID-19 crisis could deepen these trends. Companies that already see I&D as a strength are likely to leverage it to bounce back quicker—and they will use this time to seek new opportunities to boost representation and inclusion to strengthen performance and organizational health. As the CEO of a European consumer-goods company told us: "I know we have to deal with COVID-19, but inclusion and diversity is a topic too important to put onto the back burner".

On the other hand, some of the companies we have spoken to are viewing I&D as a "luxury we cannot afford" during the crisis. We believe that these companies risk tarnishing their license to operate in the long term and could lose out on very real opportunities to innovate their business model and strengthen their business recovery.

If companies deprioritize I&D during the crisis, the impact is felt not just on the bottom line but in people's lives. Research and experience warn us that diverse talent can be at risk during a downturn for several reasons, including that downsizing can have a disproportionate impact on the roles typically held by diverse talent.[1,2] As companies send staff home to work, this could reinforce existing exclusive behaviors and unconscious biases and undermine inclusion. In addition, unequal sharing of childcare and homeschooling responsibilities, and unequal availability of home workspace and access to broadband could be putting women and minorities at a disadvantage during this time of working remotely.

Companies and their leaders can seize this moment—both to protect the gains they have already made, as well as to leverage I&D to position themselves to prosper in the future.

1 How "Neutral" Layoffs Disproportionately Affect Women and Minorities, HBR, June 2016
2 McKinsey & Company, Women in the Workplace 2019

There is ample evidence that diverse and inclusive companies are likely to make better, bolder decisions—a critical capability in the crisis. For example, diverse teams have been shown to be more likely to radically innovate and anticipate shifts in consumer needs and consumption patterns—helping their companies to gain a competitive edge.[3]

In this context, the shift to technology-enabled remote working presents an opportunity for companies to accelerate building inclusive and agile cultures—further challenging existing management routines. With its benefits of increased flexibility, remote working can facilitate retention of women and minorities, who are often shouldered with a disproportionate share of family duties. It thus widens access to an array of diverse talent that may not have been available to companies previously.[4]

Moreover, a visible commitment to I&D during the crisis is likely to strengthen companies' global image and license to operate. In times of crisis, stakeholders typically interrogate a company's purpose and values even more closely, potentially even more so in the current pandemic. Those that tap into the growing sense of solidarity that is a characteristic of the crisis—by reaffirming their commitment to I&D, supporting vulnerable talent who are at greater risk of infection, and reaching out to local communities—could strengthen employee motivation and win lasting approval.

The findings and case studies presented in this report will be of enduring relevance to companies in every industry, long after the world has emerged from the COVID-19 crisis. But we are convinced that, as companies and their leaders navigate the crisis itself and plan their emergence from it, they will find that I&D is an essential enabler of recovery, resilience, and reimagination.

[3] Ibid.
[4] https://www.nytimes.com/2020/03/31/us/equal-pay-coronavirus-economic-impact.html

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Executive summary

The business case for inclusion and diversity (I&D) is stronger than ever. For diverse companies, the likelihood of outperforming industry peers on profitability has increased over time, while the penalties are getting steeper for those lacking diversity.

Progress on representation has been slow, yet a few firms are making real strides. A close look at these diversity winners shows that a systematic, business-led approach and bold, concerted action on inclusion are needed to make progress.

Diversity Wins is the third in a McKinsey series investigating the business case for diversity, following *Why Diversity Matters* (2015) and *Delivering through Diversity* (2018).[1] This report shows not only that the business case remains robust, but also that the relationship between diversity on executive teams and the likelihood of financial outperformance is now even stronger than before. These findings are underpinned by our largest data set to date, encompassing 15 countries and more than 1,000 large companies. The report also provides new insights into how inclusion matters, through an analysis of employee sentiment in online reviews; this shows that companies need to pay much greater attention to inclusion, even in relatively diverse industries.

By following the trajectories of hundreds of large companies in our data set since 2014, we find that overall slow growth in diverse representation in fact masks a growing polarization between these firms. While most are stalled or even slipping backwards, some are making impressive progress in improving diversity, particularly in executive teams. We show that these diversity winners are adopting systematic, business-led approaches to I&D, with special focus on inclusion. And we highlight the areas where companies should take far bolder action to bring about lasting change in inclusive culture and behavior.

A stronger business case for diversity, but slow progress overall

Our latest analysis reaffirms the strong business case for both gender diversity and ethnic and cultural diversity in corporate leadership—and shows that this business case continues to strengthen. The most diverse companies are now more likely than ever to outperform non-diverse companies on profitability.

Our 2019 analysis finds that companies in the top quartile of gender diversity on executive teams were 25 percent more likely to experience above-average profitability than peer companies in the fourth quartile. This is up from 21 percent in 2017 and 15 percent in 2014.

Moreover, we found that the higher the representation, the higher the likelihood of outperformance. Companies with more than 30 percent women on their executive teams are significantly more likely to outperform those with between 10 and 30 percent women, and these companies in turn are more likely to outperform those with fewer or no women executives. As a result, there is a substantial performance differential—48 percent—between the most and least gender-diverse companies.

[1] The data set for *Diversity Matters* was assembled in 2014, while that for *Delivering through Diversity* was assembled in 2017. Likewise, this report, published in 2020, is built on data gathered in 2019. We therefore refer to three data sets in this report—for 2014, 2017 and 2019.



In the case of ethnic and cultural diversity, the findings are equally compelling. We found that companies in the top quartile outperformed those in the fourth by 36 percent in terms of profitability in 2019, slightly up from 33 percent in 2017 and 35 percent in 2014. And, as we have previously found, there continues to be a higher likelihood of outperformance difference with ethnicity than with gender.

Despite this, progress overall has been slow. In the companies in our original 2014 data set, based in the United States and the United Kingdom, female representation on executive teams has risen from 15 percent in 2014 to 20 percent in 2019. Across our global data set, for which our data starts in 2017, this number has moved up just one percentage point from 14 to 15 percent in 2019—and more than a third of companies still have no women at all on their executive teams. This lack of material progress is evident across all industries and in most countries. Similarly, representation of ethnic minorities on US and UK executive teams stood at only 13 percent in 2019, up from just 7 percent in 2014. For our global data set in 2019, this number is 14 percent, up from 12 percent in 2017.

The widening gap between winners and laggards

While overall progress on representation is slow, our research makes it clear that this in fact hides a widening gap between leading I&D practitioners and companies that have yet to embrace diversity. A third of the firms we analyzed have achieved real gains in top-team diversity over the five-year period. But most firms have made little progress or remained static and, in some, gender and cultural representation has even gone backwards.

This growing polarization between high and low performers is reflected in an increased likelihood of a performance penalty. In 2019, fourth-quartile companies for executive-team gender diversity were 19 percent more likely than companies in the other three quartiles to underperform on profitability. This is up from 15 percent in 2017 and nine percent in 2015. And for companies in the fourth quartile of both gender and ethnic diversity the penalty is even steeper in 2019: they are 27 percent more likely to underperform on profitability than all other companies in our data set.

By tracking the progress of companies in our original 2014 data set, we identified five cohorts based on their starting points and speed of progress on executive-team gender representation and, separately, ethnic-minority representation. The first two cohorts, Diversity Leaders and Fast Movers, have shown strong improvement over the past five years. For example, gender Fast Movers have almost quadrupled representation of women on executive teams to 27 percent in 2019; for ethnicity, companies in the equivalent cohort have increased representation from just 1 percent in 2014 to 18 percent in 2019.

At the other end of the spectrum are the Laggards, which have seen their already poor diversity performance decline further. In 2019, these firms had an average of 8 percent female representation on their executive teams—and no ethnic-minority representation at all. The two other cohorts are Moderate Movers, which have on average experienced slower growth, and Resting on Laurels, which started with higher levels of representation than did Laggards, but have similarly seen this decline since 2014.

We also found that the average likelihood of financial outperformance in these cohorts is consistent with our findings in the quartile analysis above. For example, in 2019 companies in the Resting on Laurels cohort on average have the highest likelihood of outperformance on profitability, at almost 62 percent—possibly reflecting their historically high levels of diversity on executive teams. Laggards, on the other hand, are more likely to underperform their national industry median profitability, at 40 percent.

How inclusion matters

We sought to explore how differing approaches to I&D could have shaped the trajectories of the companies in our data set, through analysis of surveys and company research. These pointed to two critical factors: a systematic approach to I&D, and bold action on inclusion.

We have previously advocated a systematic, business-led approach to I&D, based on a robust bespoke business case, evidenced-based targets and core-business leadership accountability.

To further understand how inclusion matters—and specifically what aspects of inclusion employees consider to be significant—we conducted for the first time an analysis of indicators relating to inclusion, outside-in. This analysis focused on employee reviews about the firms they work for made on online recruitment websites.

While this approach is indicative, it provides a more candid read on inclusion than internal employee-satisfaction surveys do—and it allows data across dozens of companies to be analyzed rapidly and simultaneously. We focused on three industries with the highest levels of executive-team diversity in our data set: financial services, technology and healthcare. In these sectors, comments directly pertaining to I&D made up around one-third of the total comments made, showing that this topic is high on employees' minds.

We analyzed comments relating to five indicators. The first two—diverse representation and leadership accountability for I&D—are markers of a systematic approach to I&D. The other three indicators—equality, openness, and belonging—are core components of inclusion. Across several of these indicators, our findings suggest that there are marked "pain points" in the experiences of employees, as follows:

— While overall sentiment on diversity was 52 percent positive and 31 percent negative, sentiment on inclusion was markedly worse at only 29 percent positive and 61 percent negative—which encapsulates the challenge that even the more diverse companies still face in tackling inclusion. Hiring diverse talent isn't enough—it's the experience they have in the workplace that shapes whether they remain and thrive.

— Leadership and accountability as it pertains to I&D accounted for the highest number of mentions, and was also strongly negative. On average across industries, 51 percent of the total mentions related to leadership, and 56 percent of those mentions had negative sentiment. This underscores the increasingly recognized need for companies to engage their core business managers better in the I&D effort.

— Considering the three indicators of inclusion—equality, openness, and belonging—we found particularly high levels of negative sentiment around equality and fairness of opportunity. Negative sentiment around equality ranged from 63 to 80 percent across the industries analyzed. Openness of the working environment, which encompasses bias and discrimination, was also of significant concern, with negative sentiment across industries ranging from 38 to 56 percent. Belonging elicited overall positive sentiment, but from a relatively small number of mentions.

These findings highlight the importance not just of inclusion overall, but specifically of the varying extents to which particular aspects of inclusion matter. Even where companies are more diverse, many appear as yet unable to cultivate work environments which effectively promote inclusive leadership and accountability among managers, equality and fairness of opportunity, and openness and freedom from bias and discrimination.

Winning through inclusion and diversity: taking bold action

We took a close look at the companies in our data set that are achieving higher levels of diversity—and benefitting from an increased likelihood of financial outperformance. The common thread for these diversity winners is a systematic approach, together with bold steps to strengthen inclusion. Drawing on best practices from these firms, this report highlights five areas of action for companies, as follows:

— **Ensure representation of diverse talent.** This is still an essential driver of inclusion. Companies should focus on advancing diverse talent into executive, management, technical and board roles. They should ensure that a robust, bespoke business-driven case for I&D exists and is well accepted, while being thoughtful about which forms of multivariate diversity to prioritize (for example, going beyond gender and ethnicity). They also need to set the right data-driven targets for representation of diverse talent.

— **Strengthen leadership accountability and capability for I&D.** Companies should place their core business leaders and managers at the heart of the I&D effort—beyond their HR functions or employee resource-group leaders. They also need to strengthen inclusive leadership capabilities among their managers as well as their executives, and more emphatically hold all leaders to account for progress on I&D.

— **Enable equality of opportunity through fairness and transparency.** It is critical that companies ensure that there is a level playing field in advancement and opportunity, in pursuit of true meritocracy. Companies should deploy analytics tools to build visibility into the extent to which promotions and pay processes and criteria are transparent and fair. They should de-bias these processes and work to meeting diversity targets across long-term workforce plans.

— **Promote openness and tackle microaggressions.** Companies should uphold a zero-tolerance policy for discriminatory behavior such as bullying and harassment—and actively build the ability of managers and staff to identify and address microaggressions. They should also establish norms for what constitutes open, welcoming behavior, and ask leaders and employees to assess each other on how they are living up to that behavior.

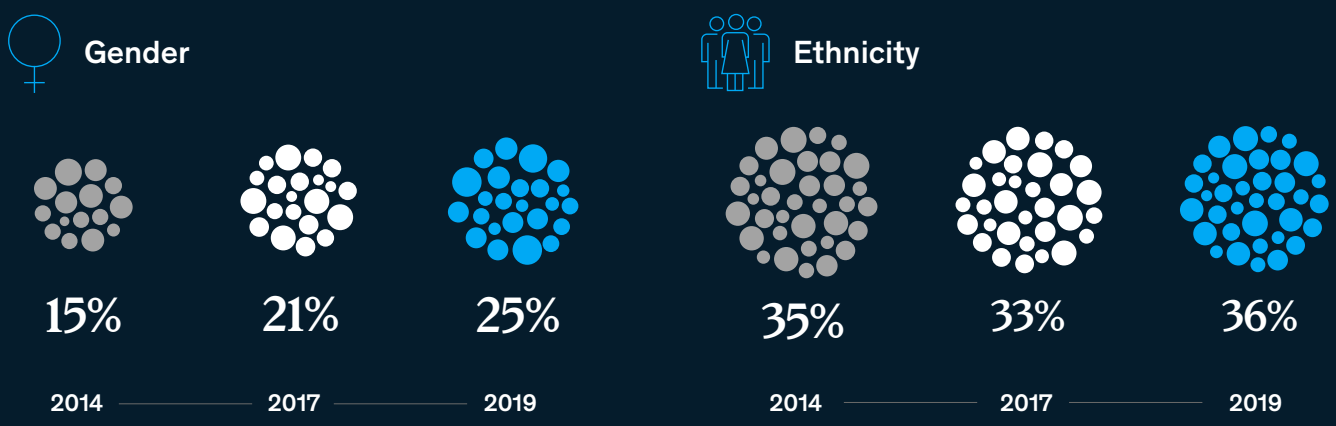
— **Foster belonging through unequivocal support for multivariate diversity.** Companies should build a culture in which all employees feel they can bring their whole selves to work. Managers should communicate and visibly embrace their commitment to multivariate forms of diversity, building connection with diverse individuals and supporting employee resource groups to foster a sense of community and belonging. Companies should also explicitly assess belonging in internal surveys.



The business case for inclusion & diversity is stronger than ever

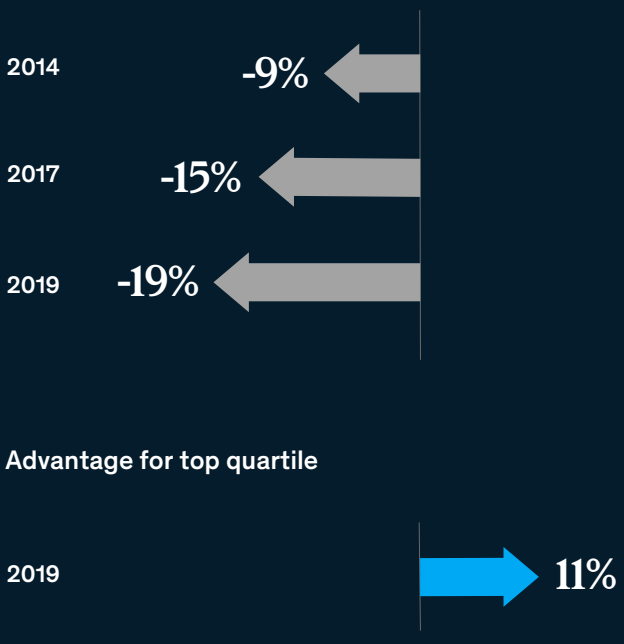
Diverse companies are **more likely** to financially outperform their peers

Difference in likelihood of outperformance of 1st vs 4th quartile[1]



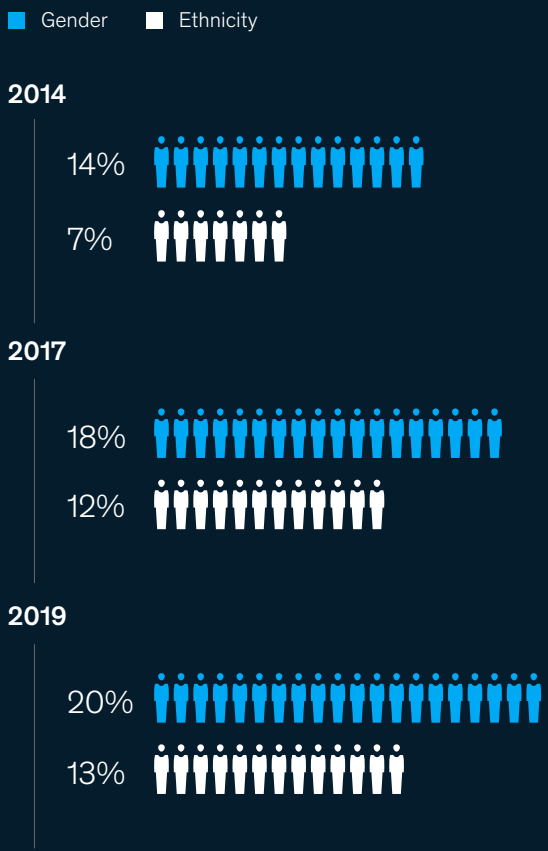
The **penalty for lagging** on gender diversity is growing, while top quartile companies are **more likely to be at an advantage**

Difference in likelihood of financial outperformance[2]



Progress on executive team diversity in our 2014 dataset **continues to be slow**

Representation in US and UK



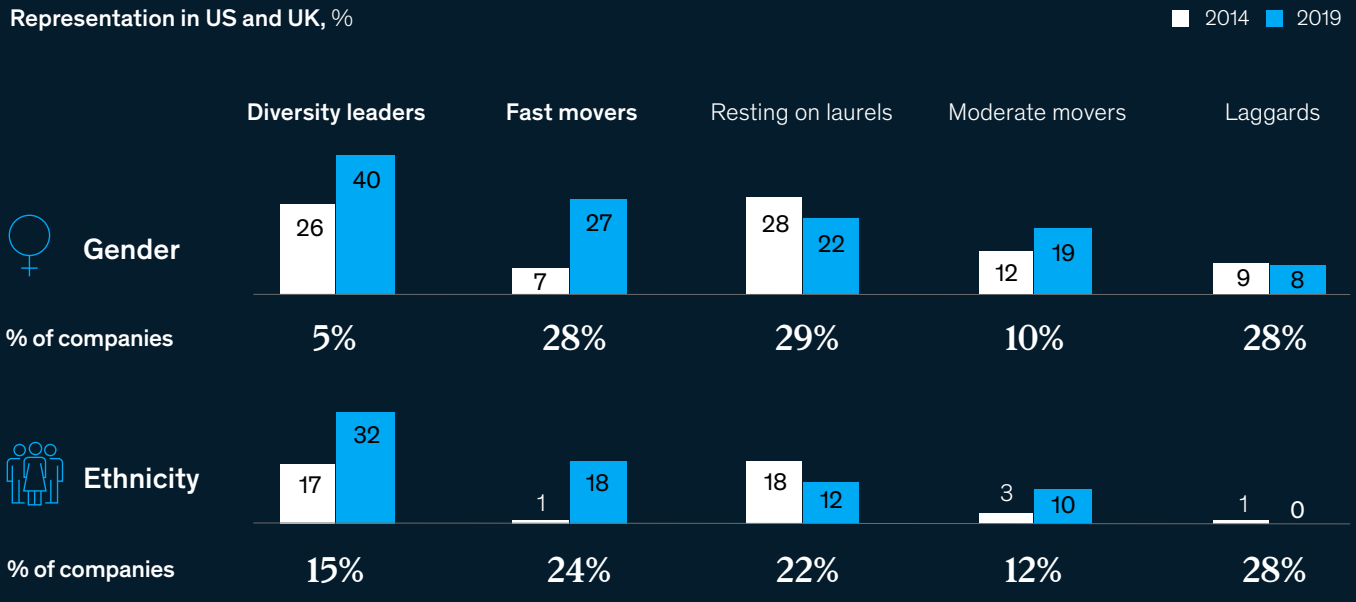
[1] Difference in likelihood of financial outperformance vs the national industry median of five years average EBIT margin, using the full dataset of companies in each year.

[2] Difference in likelihood of financial outperformance vs the national industry median of five years average EBIT margin for 4th quartile vs 1st-3rd quartile, and 1st quartile vs 2nd-4th quartile, using the full dataset of companies in each year.

There is a widening gap between leaders and laggards

One-third of the firms we tracked since 2014 have achieved real gains in executive team diversity. However **about 50% have made little or no progress** and, within that, many have seen gender and ethnic minority representation **even go backwards**.

Representation in US and UK, %



Promoting diversity does not ensure a culture of inclusion

We used a **social listening approach** to analyze employer reviews posted online[3]

Overall sentiment on diversity is positive

52% positive

31% negative

But sentiment on inclusion is the opposite

29% positive

61% negative

Bold actions are needed to strengthen both inclusion and diversity

A systematic, business-led approach to I&D

1. Increase diverse representation, particularly in leadership and critical roles
2. Strengthen leadership and accountability for delivering on I&D goals

Bold steps to strengthen inclusion

3. Enable equality of opportunity through fairness and transparency
4. Promote openness, tackling bias and discrimination
5. Foster belonging through support for multivariate diversity

[3] Social listening is the action of tracking social media platforms for mentions and conversations related to a brand or topic, then analyzing them for insights to discover opportunities to act; US only.

Introduction

Over the past decade, many companies around the world have incorporated I&D into their visions and strategies. Increasingly, business leaders recognize that a diverse and inclusive employee base—with a range of approaches and perspectives—is an asset when competing in a fast-moving, globalized economy.

Along with growing acceptance of the business case for I&D, progress has been helped along by regulatory pressure, media scrutiny, and an upswelling of social-justice demands.

Yet significant, sustainable progress remains challenging. Companies are struggling not because they haven't put I&D on the agenda, but because it's hard to get right. Common pitfalls include fragmented I&D initiatives, overly relying on individual commitments, and the lack of a clear link with the company's core business strategy. Many companies are battling additional headwinds of uncertainty over the economy and the future of work more broadly, as well as the threat of diversity fatigue and backlash.

This report, the third in the series after *Why Diversity Matters* (2015) and *Delivering through Diversity* (2018), shows how some companies are winning through diversity—and how others can do the same. It continues to focus on diversity of gender and of ethnicity and culture in executive teams—the leadership groups that drive company strategy and organizational transformation, and act as bellwethers for a company's commitment to I&D. *Diversity Wins* draws on an expanded data set of more than 1,000 large companies in 15 countries, comprising of company surveys, case studies, and interviews, as well as new analysis of employee sentiment about I&D. (See Box 1: Expanded data set, updated methodology.)

The report sets out the findings of this research, and the actions needed to strengthen I&D, in four sections as follows:

- A stronger business case for diversity, but slow progress overall
- The widening gap between winners and laggards
- How inclusion matters
- Winning through inclusion and diversity: taking bold action

Box 1

Expanded data set, updated methodology

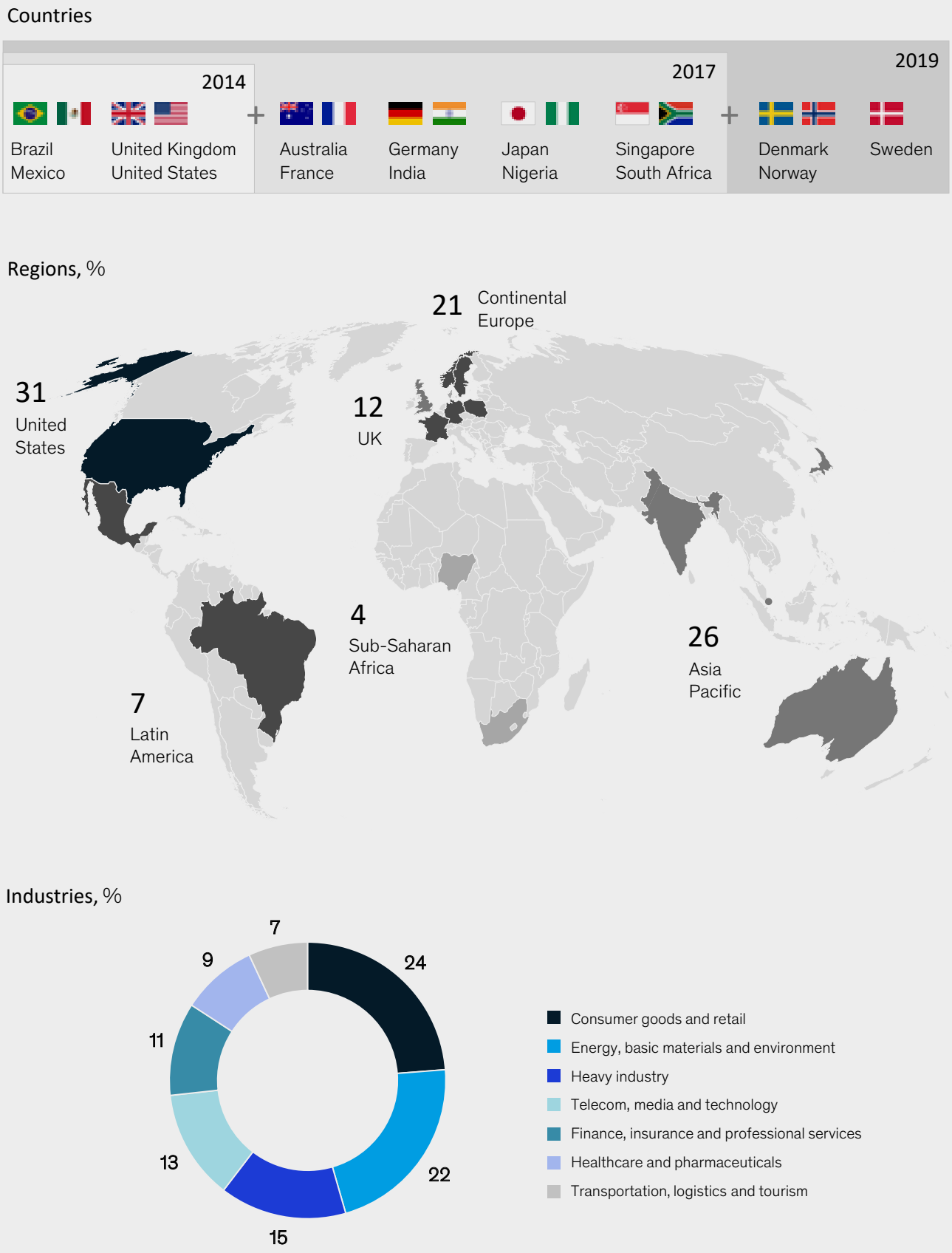
Our purpose in the Diversity Matters series is to explore the link between increased gender and ethnic diversity in companies' top teams, and those companies' business performance. We also seek to provide a robust basis for tracking companies' progress in advancing I&D among their leadership. In so doing, we continue to substantiate the business case for diversity, and provide helpful insights for companies seeking to strengthen diversity and translate it into business results.

Over the past five years, we have tracked the progress of hundreds of large companies (each with annual revenues exceeding $1.5 billion) in countries around the world. For this report, we have expanded that global data set to take in 1,039 companies in 15 countries: Australia, Brazil, France, Germany, Norway, Denmark, India, Japan, Mexico, Nigeria, Singapore, South Africa, Sweden, the United Kingdom, and the United States.

Exhibit 1

Our data set spans over 1,000 companies in 15 countries

Distribution of sample by country and industry group[1], %



1. n = 1,039.

Source: McKinsey Diversity Matters data set

Drawing on this unique data set, we have been able to conduct longitudinal analysis of 365 large US- and UK-based companies included in our sample since 2014. For dozens of these companies, we have conducted in-depth interviews with senior executives to understand their I&D challenges, strategies and progress. That, in turn, has supported a segmentation of the companies into five distinct cohorts.

We also undertook additional quantitative analysis of inclusion in this report—the first time we have done so. We used outside-in analysis of employee sentiment on I&D in several major industries to understand the relationship between inclusion and the experiences of diverse talent in organizations, what drives their engagement, and how this influences diverse representation.

We should note that this report's focus on executive teams is deliberate, as these leaders are the primary drivers of company strategy and organizational transformation.

That said, I&D in other areas of leadership and management is, of course, important too. We include a brief discussion of diversity at board level in this report, and we consider I&D across company levels in other McKinsey research.[2]

Finally, although our research focuses on gender and ethnicity as intrinsic forms of diversity which are measurable at scale, we recognize the increasingly multivariate nature of diversity—including multiple forms of acquired diversity such as educational or socio-economic background, or diversity of thought. Over the past decade, traditional identities of race and gender have fractured as people start to embrace openly a more fluid sense of who they are, highlighting the need to recognize multiple forms of intersectionality. Although this is more difficult to measure, it is a significant additional driver of the need to focus on inclusion.

For further detail on our methodology, see page 48.

[2] See, for example, Women in the Workplace 2019, October 2019, McKinsey.com.



A stronger business case for diversity, but slow progress overall

The business case for I&D as a source of competitive advantage is growing stronger. Increasingly, we find that the most diverse companies recognize I&D as more than a social-justice imperative; they also see it as a core enabler of growth and value creation. These diversity winners are pulling ahead of the rest.

For five years our research has shown a positive, statistically significant correlation between company financial outperformance and diversity, on the dimensions of both gender and ethnicity. This is evident at different levels of the organization, particularly on executive teams. In our updated 2019 data set—covering 15 countries on five continents—this correlation holds and is even stronger. And we are also seeing that the positive correlation between board diversity and financial outperformance observed in our previous research has now become statistically significant. (See Box 2: The increasingly clear link between board diversity and business performance.)

For both executive teams and boards, gender and ethnic diversity has progressed—but progress is still very slow. But this overall picture masks the fact that some companies have made impressive advances over the past five years. Across geographies and industries, these diversity winners are pulling ahead on both gender and ethnic diversity on executive teams. In this section of the report we consider each dimension in turn.

Box 2

The increasingly clear link between board diversity and business performance

Our expanded 2019 data set shows that companies whose boards are in the top quartile of gender diversity are 28 percent more likely than their peers to outperform financially. In previous years, while the correlations were positive between board gender diversity and outperformance on earnings before interest and taxation (EBIT) margin, they were not statistically significant; now they are.

This difference in significance could be linked to an overall rise in female representation on boards. In recent years, many countries have ramped up efforts to boost this, as evidenced by the significant uptick in representation we have observed in several countries. For example, companies in France and Norway have, on average, over 40 percent women on their boards. We hypothesize that this higher representation may be linked to the increased likelihood of financial outperformance of their companies becoming statistically significant.

The interplay between boards, executive teams and company profitability is not well understood. Could these more diverse boards be operating differently? Or could a visible commitment to board diversity be signaling a company's openness towards increasingly diverse customers, employees, businesses and communities, which in turn is positively influencing financial performance? Board diversity could symbolize a company's commitment to equality, innovation and inclusive growth. Certainly, these questions warrant further research.[3]

[3] "Toward a value-creating board: McKinsey Global Survey results," 2016, McKinsey.com.

A clear opportunity from pushing towards gender parity

When we assessed our original 2014 data set, we found that companies in the top quartile for gender diversity in their executive teams were 15 percent more likely to experience above-peer-average profitability than companies in the fourth quartile.[4] Three years later, in our Delivering through Diversity report, this had increased to 21 percent. In our 2019 data set, it has increased again to 25 percent (Exhibit 2). As mentioned above, female representation on executive teams has also increased slowly but steadily during this time frame, widening the gap between the top and bottom quartiles. This has also been the case for gender diversity on boards, which we discuss in Box 2.

Female representation on the executive teams of the mostly US and UK companies we have been tracking since 2014 has risen from 15 percent in 2014 to 20 percent in 2019. This represents an annual average change over the past five years of just 1.1 percentage points per year. Progress on gender diversity in boards has been similarly slow, albeit with a marked uptick in the past two years. Across our full 2019 data set of 15 countries, progress (tracked since 2017) has been even slower (Exhibit 3). Women make up just 15 percent of executive-team membership, and more than a third of companies have no women at all on their executive teams.

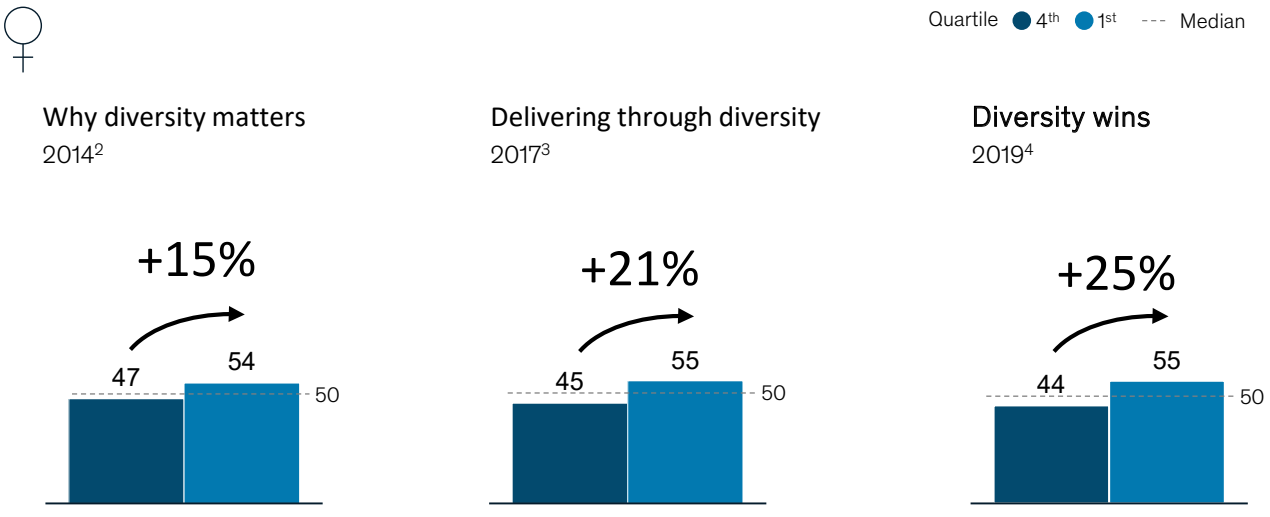
Taking a country lens, progress towards female representation on executive teams is low in most countries (Exhibit 4). We observe extremes in representation, ranging from Norway, where all the companies in our data set have at least one female executive, to several major economies—including Brazil, India, Germany and Japan—where up to 83 percent of companies have zero women on their executive teams, and female representation averages 8% or less. Developed countries on average have higher rates of diversity representation than do emerging economies. (See Box 3: Comparing gender diversity in developed and emerging economies.)

[4] Our 2014 original data set consisted of 383 companies largely in the United States and the United Kingdom. In 2017, this data set had grown to 991 companies from 12 countries and our 2019 data set consisted of 1,039 companies from 15 countries, including three Scandinavian countries; *Women Matter: Reinventing the workplace to unlock the potential of gender diversity*, 2015, McKinsey.com.

Exhibit 2

The business case for gender diversity on executive teams is stronger than ever

Likelihood of financial outperformance[1], %

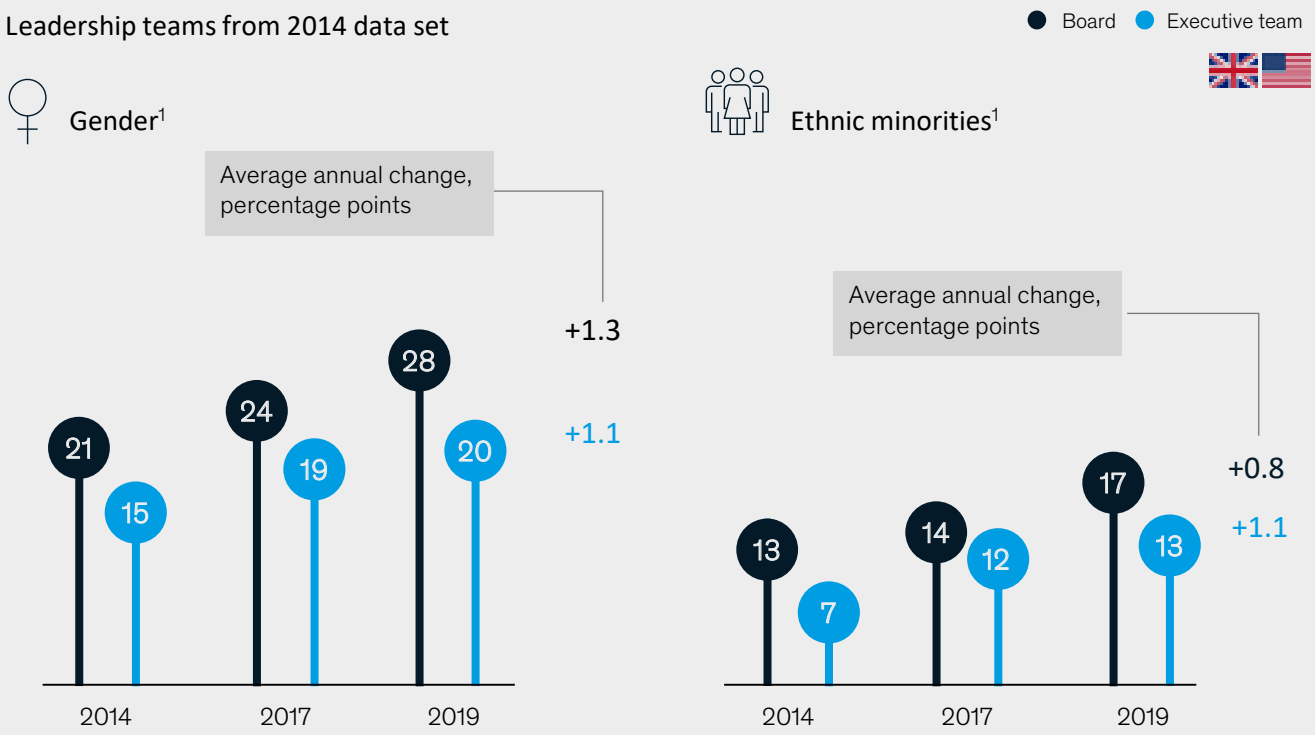


1. Likelihood of financial outperformance vs the national industry median. p-value <0.05, except 2014 data where p-value <0.1.
2. n = 383; US, UK, and Latin America; EBIT margin 2010-2013.
3. n = 991; US, UK, Brazil, Mexico, Australia, Japan, India, Singapore, Germany, France, South Africa, and Nigeria; EBIT margin 2011-2015.
4. n = 1,039; 2017 companies for which gender data available in 2019 plus Denmark, Norway, and Sweden; EBIT margin 2014-2018.

Exhibit 3

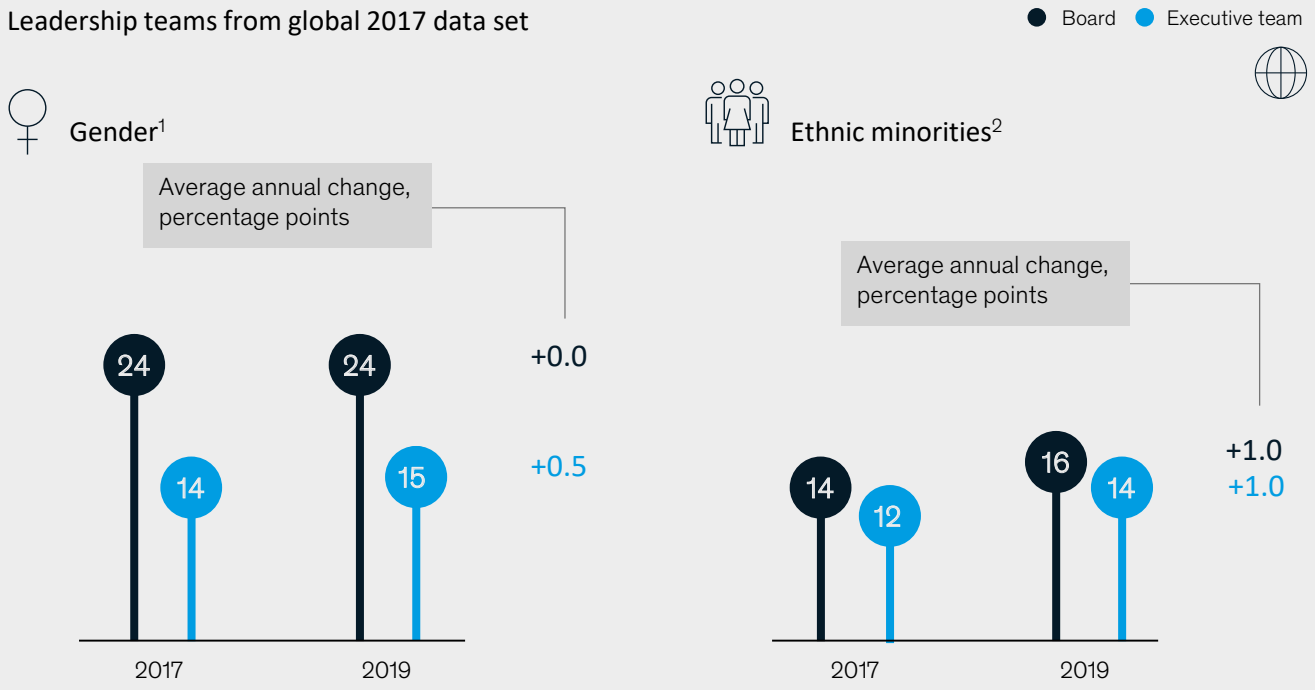
Gender and ethnic diversity in leadership teams has progressed slowly in our original 2014 data set

Representation, %



1. n = 365 for women and n = 241 for ethnic minorities; Subset of companies from *Diversity Matters* 2014 dataset with ethnicity data available for 2014, 2017 and 2019.

Source: McKinsey Diversity Matters data set



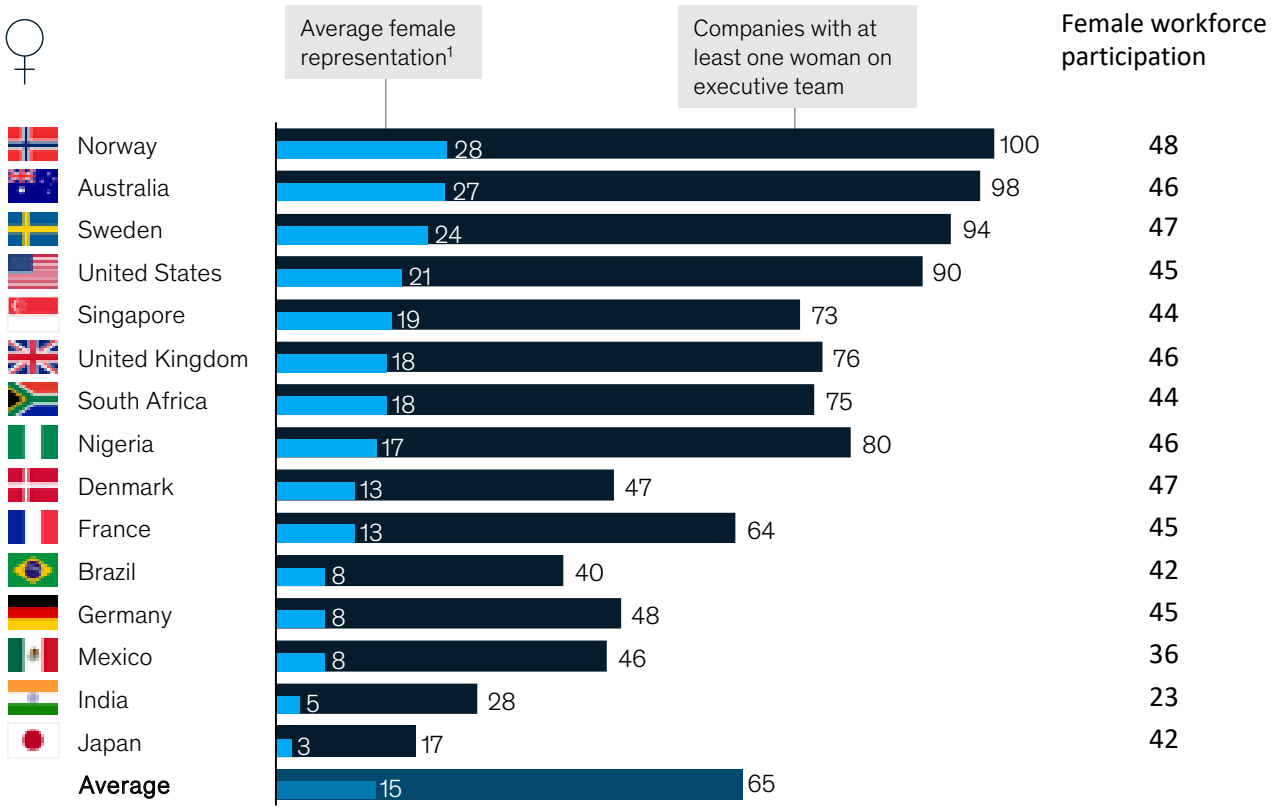
1. n = 957 (global dataset) in 2017 and 2019.
2. n = 528 (global dataset) in 2017 and 2019.

Source: McKinsey Diversity Matters data set

Exhibit 4

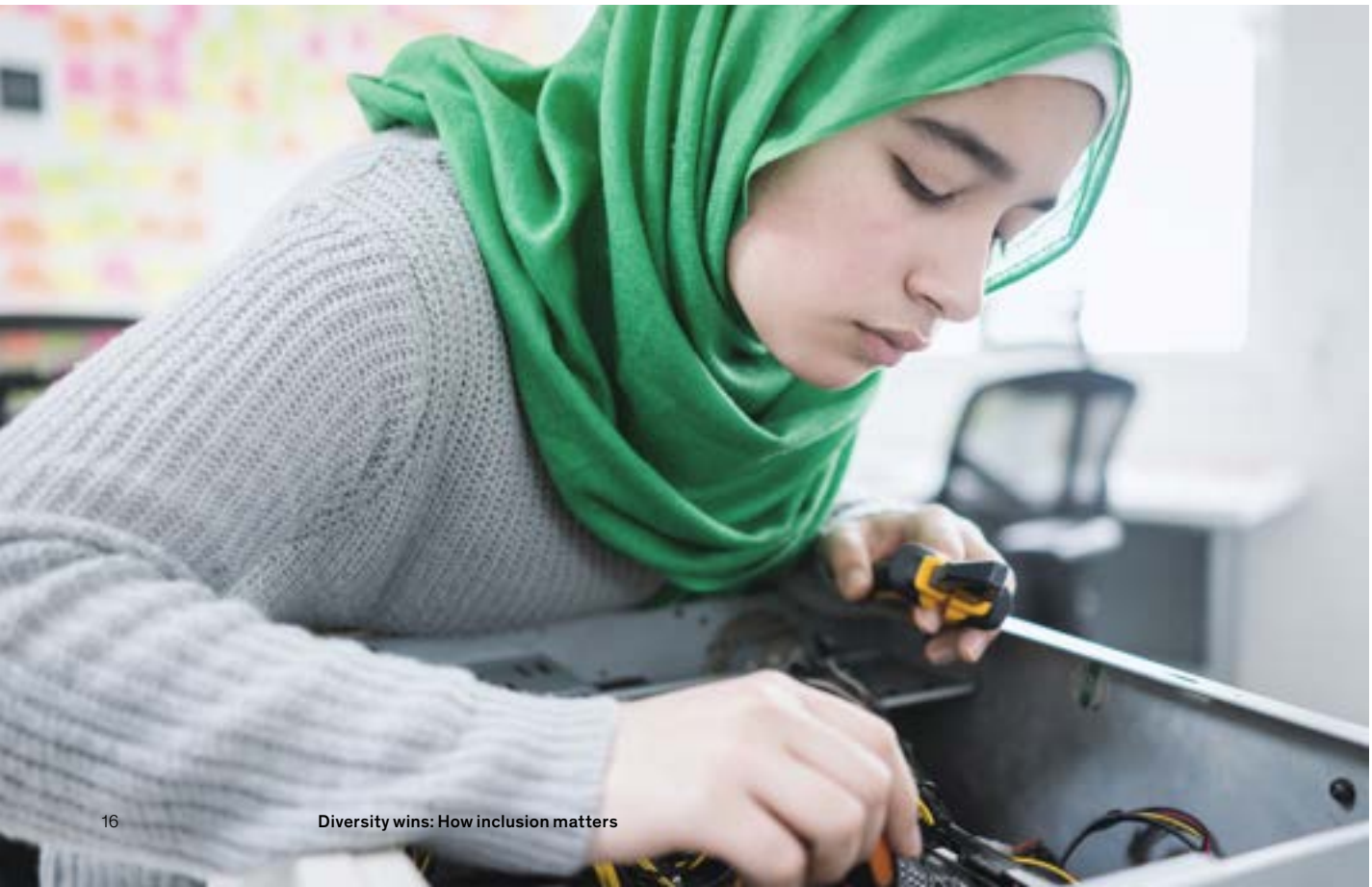
In nearly all 15 countries, women are underrepresented on executive teams

Female representation, %



1. n = 1,039; 2019. Respective weighted averages: 9% and 45%

Source: Diversity Matters data set; World Bank (labor force participation rate, September 2019)



At the current rate of progress, it will take 29 years and 24 years respectively for the average US and UK company in our data set to reach gender parity on its executive team, and 18 years and 13 years on boards.[5] Again, that picture differs radically by country: comparable figures for Brazil are 238 years on executive teams and 27 years on boards.[6]

The overall slow pace of progress across industries and countries is a missed opportunity—and leaves most companies far off well-established targets, such as the minimum 30 percent female representation on boards and executive teams put forward by the United Kingdom's 30% Club a decade ago. This coalition of business leaders believes the following:

"Gender balance on boards and in senior management not only encourages better leadership and governance, but diversity further contributes to better all-round board performance, and ultimately increased corporate performance for both companies and their shareholders."[7]

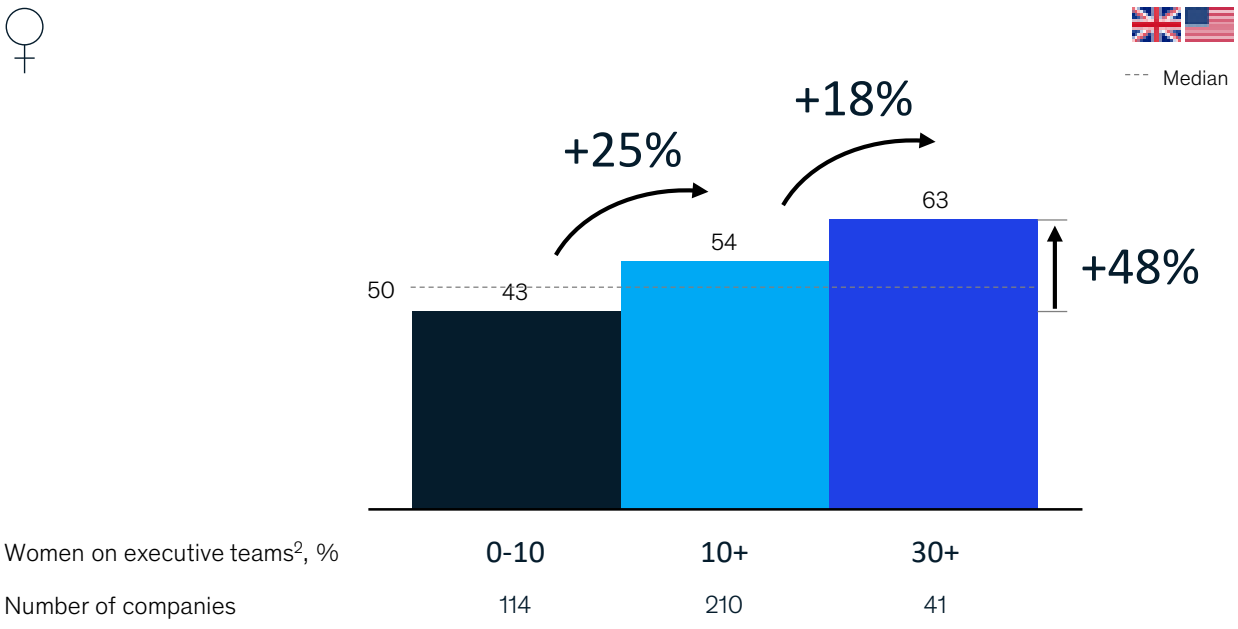
Our data set appears to substantiate this view and shows that there are likely additional benefits to pushing for gender parity on executive teams. In our US and UK data set, companies with female executive-team representation exceeding 30 percent are significantly more likely to outperform those whose executive teams are between 10 and 30 percent female.[8] Those companies, in turn, are more likely to outperform those with fewer than 10 percent female executive-team representation. As a result, there is a substantial likelihood of outperformance differential—48 percent—between the most and least gender-diverse companies (Exhibit 5).

5 Calculated by extrapolating rates of increase in representation since 2014 in our original data set.
6 Our 2015 *Women in the Workplace* report stated that companies in the United States were 100 years away from gender parity in the C-suite, based on progress in female representation between 2012 and 2015. While this progress has accelerated over the 2014–19 time period, we should also note that our current report draws on a different data set of companies, so its findings are not strictly comparable with those of Women in the Workplace.
7 https://30percentclub.org/about/who-we-are. In the United Kingdom, the target of 30 percent average female representation on executive teams and boards of major listed companies has since been met.
8 On EBIT margin.

Exhibit 5

Executive teams with more than 30% women are more likely to outperform those with fewer or no women

Likelihood of financial outperformance[1], 2014, %



1. Likelihood of financial outperformance vs the national industry median.
2. n = 365; US and UK; EBIT 2014-2018.

Source: Diversity Matters data set

This finding begins to substantiate the business rationale for pushing further than historical 30 percent representation targets, and closer towards gender parity on executive teams. Yet very few companies today are close to this. In our latest data set, only around 4 percent of companies have more than 40 percent women on their executive team. On the other hand, 42 percent of companies have 10 percent or less female executives.

Taking a view across industries, we find significant differences in the rates of progress since 2014 (Exhibit 6). Female representation in executive teams has increased at the fastest rates in the financial services and the technology and media industries, at about 1.5 percentage points a year. In healthcare, by contrast, it has increased at just 0.3 percentage points a year, despite this being an industry where female representation at entry level is particularly high. Surprisingly, this starting point does not appear to have led to a stronger push towards gender parity in healthcare leadership—as the slow growth rate shows.

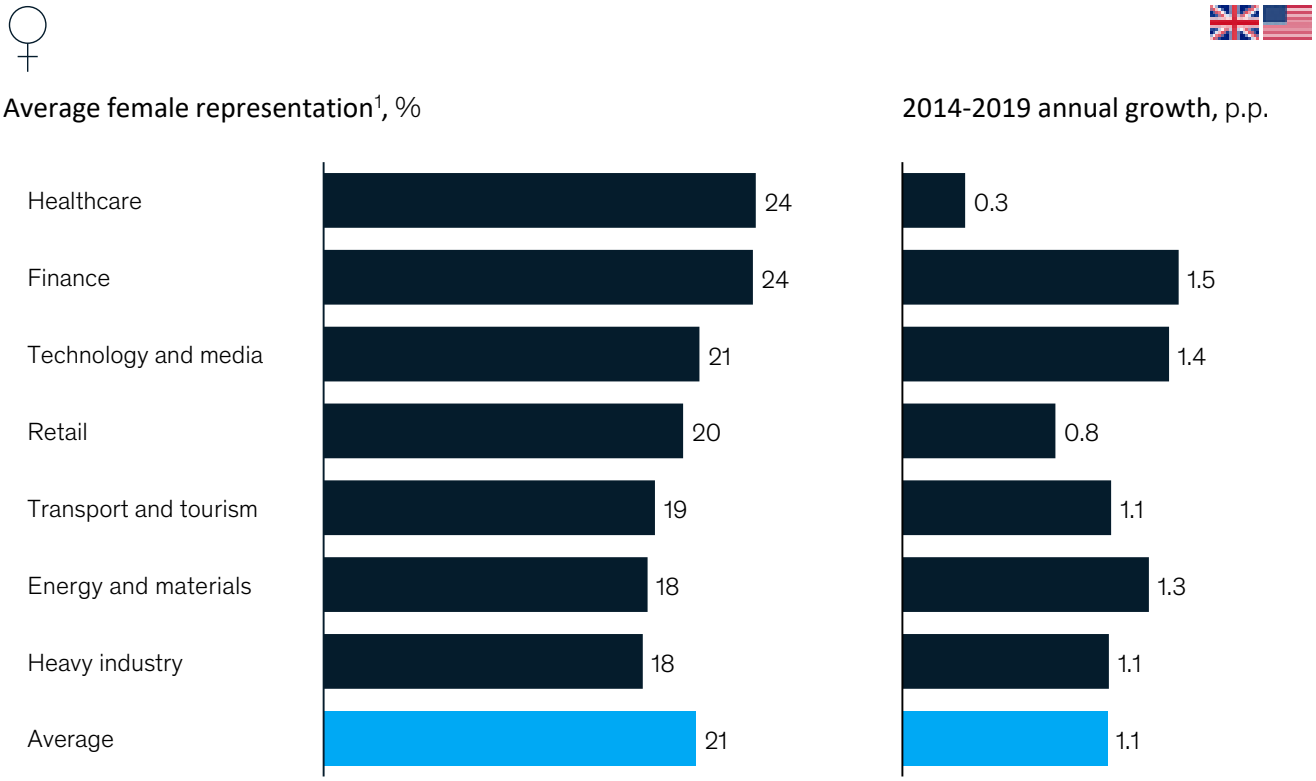
We also took a close look at the roles women occupy in executive teams—in particular, the extent to which they occupy line decision-making roles, which have the most direct influence on business performance and provide a stronger path to the CEO position. Only one-third of women executives in our 2019 data set sample occupied line roles, with two-thirds occupying support or staff roles. Further, for companies in the bottom two quartiles for gender diversity, the proportion of women in staff roles is even greater. These proportions have barely shifted since we started tracking such roles in 2017, and are consistent across other areas of our research.[9]

Taking an intersectional lens to our US data set, we find that black women continue to be disproportionately underrepresented in line roles, with only 5 percent of female line roles held by black women. Of the 33 percent of women who occupy line roles, the vast majority—83 percent—are white. Asian women (9 percent) and Hispanic women (2 percent) make up the rest. In the United Kingdom the picture is similar.

[9] *Women in the Workplace*, October 2018 & 2019, McKinsey.com.

Exhibit 6

Across major industries, female executive representation remains below 25%, and has increased slowly since 2014



1. n = 365; US and UK; 2019.

Source: Diversity Matters data set

Previous McKinsey research has found that black women face the greatest barriers to progress in the workplace, a consequence of accumulation of different forms of discrimination, including racism, sexism, and classism. In the United States, for example, we have shown that for every 100 men who receive their first promotion from entry level to manager, only 79 women receive that same promotion. For black women that number is 60.[10]

In aggregate, the above findings make it clear that there is opportunity for most companies to take much bolder action to advance gender diversity on executive teams—and to push towards parity and increased representation in line decision-making and technical roles.

[10] *Women in the Workplace 2019*, op. cit.



Box 3

Comparing gender diversity in developed and emerging economies

We compared the likelihood of outperformance on profitability for firms in advanced economies with that for their counterparts in emerging economies. We hypothesized that the business case for gender diversity would be stronger in advanced economies where markets are typically more efficient and the I&D agenda is often more advanced at national level.

What we found backs this up. The likelihood of financial outperformance by companies with gender-diverse executive teams climbs to a high of 47 percent in advanced economies that have high gender parity, such as the United States, the United Kingdom, Finland, and Sweden. By contrast, the likelihood of financial outperformance by such gender-diverse companies stood at an average of 17 percent in lower-parity emerging economies such as Brazil, India, and Nigeria.

The fact that they are trailing offers firms in emerging and low gender-parity economies an opportunity to learn from the progress and mistakes of their peers in more developed markets. They have the opportunity to replicate what works and, more importantly, skip what doesn't—creating the possibility that they can leapfrog to a position of greater competitive advantage.

Ethnic and cultural diversity: potentially an even bigger opportunity

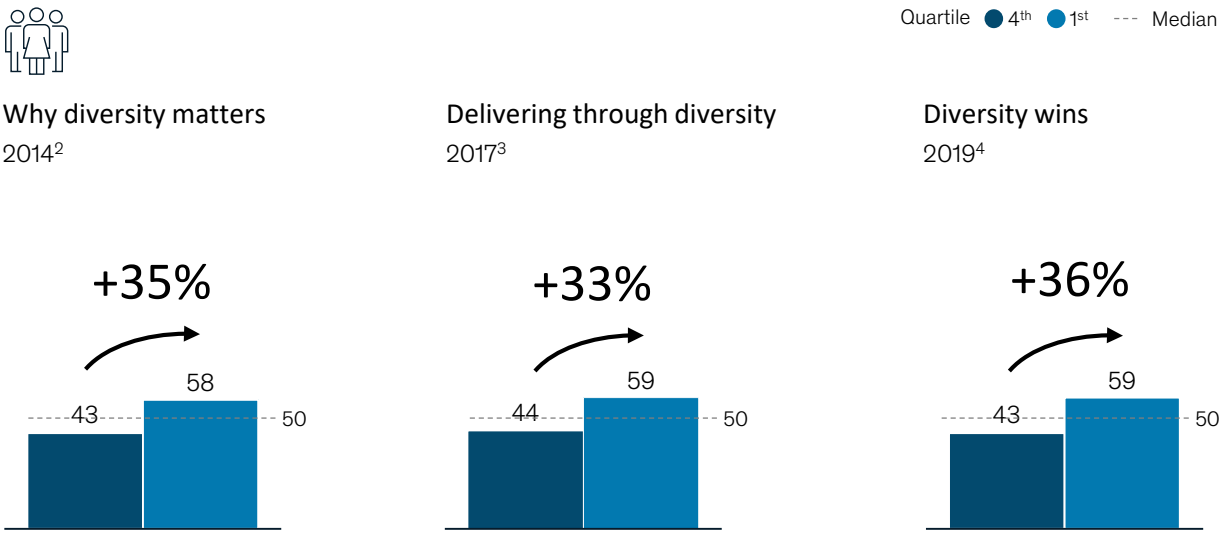
As with our Delivering through Diversity report, we analyzed data from countries where the definition of ethnic and cultural diversity was consistent, and our data were reliable.[11] We found that the business case for ethnic and cultural diversity was comparable to our previous findings, with a 36 percent higher likelihood of outperformance on EBIT margin for top quartile companies for ethnic and cultural diversity on executive teams—up from 33 percent in 2017 and 35 percent in 2014 (Exhibit 7). This is consistently higher than for gender diversity, but with progress similarly slow. The business case for ethnic and cultural diversity on boards remained significant in 2019. (See Box 2).

[11] The countries included in the analysis were the United States, the United Kingdom, Brazil, Mexico, and Singapore.

Exhibit 7

The business case for ethnic diversity on executive teams remains strong

Likelihood of financial outperformance[1], %



1. Likelihood of financial outperformance vs the national industry median. p-value <0.05, except 2014 data where p-value <0.1.
2. n = 364; US, UK, and Latin America; EBIT margin 2010-2013.
3. n = 589; US, UK, Brazil, Mexico, Singapore, and South Africa; EBIT margin 2011-2015.
4. n = 533; US, UK, Brazil, Mexico, Singapore, Nigeria, and South Africa where ethnicity data available in 2019; EBIT margin 2014-2018.

Source: Diversity Matters data set



The findings highlighted in Exhibit 7 support the argument that there is significant opportunity from promoting ethnic and cultural diversity in companies' top teams. Yet despite this, ethnic diversity appears to have been less of a focus than gender for many companies—hence the slow progress. In the United States and the United Kingdom, overall ethnic-minority representation in executive teams moved from 7 percent in 2014 to 13 percent in 2019 (see Exhibit 2, above). Not surprisingly, as with gender diversity, we found that most countries and industries need to pick up the pace in strengthening ethnic diversity in leadership.

As we saw for gender above, we found significant differences across the six countries for which we analyzed executive ethnic diversity. Only in Singapore was this in line with "fair share" representation, with the companies in our data set averaging 33 percent non-majority representation on their top teams—well above the 24 percent representation in the general population.[12] The United Kingdom, at 9 percent non-majority representation on executive teams, is just under halfway to achieving fair-share representation of ethnic minorities (20 percent), while all others are further behind, including the United States (14 percent on executive teams compared to 37 percent fair share).

Beyond average representation, the proportion of companies in our data set with zero non-majority representation in their executive teams is a telling measure of the lack of progress: in the United States this is 31 percent, in the United Kingdom 58 percent, and in Brazil 73 percent. There is a significant opportunity for many companies that have fallen behind on this measure. By increasing ethnic and cultural diversity on their top teams, they could potentially reinvigorate performance and growth.

[12] Fair share is calculated based on diverse representation in each country's population.

Citigroup: strengthening equality of opportunity

Global investment banking company Citigroup is powering ahead with a no-nonsense I&D agenda and placing equality, accountability and transparency at the center of everything that it does.

It's a common refrain in the I&D space: there's not enough female or black talent in a particular industry and that is why targets can't be achieved—but that's a story Citigroup just isn't buying into.

A fast mover—Citigroup has gone from 8 percent gender diversity on its executive team in 2014 to over 30 percent in 2019—the firm places equality of opportunity, accountability and transparency at the center of everything that it does. Business leaders at all levels are directly involved in and held accountable for advancing I&D across the firm, with scorecards presented at each board meeting where "very granular" and "very transparent" conversations are encouraged.

"We are not debating any more whether I&D is the right thing to do," says Teri Hogan, Global Head of Talent and Diversity. "We spent a long time on the business plan and our CEO is on record as saying it's simply 'smart business'—now we just need to get down to delivering."

The focus is on three key areas: targeted recruitment, development and retention, and promotion paths and processes. On the recruitment front, accountability is foregrounded through cascading targets for women and non-majority staff. And these targets are in the public domain. The company also works with external providers to set targets and determine the availability of non-majority talent by location to counter the talent-shortage myth and uses a heatmap showing how different areas are trending in order both to increase transparency and to create a bit of healthy competition.

Having secured diverse talent, the retention and promotion of this is a key priority. "You can't over-index on hiring and expect that that's going to solve the problem," says Hogan. "You can't just think about retention, you also have to think about promotion. In this it all comes down to culture."

Which is why the firm is ratcheting up the focus on building an inclusive workplace. Here too, transparency is key. Believing that creating a diverse and inclusive culture is the responsibility of all of its employees, not just those who identify with a certain gender, ethnicity or affinity, Citigroup has invested heavily in Implicit Association Test (IAT) training and Affinity Groups to enable people to talk openly about barriers and the need to hold themselves and others to account. They are not shying away from difficult and uncomfortable conversations and, when they do fall short, they strive not to sweep their failings under the carpet.

"You have to think big and bold," says Hogan. "When it comes to I&D you have to address every part of the system because this cuts across all aspects of the organization."



The widening gap between winners and laggards

One-third of the firms we tracked—our diversity winners—have achieved real gains in top-team diversity. But most of the firms we analyzed have made little or no progress and, for some, gender and cultural representation has even gone backwards.

We sought to establish whether the few companies progressing far more boldly on diverse representation in leadership were also starting to pull away from their peers in terms of a widening likelihood of financial outperformance. Our analysis shows clearly that this is the case: companies in the top quartile for both gender and ethnic diversity are 12 percent more likely to outperform all other companies in the data set (Exhibit 8).

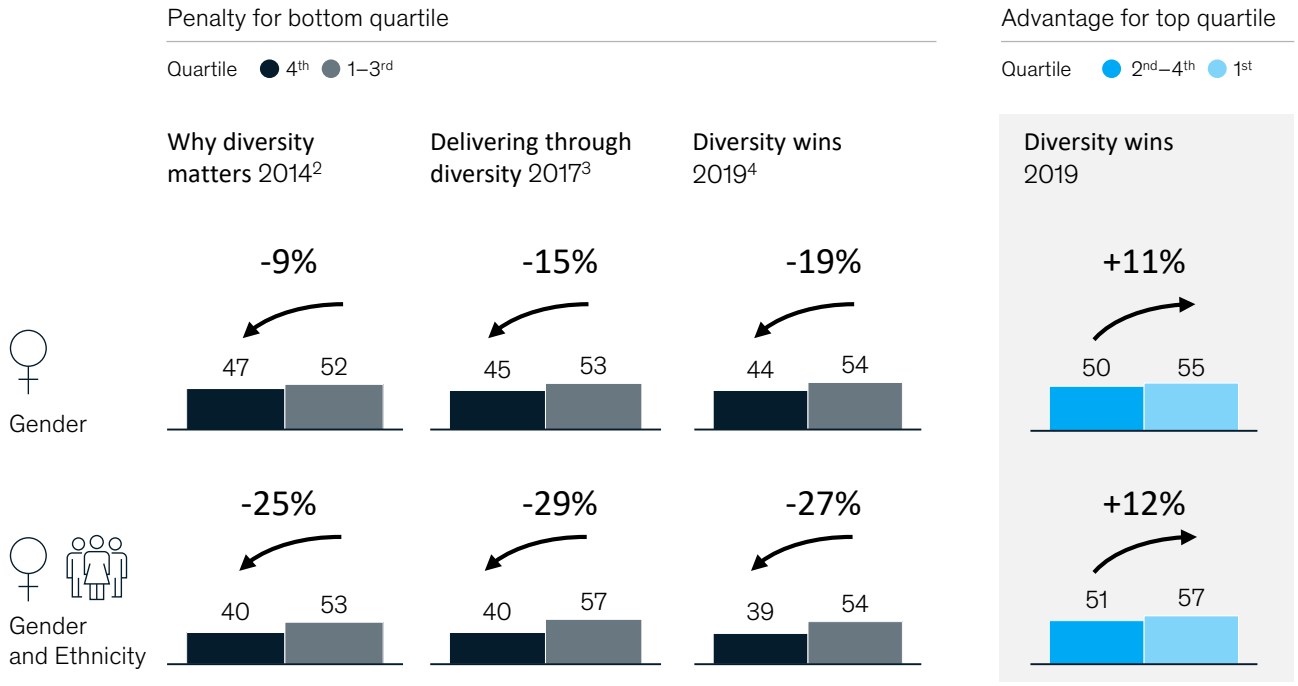
For the larger group of companies that are making little or slow progress with diversity, the performance penalty highlighted in our earlier reports remains. Companies in the bottom quartile for gender diversity on executive teams are more likely to underperform all other companies in the data set to an increasing extent: from 9 percent in 2014 to 19 percent in 2019. Considering both gender and ethnicity, bottom-quartile companies on both dimensions were 27 percent more likely to underperform than all other firms in the data set in 2019, similar to the 29 percent we found in 2017 (Exhibit 8).

Companies in the top quartile for both gender and ethnic diversity are 12 percent more likely to outperform all other companies in the data set.

Exhibit 8

The penalty for lagging on diversity is growing, while top-quartile companies are more likely to outperform all their peers

Likelihood of financial outperformance[1], %



1. Likelihood of financial outperformance vs the national industry median. p-value <0.05, except 2014 data where p-value <0.1.
2. n = 383 for Gender; n = 364 for Gender and Ethnicity; US, UK, Brazil, and Mexico; EBIT 2010-13.
3. n = 991 for Gender; n = 589 for Gender and Ethnicity; US, UK, Brazil, Mexico, Australia, India, Japan, Singapore, France, Germany, Nigeria, and South Africa; EBIT 2011-2015.
4. n = 1,039 for Gender; n = 533 for Gender and Ethnicity; US, UK, Brazil, Mexico, Australia, India, Japan, Singapore, France, Germany, Nigeria, South Africa, Denmark, Norway, and Sweden; EBIT 2014-18.

Source: Diversity Matters data set



Defining five cohorts of companies with different rates of progress on diversity

The above findings highlight the fact that companies across countries and industries are facing significant challenges in actually capturing the potential of diversity. To extend our understanding of why this is the case—and what firms need to do differently—we tracked the progress of 365 of the companies in our original 2014 data set, based in the United States and the United Kingdom. We segmented these firms into cohorts based on their starting levels of executive-team diversity, and their rates of progress between 2014 and 2019. We then complemented this analysis with research and interviews with a variety of companies, from those that had made huge strides in top-team representation to those that had struggled to do so.

For progress on executive-team gender diversity, we identified the following five cohorts (Exhibits 9 and 10):

- **Diversity Leaders** (5 percent of the data set). These companies have shown sustained improvement and are approaching gender parity, with on average 40 percent women executives in 2019, off an already solid base of 26 percent in 2014. Our interviews showed that these firms have typically taken a systematic, business-led approach to I&D for at least five years, have a strong culture of accountability, and are deploying innovative and ambitious interventions, supported by strong leadership commitment. Most are taking bold and courageous steps to build fairer and more inclusive workplace cultures at all levels of the organization. We found Diversity Leaders across industries, from consumer goods and retail through to aerospace.
- **Fast Movers** (28 percent of the data set). These companies have shown exceptional improvement to an average of 27 percent female representation in 2019, off a very low base (an average of 7 percent in 2014). It is encouraging that this cohort makes up a significant share of the data set—and that almost 30 percent of companies in this cohort are also Fast Movers on ethnic diversity. These companies have typically placed strong recent focus on I&D, with systematic moves including developing a bespoke business case with ambitious I&D targets, promoting full transparency including talent processes and pay, and deploying effective retention initiatives. They are increasingly emphasizing developing a fair and inclusive culture. Many are in traditionally more male-dominated industries such as mining, finance, and professional services.
- **Resting on Laurels** (29 percent of the data set). These companies started with significant diversity, with an average of 28 percent female representation on their executive teams in 2014—but they have made no progress over the past five years, on average slipping to 22 percent female representation in 2019. This is despite many being in traditionally more female-oriented industries, such as healthcare and retail. These companies have tended to take a less systematic approach to I&D, supporting initiatives such as employee resource groups but with apparently less emphatic efforts to tackle the barriers limiting representation of women and minorities at the very top. In some instances, the issue has been holding on to progress in representation. This was particularly striking in companies whose executive teams were more than 40 percent female in 2014: all experienced a drop in executive-team gender diversity between 2014 and 2019.

Diversity Leaders are taking bold and courageous steps to build fairer and more inclusive workplace cultures at all levels of the organization.

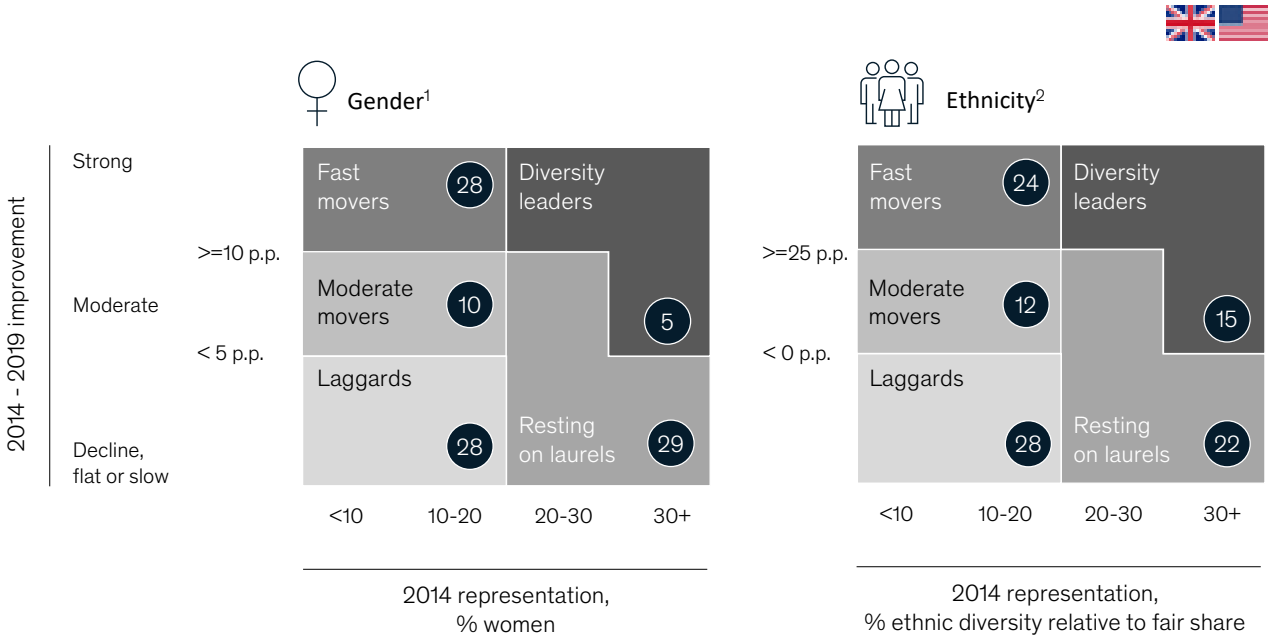
— **Moderate Movers** (10 percent of the data set). Among these companies, female representation on executive teams increased from 12 percent to 19 percent over the five-year period. Typically, these companies have found that their generally unspecific and low-profile public commitments to I&D are failing to translate into tangible progress on representation, including that at senior levels, or into a fair and inclusive workplace culture. This limited momentum results from a host of factors which include the lack of a robust articulation of a "reason why" for diversity, unclear accountability at all levels, talent policies and practices which are not effective at removing bias, and insufficient attention to inclusive mindsets and behavior.

— **Laggards** (28 percent of the data set). These companies' already low gender diversity has declined further over the five-year period, from an average of 9 percent female representation on executive teams in 2014 to 8 percent in 2019. A large proportion, 51 percent, are also Laggards on ethnicity. Companies in this cohort have typically not embarked on a purposeful I&D journey, or have taken a fairly unambitious, somewhat "box-ticking" view of I&D. They generally lack data and insight into their I&D performance and are fragmented in their approaches, which may be primarily bottom-up and led by fledgling employee resource groups. We found limited accountability for I&D at all levels of these companies, and significant challenges with inclusion.

Exhibit 9

We found five cohorts of companies based on progress on executive diversity between 2014 and 2019

% of total number of companies



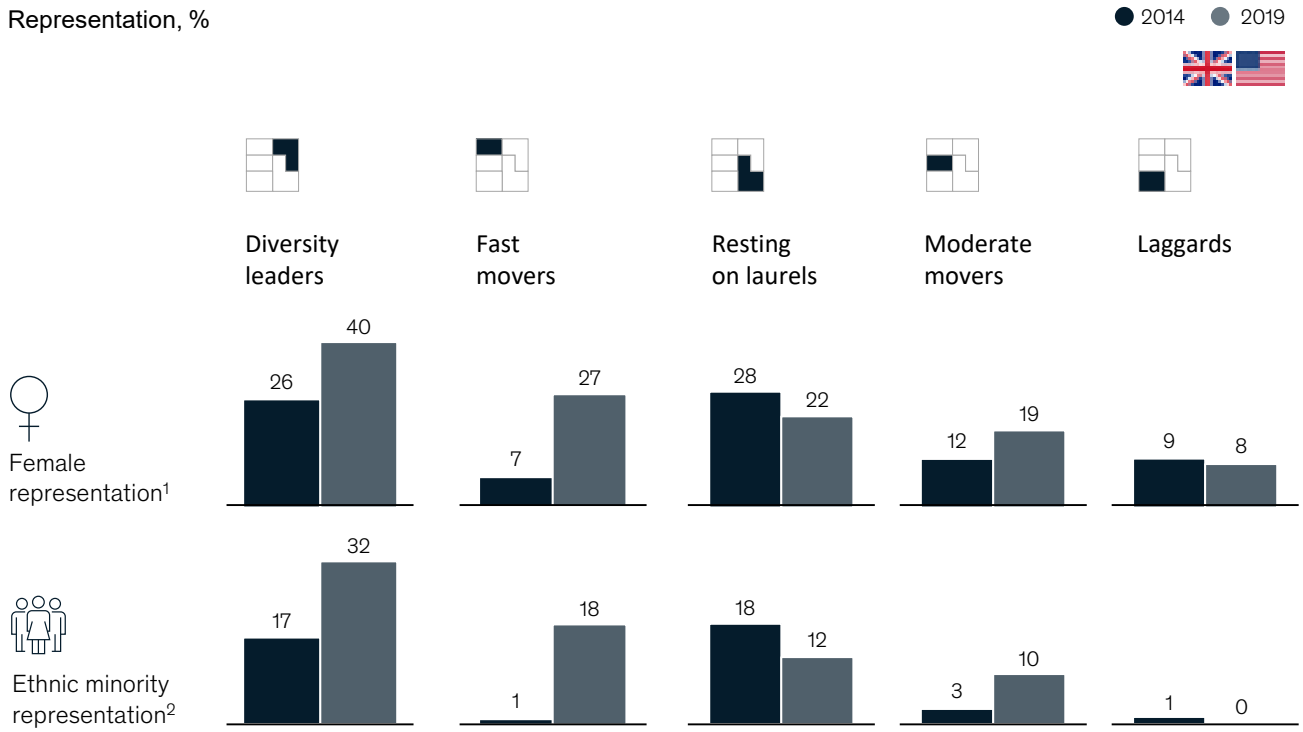
1. n = 365; US and UK.
2. n = 241; US and UK.

Source: Diversity Matters data set

Exhibit 10

There are stark differences in how executive gender and ethnic diversity has evolved in each cohort since 2014

Representation, %



1. n = 365; US and UK.
2. n = 241; US and UK. Absolute representation, not relative to fair share.

Source: Diversity Matters data set

We also found that the 2019 likelihood of financial outperformance differences between the cohorts is consistent with our findings in the quartile analysis above. Companies in the Resting on Laurels cohort on average have the highest likelihood of outperformance on profitability, at almost 62 percent, reflecting their historically high levels of diversity on executive teams. Diversity Leaders and Fast Movers are next with an average of 55 percent and 52 percent respectively. They are followed by Moderate Movers, which have exactly average likelihood of outperformance, as would be expected. Finally, Laggards are more likely to underperform their national industry median profitability.

We found similar trends in companies' progress on ethnic-minority representation between 2014 and 2019, within our 2014 US and UK data set. Interestingly, companies in the cohorts at the extremes of progress on executive gender diversity—that is, Fast Movers and Laggards—also had the highest and lowest levels of ethnic diversity respectively.

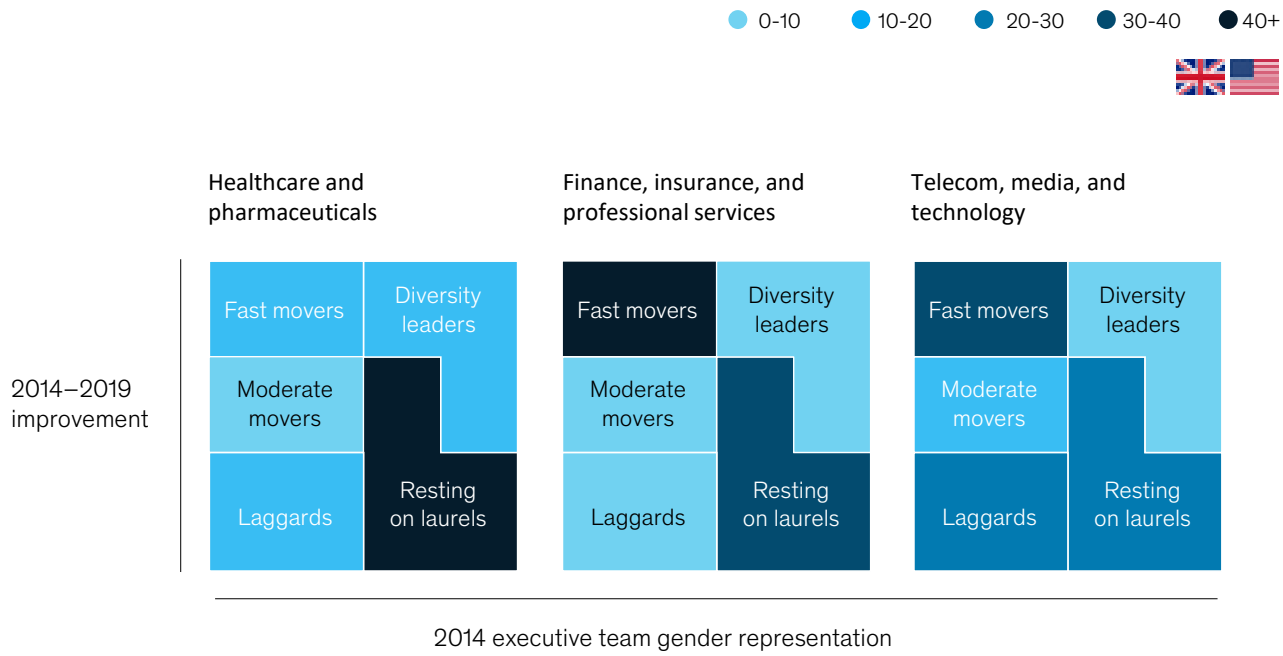
The Diversity Leaders in the case of ethnic diversity (15 percent of companies in the data set) almost doubled the representation of non-majority executives on their top teams—from 17 percent in 2014 to 32 percent in 2019. The Fast Movers, which constitute a quarter (24 percent) of all companies assessed, made even more dramatic progress: they moved from an average of 1 percent non-majority representation on executive teams in 2014 to 18 percent in 2019. Yet, as for gender diversity, a larger group of companies made no progress on ethnic diversity or even moved backwards. Laggards, at 28 percent of the data set, make up the largest cohort when it comes to ethnic diversity—and they had zero non-majority representation on their executive teams in 2019 (Exhibits 9 and 10).

For both gender and ethnic diversity on executive teams, our cohort analysis shows a contrasting picture by industry. Taking gender for example, healthcare companies in our data set are overwhelmingly (51 percent) in the Resting on Laurels cohort. The finance industry, on the other hand, is more polarized, with 42 percent of companies in the Fast Movers cohort and 39 percent in Resting on Laurels (Exhibit 11). Technology, Media and Telecoms companies are slightly more likely to be Fast Movers than the other cohorts.

Exhibit 11

The picture across different industries contrasts sharply

Distribution of companies across cohorts by industry[1], % of cohort



1. n = 39 for Healthcare and pharmaceuticals, n = 36 for Finance, insurance and professional services, n = 55 for Telecom, media, and technology; US and UK.

Source: Diversity Matters data set



Why commitment to building an inclusive culture is not enough

As we have mentioned, the gap in executive gender representation has widened between leading I&D practitioners in our data set and other companies, with only a third achieving real gains and the majority remaining static or declining—even where their leaders have articulated noble aspirations for inclusion and diversity. Two critical barriers appear to stand in the way of the sustained change in company culture, and the individual mindsets and behavior, that are needed to build a truly inclusive culture.

The first barrier is a lack of purposeful follow-through on diversity pledges. Many companies, including those in our Laggards cohort, have publicly committed to building a diverse and inclusive company culture, and in some cases with their CEOs have even signed public pledges to do so.[13] But many companies have yet to adopt the systematic, business-led approach to I&D that is needed to translate these pledges into actual change. Such companies have tended to rely overly on employee resource groups to drive their I&D agendas, rather than giving leaders and managers true accountability for strengthening diversity. Aspirations and ad hoc interventions are not enough. In the words of one HR director we interviewed: "A disconnect between what the company says and the progress it is making on the ground can seriously erode credibility both inside and outside of the organization, and further contribute to a lack of experienced inclusion".

A second barrier in many companies, particularly those that are yet to embark on a purposeful I&D journey, relates to inclusion. Unaddressed misconceptions about fairness and meritocracy are one critical issue. There is often a prevailing belief that "everything should be the same for everyone", and this fails to factor in the reduced extent to which women and ethnic minorities benefit from support and sponsorship—and the greater extent to which they face bias and microaggressions versus the dominant majority.

McKinsey's Women in the Workplace research, for example, has found that women, especially black women, are more likely to face microaggressions—also known as everyday discrimination—than men.[14] Cumulatively, these microaggressions have been shown to contribute to a rise in perceptions of unfairness and an increase in the likelihood of people thinking about leaving their jobs. By contrast, when employees believe they have equal opportunity and the workplace is fair then they are three times more likely to say they are happy with their career and will stay at their company longer.[15]

[13] https://www.ceoaction.com/pledge/i-act-on-pledge/
[14] Women in the Workplace, McKinsey & Company, October 2018.
[15] Women in the Workplace 2019, op. cit.
[16] ibid.

A disconnect between what the company says and the progress it is making on the ground can seriously erode credibility both inside and outside of the organization, and further contribute to a lack of experienced inclusion.

Pentair: building an inclusive culture

Pentair—a water-treatment company with a global footprint—is sharpening its focus on I&D as a core business opportunity.

For Kelly Baker, Executive Vice President and Chief Human Resources Officer at Pentair, focusing on building an inclusive culture as a business opportunity means taking a contemporary view of I&D. This includes a broader definition of diversity encompassing race, gender, ethnicity, country of origin, age, personal style, sexual orientation, physical ability, religion, and life experiences. It also translates into a stronger focus on company culture, creating a space where employees are enabled to leverage their unique strengths and work in the ways that suit them best.

"I&D is not just about setting targets and having women on the slate; we are spending significant time on education—building the business case for I&D and pointing out why it's not just about being politically correct," says Baker. They are also working on developing a shared language on I&D. This focus fits easily into the company's existing commitment to building what it calls a Win Right culture and values.

Baker says the organization takes an integrated approach to supporting and promoting workplace I&D based on the following three pillars:

1. Talent acquisition and deployment, with a focus on fair hiring practices at every level.
2. Development and retention of diverse talent for leadership roles. Focus areas include expanding participation in leadership-development programs, prioritizing career-development planning for all talent, including diverse talent, and leveraging employee resource group networks to attract, retain, and develop people from diverse backgrounds. The company has also revised its benefits to support families and work–life balance.
3. Leadership of diverse teams. The focus is on cultivating an environment that values differences, fairness, and inclusion. This includes Global Effectiveness training, which fosters insights about global differences and strengthens manager and employee capabilities in working across countries, cultures, and languages.

While it can be challenging to carve out the time for people to engage on the question of I&D, Baker says they know that it's worth persevering on this important journey. "We know that a diverse and inclusive workforce contributes different perspectives and creative ideas that enable us to improve every day. So we continue to be bold in advancing these ideas in the organization."

How inclusion matters

The evidence presented in this report highlights the challenges for companies in making sustained progress on increasing gender and ethnic and cultural diversity on their top teams. And among those companies that do make tangible gains, holding onto these gains represents a further challenge. Why this is the case was one of the themes we explored in our interviews with companies in our data set. What we discovered emphasized the need for a systematic, business-led approach to I&D, as we have advocated in previous reports. But it also shed new light on the relative importance of inclusion.

Indeed, we found that every company in our data set that has made sustainable progress towards increasing gender and ethnic and cultural diversity on its top team over the past five years has also made real strides in creating an inclusive work culture. Lockheed Martin, for example, has sought to "create an environment where our employees feel welcomed and encouraged to bring their whole selves to work" (see case study on page 46).

Several of the executives we interviewed made it clear that their companies could not have improved on diversity without investing in inclusion. For example, leaders at Pentair talk about moving beyond a focus on representation as a tick-box exercise to one that embraces a "shared language on I&D" across the organization (see case study on page 31). And executives at Target say they are committed to building an "ecosystem" around I&D, "rather than just having it as an isolated function."

These companies' efforts point to inclusion as an important emerging differentiator of success among leading diversity practitioners. This dovetails with the findings of previous reports by ourselves and others, including *Women in the Workplace*.[16] These studies, as well as the research presented in this report, show that employees' experience of inclusion in their workplace matters enormously to them, and is not always aligned with their companies' or even their managers' official commitments to inclusion.

For example, our most recent Women in the Workplace study found that commitment to gender diversity at the leadership level had increased significantly: 87 percent of companies stated that they were highly committed to gender diversity in 2019, compared to 74 percent in 2014. However, employees at these companies were much less likely to perceive that their companies or their managers had actually made diversity a priority.[17] Just 61 percent of women employees in 2019 agreed that commitment to gender diversity was a priority, for example. (This is up from 44 percent in 2014, suggesting that a shift may be underway.) There is much work still to be done in bridging this gap.

Outside-in: a new lens on how inclusion matters

The logic behind prioritizing inclusion alongside diversity is coming more clearly into focus—but the full dynamics of the different aspects of inclusion, and their relative importance, are not yet fully understood. There is evidence that inclusion is closely linked to employee engagement, itself in turn a critical component of employee retention, productivity and financial performance. For example, research has shown that business units that score in the top quartile of their organization in employee engagement have nearly double the odds of success.[18]

[16] *Women in the Workplace 2019*, op. cit.
[17] ibid.
[18] *State of the Global Workplace report, Gallup, 2017.* Specifically, business units in the top quartile of are 17% more productive and 21% more profitable than those in the bottom quartile. They also have 20% higher sales, 10% higher customer metrics.



A significant challenge for senior leaders is that inclusion and workplace culture are inherently difficult to measure. There is no standardized, universal metric, and employee survey data are typically required, limiting the scale of the analysis in terms of the number of companies from which data can easily and rapidly be gathered. Further, it is unclear that employee responses to internal satisfaction surveys, even if anonymous, are fully representative of their experiences and are not influenced by employees' perceptions about what their employers consider to be acceptable responses.

These limitations can, in part, be overcome by an outside-in approach, which is what studies such as Culture 500 have taken. This collaboration between MIT Sloan and Glassdoor developed and validated a methodology for measuring company culture outside-in, using sentiment analysis of employee reviews of their employers posted on job-search websites. We sought to build on these efforts to obtain a directional read on how inclusion matters, and specifically on what aspects of inclusion employees considered to be significant, based on comments made outside-in.[19]

In partnership with McKinsey Digital Consumer Insights, we carried out an analysis of employee reviews about the companies they work for, made on Glassdoor and Indeed, both public forums based in the United States, during 2017–19. Using a natural language processing algorithm, we analyzed the sentiment—positive, negative and neutral—in employee mentions about I&D, focusing on 10–30 companies in each of three industries: financial services, technology, and healthcare. (These industries have the highest levels of executive-team diversity in our data set, but not necessarily the highest levels of overall diversity or indeed inclusion.)[20]

We searched for I&D-related reviews using keywords relating to two indicators of a systematic approach to I&D, diverse representation itself, and leadership accountability for I&D.[21] We then specifically researched three core indicators of inclusion, as follows:

— **Equality—**fairness and transparency in promotion, pay and recruitment, and equal access to sponsorship opportunities as well as other resources and retention support. Companies that embrace equality ensure a level playing field across critical talent processes, building representation targets into workforce plans and deploying analytical tools to build transparency.

— **Openness—**an organizational culture where people treat each other with mutual respect, and where bias, bullying, discrimination and micro-aggressions are actively tackled. In companies that embrace openness, the work environment is welcoming and conducive to discussion, feedback which includes the most senior leaders, and risk taking.

[19] "Culture matters. Now we can measure it," MIT SMR / Glassdoor Culture 500, https://sloanreview.mit.edu/culture500?utm_medium=pr&utm_source=release&utm_campaign=Culture500.

[20] This research builds on and corroborates other research that has been done on this topic, especially the MIT / Glassdoor report (our results are similar) and McKinsey's *Women in the Workplace.*

[21] See page 48 for a detailed understanding of our methodology.

While overall sentiment on diversity was 52 percent positive and 31 percent negative, sentiment on inclusion was markedly worse at only 29 percent positive and 61 percent negative.

— **Belonging—**an outcome resulting from the organization's demonstrating commitment to support the well-being and contributions of diverse and other employees. Leaders and managers foster connection with their diverse talent and between all employees, building a sense of community and encouraging them to contribute their diverse talents fully.

In our sentiment analysis, comments directly pertaining to I&D made up around one-third of the total comments made, showing that this topic is high on employees' minds. Key findings across the five indicators we tested suggests that there are marked "pain points" in the experience of employees, as follows (Exhibits 12, 13a and 13b):

— While overall sentiment on diversity was 52 percent positive and 31 percent negative, sentiment on inclusion was markedly worse at only 29 percent positive and 61 percent negative—which encapsulates the challenge that even the more diverse companies still face in tackling inclusion.

— Leadership and accountability as they pertain to I&D accounted for the highest number of mentions, and were also strongly negative. On average across industries, 51 percent of the total mentions were related to leadership, and 56 percent of those mentions had a negative sentiment. This underscores the increasingly recognized need for companies to engage their core business managers better in the I&D effort.

— Considering the three indicators of inclusion—equality, openness, and belonging—we found particularly high levels of negative sentiment around equality and fairness of opportunity. Negative sentiment around equality ranged from 63 to 80 percent across the industries. Openness of the working environment, which encompasses bias and discrimination, was also of significant concern, ranging from 38 to 56 percent of negative sentiment across industries. Belonging elicited overall positive sentiment, but from a relatively small number of mentions.

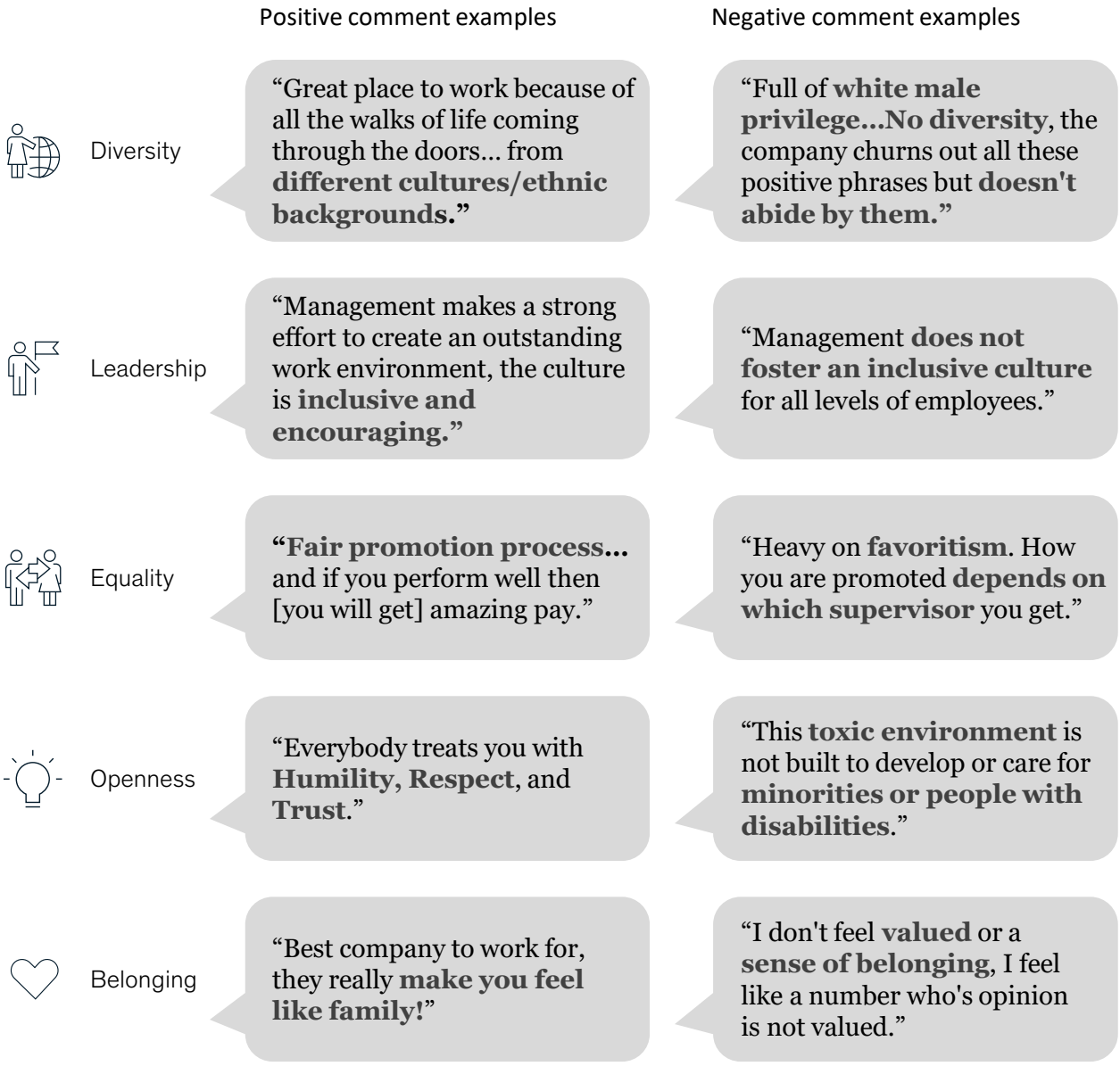
These findings, although indicative, highlight the importance not just of inclusion overall, but specifically of the varying extents to which particular aspects of inclusion matter. They can also provide companies with "another version of the truth" on inclusion by complementing internal employee-satisfaction surveys—and highlighting the gap between public pronouncements of commitments to I&D, and the sentiments employees are willing to express in the relatively risk-free environment of a job-search website.

In aggregate, this research shows that even where companies are more diverse, many appear as yet unable to cultivate inclusive work environments in an effective and consistent way. Such environments promote inclusive leadership and accountability among managers, equality and fairness of opportunity, and openness and freedom from bias and discrimination.

Exhibit 12

Employee reviews provide companies with additional insight into workplace experiences of inclusion





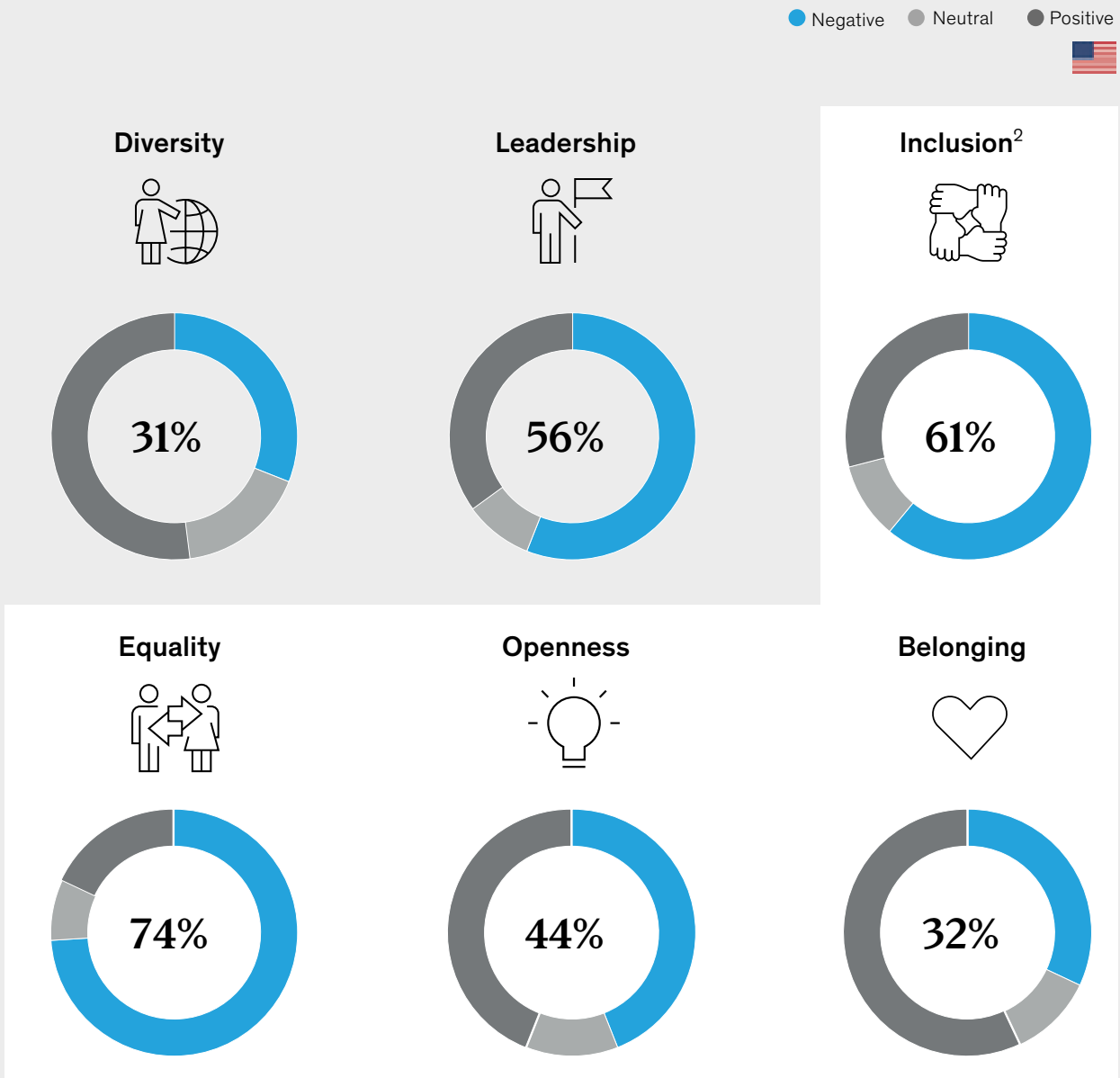
Source: Glassdoor and Indeed user-generated reviews

To further understand how inclusion matters we conducted an analysis of indicators relating to inclusion, outside-in

Exhibit 13a

Sentiments on inclusion are on average more negative than those on diversity

% of negative sentiments[1]



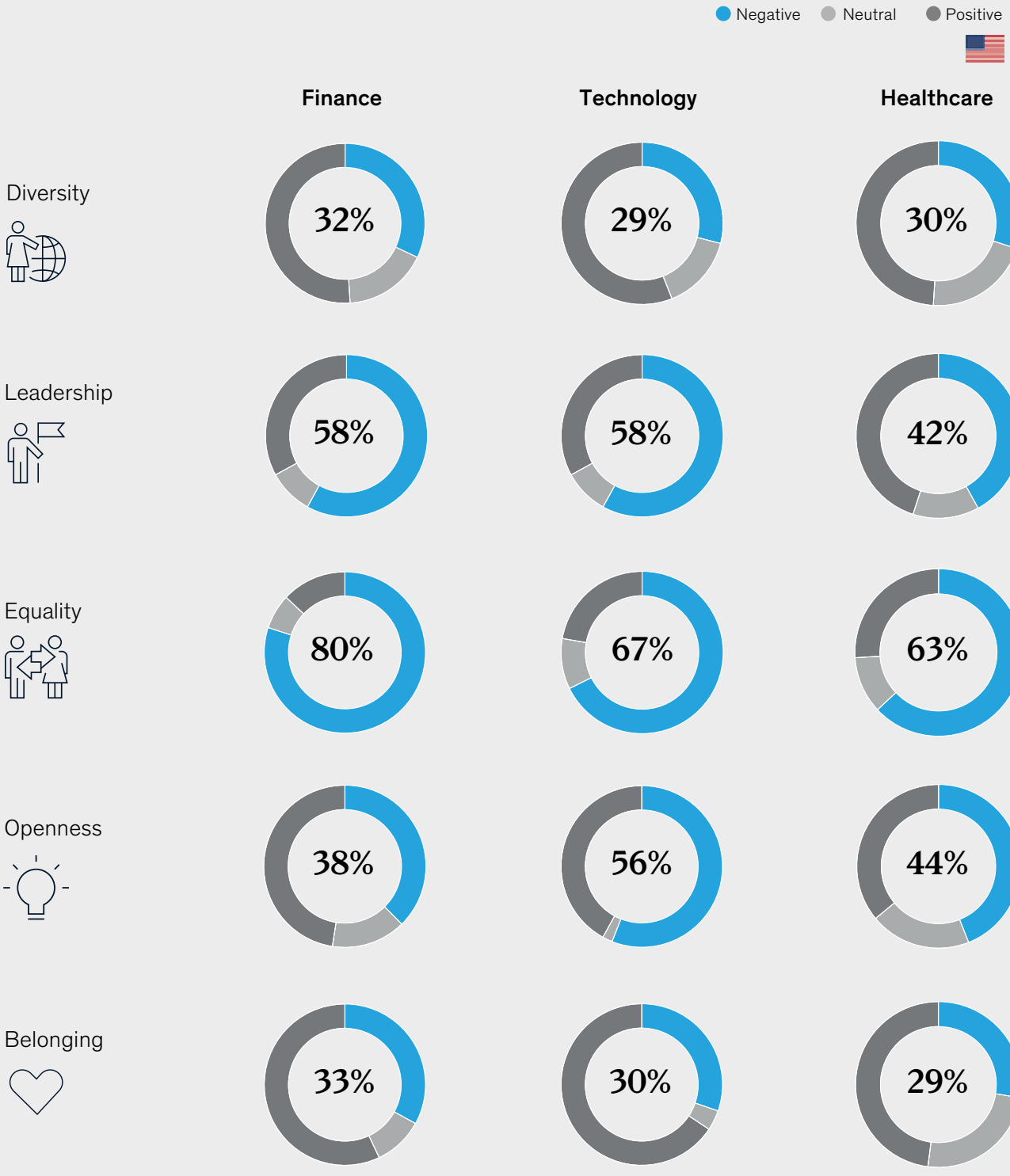
1. Total number of mentions by theme: Diversity 1,153; Leadership 3,216; Inclusion 2,077; Equality 1,257; Openness 710; Belonging 110
2. Weighted average of Equality, Openness and Belonging

Source: Glassdoor and Indeed user-generated reviews

Exhibit 13b

On most areas of inclusion and across industries, negative sentiment outweighs positive

% of negative sentiments[1]



1. Total number of mentions by theme and industry: Diversity – Finance 607, Tech 382, Healthcare 164; Leadership – Finance 2,190, Tech 629, Healthcare 397; Equality – Finance 668, Tech 377, Healthcare 212; Openness – Finance 391, Tech 209, Healthcare 110; Belonging – Finance 70, Tech 23, Healthcare 17

Source: Glassdoor and Indeed user-generated reviews

How employees experience inclusion—or the lack of it

A closer look at the sentiment analysis reveals some differences between industries—and vivid mentions from employees, which further illustrate the value of this "social listening" approach to companies seeking to improve their inclusive culture.

Equality

Organizations across all three of the industries we analyzed fare poorly on this metric, with equality overwhelmingly the most negative of all dimensions measured. In the finance sector, sentiment was the most strongly negative (80 percent) followed by technology (67 percent) and healthcare (63 percent).

Typical mentions included the following (see Exhibit 12):

— "Promotions are based on WHO you know, not WHAT you know! Good and hard work are not recognized."

— "There is a lot of blatant favoritism and lack of strong managerial leadership which amounts to swaths of displeased and un-engaged employees. This can be seen by amount of people we have had leave the organization."

Openness

On this metric, sentiment of mentions was in aggregate negative, but more mixed across industry sectors. In the technology sector, sentiment was the most negative (56 percent) followed by healthcare (44 percent) and finance (38 percent). No sector was overall positive.

Positive mentions focused on respect and trust as important components in the workplace, while negative mentions tended to cluster around bullying and microaggressions. Typical examples included the following:

— "Lack of diversity in thought and in people."

— "Backstabbing, exclusive culture. No diversity of thought and opinions are not valued."

— "The constant rumor mill and lack of communication makes it very stressful to work here."

Belonging

On this dimension, the majority of mentions across industry sectors were positive, although based on a notably smaller number of mentions. A typical example was the following:

— "Amazing culture with an emphasis on inclusion and diversity. There are many employee resource groups and clubs that make it easy to feel comfortable and included at work. The people I've worked with truly care about helping you succeed and working as a team towards a common goal."

Negative sentiments expressed included the following: "You cannot have your own opinion, own style of work—only what is expected, to do exactly things in the way corp says to you."



Target Corporation: staying open

Target Corporation is the eighth-largest retailer in the United States and believes that its sophisticated approach to I&D—including using data to drive real-time transparency—is a key enabler of its success.

"Diversity and inclusion are at the heart of what we do at Target," Brian Cornell, Chairman and CEO, explains. "Seventy-five percent of the US population lives within 10 miles of a Target store—and in order to win in retail, we need to reflect that population in our team to ensure we deliver the product, services, experiences and messages our guests want and need." [22]

Fifteen years into its journey with an I&D office, Target is among the 5 percent of companies in our data set that is close to achieving gender parity on its executive team (approaching 45 percent). Target pursues a broad set of I&D best practices, but it stands out in the following two key regards:

— **A sophisticated use of data to drive real-time transparency.** Progress on I&D is meticulously tracked, with a dedicated I&D analytics team. With multiple dashboards and through quarterly and annual processes, the organization reassesses its I&D goals every year and adjusts tactics quarterly. Business leaders are expected to make use of this disaggregated data to drive their talent decisions. When setting pay or advancement, for example, they can access and check their diversity statistics.

— **A radical emphasis on courageous conversations and active listening that extends beyond the organization.** The company culture is summed up in the call to action to "stay open." And through the company's guardrails for co-existence, employees are encouraged to be curious and accountable, to ask questions and have the difficult conversations and to leverage their unique skills to drive positive impact in business and society.

Inclusivity is a key value in Target's culture. The company believes that embracing diversity and striving to give everyone access to the same opportunities helps them benefit from the richness of different perspectives and fulfill the needs of their guests better.

"We've built an ecosystem around I&D rather than just having it as an isolated function," says Tariq Malik, Director of Employee Relations and Diversity Analytics, who leads the company's first ever I&D analytics team. Every member of the organization is empowered to help champion an inclusive society. For example, each business area has a Diversity Action Committee—a volunteer group that works with the I&D team to implement tactics specific for their part of the organization. There are also affinity groups for race/ethnicity, gender, ability, sexual orientation, veterans, people with different abilities, and faith.

Despite the company's steady progress towards parity, Malik says that the journey is not over. "We are looking towards the future." With a new set of goals for the business and team, the company will continue to pursue outcomes in three key areas: (i) representation (equitable retention and advancement of diverse talent); (ii) inclusive experience (inclusive leadership and individual behavior); and (iii) business (ongoing investment in diverse suppliers, and continued reach to multicultural audiences and guests).

[22] Comment taken from Target website: www.target.com/stayopen.



Winning through inclusion and diversity: taking bold action

As we have shown, the business case for diversity is growing stronger and clearer—yet too many companies appear unable to overcome significant obstacles in their efforts to make tangible and sustained progress. The experience of the diversity winners we have studied suggests that it's time to be bold, in deploying a systematic approach to I&D, and in purposefully tackling inclusion. There is a significant performance opportunity for those that are prepared to step up and do what it takes to foster significant progress on I&D.

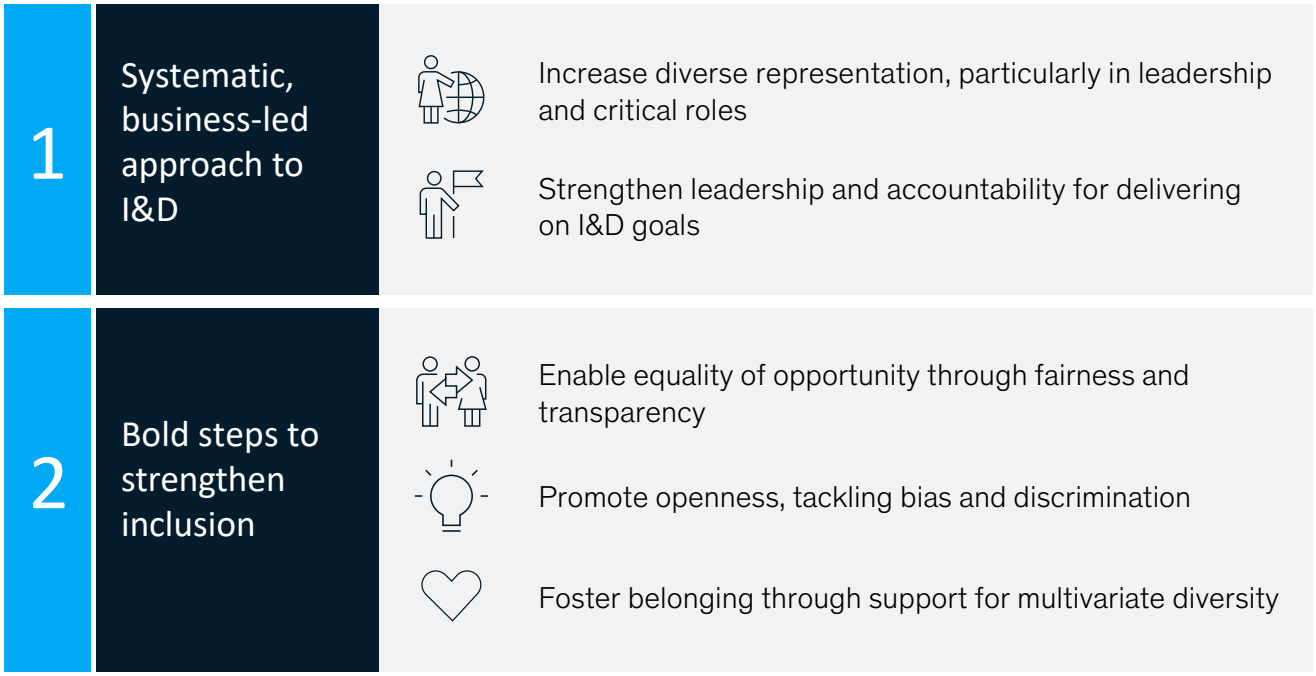
How it can be done is exemplified in the four case studies shared in this report. Citigroup and Pentair are surging ahead in representation, while continuing to push the boundaries and foster inclusive workplace cultures where people are empowered to be their authentic selves. Target Corporation and Lockheed Martin are also prioritizing inclusion, while pushing towards gender parity on their executive teams—which is nearly 45 percent and 40 percent female respectively (see case studies on page 39 and page 46).

Action steps to make inclusion work

Our analysis of diversity winners in our data set, coupled with extensive insights from our research and practice on I&D, has helped identify the winning actions and practices of diversity winners when it comes to inclusion (Exhibit 14).

Exhibit 14

Companies need a systematic, business-led approach to I&D, and bolder action on inclusion



We find firstly that getting the basics right is still crucial. As we have made clear in previous reports, including Delivering through Diversity, it remains critical to deploy a systematic approach with a clear rationale for I&D linked to business strategy; set and cascade evidence-based targets; and engage and empower core business leaders in the effort.[23]

The analysis presented in this report further refines our insight into the bold and often innovative actions that diversity winners are taking to embed inclusive culture, mindsets and behavior in their organizations. Companies should take three essential actions: enable equality and fairness of opportunity; promote openness and tackle discrimination; and foster a sense of belonging in the workplace.

Together, these imperatives translate into five key action steps, as follows.

Ensure representation of diverse talent

Not only do diversity winners articulate a bespoke, business-driven case for I&D change and set themselves general representation targets, they also thoughtfully consider what forms of multivariate diversity (for example going beyond intrinsic forms such as gender and ethnicity) to prioritize, and why. They focus on advancing various forms of diverse talent specifically into executive, line-management, technical and board roles—not only addressing leadership appointments but also fixing the "broken rungs" of the corporate ladder along the way.[24]

This entails making hiring, appointments, and succession planning fair, with appropriate targets, diverse slates and talent process changes, all grounded in advanced pipeline analytics with interactive dashboards to visualize key metrics. It also entails rethinking roles in terms of capabilities required. Organizations need to open the door to large-scale reskilling and reaching beyond traditional recruiting channels and qualifications to access diverse talent whose profiles likely differ from the status quo—or who may be re-entering the labor market after a long break. For example, many companies are setting targets for diverse representation in specific roles, such as for women in STEM-related positions, using strategic workforce-planning approaches to project future talent trends and build diversity targets into long-term workforce plans, and using sophisticated digital heatmaps of local talent pools to target diverse potential recruits.

Strengthen leadership accountability and capability for I&D

For diversity winners, placing their core business leaders and managers at the heart of the I&D effort is critical to building an inclusive culture. Central to this are inclusive leadership capability and accountability, both of which should go well beyond the executive team and extend to middle management, where I&D is often relegated in the face of business priorities considered more pressing.

Diversity winners are going beyond standard unconscious-bias training to make inclusive leadership a core competency that is specified in job descriptions, assessed in performance reviews, supported by capability-building, and role-modeled by leaders and managers. Not only should companies also hold their leaders and managers to account for delivering against diverse representation targets, this should be extended to inclusive leadership behavior. This includes advocating I&D amongst their teams, promoting flexible ways of working, tackling bias, and "conscious inclusion" of diverse team members, with particular attention to "onlys"—people in teams where no one else is of the same diversity status.

For example, one company includes in its evaluation of its managers the share of their male and female team members who take their full parental leave, managers included. This sends a strong signal to both female and male team members and levels the playing field on parental leave and child care, which too often still overwhelmingly penalizes women's careers, as well as on the growing numbers of male parents seeking greater involvement with their families.

These raised expectations of managers and leaders go hand-in-hand with capability building and the use of approaches such as frequent and repeated nudges and reverse mentoring, to support them in practicing inclusive leadership in day-to-day behavior, as well as at critical talent-management decision points such as hiring or promotions.

[23] *Delivering through Diversity*, 2017, McKinsey.com; *Women Matter: Reinventing the workplace to unlock the potential of gender diversity*, op. cit.

[24] *Women in the Workplace,* October 2018 and 2019, op. cit.



Enable equality of opportunity through fairness and transparency

Diversity winners recognize equality and a sense of fairness of opportunity as key areas of attention in promoting inclusion, and hence retaining and advancing diverse talent. They attend to this both in terms of leadership mindsets, behavior and capabilities, as described above, and through de-biasing talent processes, primarily in relation to advancement and equal pay.

These companies start by building transparency into the extent to which their organizations are true meritocracies today, and where the impact of traditional notions of privilege are understood, and employees are promoted on skill and potential, regardless of their ethnicity, gender or other identity attributes. This entails using people-analytics tools and internal qualitative research to build visibility into the extent to which promotions and pay are transparent and fair. And, in acting on this, a growing number of companies are training performance evaluators to minimize bias in their decision making, supporting review committees with observers to flag decisions influenced by unconscious bias, and deploying software tools to debias recruiting and, increasingly, advancement processes.

Diversity winners also assess the extent to which their staff have access to the support needed to succeed, including sponsorship and mentorship, access to resources and high-profile career-advancing opportunities, access to training, support for dual-career couples and single parents, or exposure to senior leaders. These can be assessed through HR data and by redesigning employee experience or satisfaction surveys, as well as through dedicated sponsorship surveys.

Promote openness and tackle discrimination

It goes without saying that diversity winners uphold—and enact—a zero-tolerance policy for discriminatory behaviors such as bullying, harassment and microaggressions. The key here is congruence between policies, which most companies have aplenty, and actions to support victims and apply consequences to perpetrators; lack of such congruence is common and has a significant impact on inclusion.

Across their organizations, diversity winners actively build the ability of both managers and junior staff to identify, surface and address microaggressions. They achieve this in part by strengthening awareness of the multiple forms microaggressions take, through training that sensitizes employees to be more conscious of their communication styles. This is often supported by organization-wide, day-to-day nudges. One large multinational has deployed an inclusion program specifically for its predominantly white male leaders. The program aims to help these managers understand the impact of their behavior on perceptions of openness among diverse employees, and how they can contribute to fostering a positive company culture by shifting attitudes and behaviors.

More broadly, diversity winners establish norms and language for what constitutes open, welcoming behavior—and then ask employees and leaders to assess each other on how they are doing in living up to that behavior. They focus on building a company culture which encourages open, productive discussion of difficult topics—for example, through townhall sessions in which CEOs encourage participation and actively listen to employees' ideas, issues, and questions. Indeed, diversity winners strive to empower employees and create safe spaces for them to share upward feedback about their day-to-day experiences as well as broader career-shaping situations. A simple yet powerful tool that some companies use is the daily check-in, in which employees share any challenges they might be facing at home or at work, and how they are dealing with those. The ultimate objective of such interventions is to allow people to bring their full selves to work.

Foster belonging through unequivocal support for multivariate diversity

Diversity winners are increasingly extending their scope for action beyond traditional diversity and inclusion goals to include fostering a sense of belonging among all their employees, and particularly among diverse employees. This aims to create a culture which not only emphasizes equality and openness, but in which employees feel that they can contribute their unique talents, that these talents are valued by their managers, teams and the wider organization, and that they can bring their full selves to work. Diversity winners are increasingly explicitly assessing belonging in their employee-engagement surveys.

While this feeling is largely an outcome, it results from specific actions on the part of the company, including clear communication and behavior from managers signaling their support to diversity in its varied forms, through their support for diverse individuals as well as employee resource groups. Belonging also results from encouraging and building capabilities among diverse talent to contribute their unique strengths, engage authentically and bring their whole selves to work, often through tailored leadership-development programs.

For example, a major fashion retailer provides immersive leadership-development training, supplemented by one-to-one coaching, designed to help leaders learn early in their career how to be more self-aware and supportive. Another company has built a software tool that identifies "onlys" at risk of feeling isolated and connects them with other "onlys" to help create a sense of belonging.

Companies should recognize and support the role employee resource groups, and allies supporting them, play in building community around shared characteristics and creating a space for diverse individuals to reflect on their specific strengths and contribute them better.

Starting points differ, but all companies can act now

As discussed earlier, our longitudinal lens has allowed us to see the opportunities for, and barriers to, I&D over time. Companies in each of the five distinct cohorts—Diversity Leaders, Fast Movers, Resting on Laurels, Moderate Movers, and Laggards—can and should deploy a strategy reflecting their current baseline when considering ways to enhance their I&D performance.

Companies across cohorts face many similar barriers. Those can include external barriers, such as an image of their industry that hampers recruitment of women and minorities, or the prevailing culture in the wider societies in which they operate. The internal barriers companies face can have an even more direct impact on I&D outcomes. These barriers include a failure of leadership support for I&D, insufficient drive behind implementation, fragmentation of largely bottom-up initiatives, an entrenched traditionalist culture, and company-performance challenges. All of them can lead to I&D not being considered a priority. Additionally, slower-moving companies may be held back by complacency about current representation levels, or even by diversity backlash and fatigue.

What, then, are the specific steps that companies in each cohort should prioritize? We suggest the following:

— **Diversity Leaders** have a unique opportunity to create truly diverse and inclusive organizations, and sustainably so. They should push for fair-share representation across diverse profiles in line with their business strategy, emphasizing the business and organizational benefits of doing so, and moving to best practices across the board. In particular, they may need to push for consistency in equality of opportunity and openness across specific areas of the company. Many are already seizing an industry, supply-chain and wider societal leadership opportunity to advance the I&D agenda, while strengthening their sense of purpose and ability to attract customers and talent.

Many Diversity Leaders are seizing the opportunity to advance the I&D agenda, while strengthening their sense of purpose and ability to attract customers and talent.

— **Fast Movers** have typically set themselves robust targets for representation, developed a bespoke understanding of the business case for diversity, deployed measures to strengthen leadership accountability, and built a solid level of transparency and understanding around their talent pipeline metrics. They should continue to develop inclusive leadership capabilities among their managers, ensure that principles of equality of opportunity are rigorously applied to their talent processes, and maintain a sharp focus on promoting openness and belonging to mitigate any risk of diversity fatigue or backlash.

— For companies in the **Resting on Laurels** cohort, the emphasis should be on renewing or extending their ambitions on diverse representation, understanding the specific barriers to leadership accountability, equality, openness, and belonging which have slowed progress, and tackling them through the targeted acceleration of initiatives in these areas. For example, companies in traditionally female-oriented industries such as healthcare could benefit from more robustly tackling the "glass ceiling" for women in top-management line and technical roles, updating their hiring and promotion practices, and taking steps to tackle bias.

— **Moderate Movers** should prioritize and scale up the subset of interventions that are already working within their organizations across the five domains identified above, while also identifying and addressing key gaps, which are often around target setting and transparency, leadership accountability, particularly in middle management, fairness of opportunity, and openness. There is typically an opportunity for these companies to raise their ambition level and delivery focus significantly around existing interventions, and implement targeted bold moves inspired by their faster-moving peers.

— **Laggards** need to put in place the basics, building a bespoke business case, setting themselves targets to increase diverse representation informed by relevant benchmarks, and more forcefully championed by senior leaders, review their HR policies and practices to start removing bias, and encourage flexible working for all. They should start to build among their managers a culture of accountability for delivery and inclusive leadership behavior, deploying initiatives such as inclusion training and capability building.

Companies in STEM-focused industries such as heavy industry or basic materials, where the traditional educational pipeline may be less diverse, could benefit from emphasizing capabilities over qualifications in their hiring, and explore reskilling. They should also start building an evidence base on inclusion through appropriate employee surveys, as the basis for an ambitious drive to tackle bias and build a culture of equality, openness and belonging for all employees.

Lockheed Martin: breaking down barriers to inclusion

Lockheed Martin, a global security and aerospace company, is engaging in courageous conversations to drive equality and build an inclusive culture across its global operations.

Lockheed Martin is breaking down barriers in diversity and inclusion by educating its leaders on how to engage effectively in the tough conversations necessary to make step-change differences to the organization's 110,000 employees. The global security and aerospace company, which is highly regarded for its innovation in technology,
is pioneering a novel experiential immersive program that challenges its leaders to confront privilege head on. Lockheed Martin has embraced the immersive-leadership approach for more than a decade and it is consistently considered to be a game changer in driving for increased levels of inclusion.

Leaders from top and middle management explore the uncomfortable issues of bias and exclusion in the workplace to build empathy and understanding, and foster a working environment that is equitable, productive, and inclusive. Critically, this process starts to chip away at the myth of meritocracy by giving leaders insight into how they may have benefitted from their class or race—rather than their innate ability—to get to where they are. The teams of leaders that have participated in the immersion report higher levels of inclusion, engagement, and trust than teams of leaders that haven't gone through training. As part of broadening the perspectives of others, the immersive program has expanded to include cross-race and cross-gender sessions where all dimensions of diversity participate in sessions to have open conversations and explore experiences in highly transparent ways.

The initiative is just one of the many robust approaches at Lockheed Martin that have strengthened its I&D efforts. Rainia L. Washington, vice president of Global Diversity & Inclusion, says the company prides itself on setting the pace in the industry because it looks across the spectrum of I&D and is putting significant resources into creating equality and building an inclusive culture. "Our values to do what's right, respect others, and perform with excellence guide everything we do. Respecting others means creating an environment where our employees feel welcomed and encouraged to bring their whole selves to work," she says.

Recognizing that inclusivity helps drive its success, Lockheed Martin is committed to cultivating a world-class workforce and working culture. And with gender representation approaching 40 percent on its executive team, it is getting things right. The company has a four-pronged strategy that includes the following:

- Ambitious, enterprise-wide targets for gender representation
- Talent-evaluation processes via an external partner to eliminate unconscious bias in talent acquisition, succession planning and promotions
- Novel experiential learning, such as the immersion program, to shift people's behavior and foster a sense of belonging
- Data gathering via focus groups, anonymous employee feedback, and exit surveys to inform decision making and targets

What is critical, says Washington, is that efforts don't just come from the HR team, as executives have also bought in, with the "CEO serving as the lead champion for this and also setting expectations." Additionally, there is a zero-tolerance policy for any form of discrimination or retaliation in the workplace. "We're not trying to change people's beliefs—but we are trying to change behavior, so that when they walk through the doors our people know how we expect them to behave."

Conclusion

The business case for I&D remains strong; companies should act with urgency. In previous reports, notably Delivering through Diversity (2018), we laid the foundations for progress, presenting a framework for four imperatives for building an effective I&D strategy. Those imperatives include committing and cascading ambitious aspirations; linking I&D to company growth strategy; crafting a prioritized portfolio of initiatives addressing inclusion; and tailoring the strategy to maximize impact.

In this report we have laid out a path for acceleration. We have shown that, to achieve lasting progress, companies must go beyond the systematic approach to I&D we have previously advocated—namely, to ensure representation of diverse talent and to strengthen leadership and accountability for I&D. They must also focus on boosting inclusion by enabling equality, promoting openness, and fostering belonging.

To make progress in these areas, companies will typically require a step change in the level of courage and boldness they have displayed so far. They must also be ready to tackle sensitive topics around cultural norms, and to shine a spotlight on and apply consequences for individual behavior, including that in management and leadership. Moreover, they need to sustain these efforts over time.

It's worth the push. As this report makes clear, greater diversity, in terms of both gender and ethnicity, is correlated with significantly greater likelihood of outperformance. More than that, fostering a diverse and inclusive culture is a critical success factor: it enables individuals both to shine in their own right and to pull together as a team.



Methodology

Company diversity and financial data

Our assessment of gender and ethnic/cultural diversity is based on publicly available data from 1,039 companies across 15 countries globally. We reviewed corporate websites, annual reports, and other industry websites to gather statistics on the proportion of women and the split of ethnic/cultural groups for the whole company, the executive team, and the board of directors. We also gathered the representation of male and female executives (by ethnic/cultural group) in line and staff positions for most of the US- and UK-headquartered companies in our data set. Our data comes from the period December 2018 to November 2019.

These demographic data were not available uniformly for each company in our data set. For this reason, the final tally of companies analyzed for a given correlation is less than the full sample of companies available. The exact sample size for each correlation appears in the exhibits where our correlation findings are shown.

Financial data came from the Corporate Performance Analytics database by McKinsey and S&P Global. We measured profitability using average earnings before interest and taxes (EBIT) margins for non-financial companies and average return on equity (ROE) for financial companies over the five-year period from 2014 to 2018.

We limited our data set to those companies for which we could obtain complete financial data—EBIT (or ROE in the case of financial companies)—and at least one diversity data metric (gender or ethnicity) for at least one level of the organization (executive or board of directors). Our observations on other forms of diversity beyond gender and ethnic/cultural diversity, such as LGBTQ+ or age/generational diversity, were limited by a lack of access to publicly available representation data.

Definition of company levels

— Executive team is defined in line with each company's definition of its executive management team or executive management committee. Typically, this refers to C-2, the CEO, and up to two levels below: the executives on C-suite level who report directly to the CEO (for example, the CFO, COO, and presidents). In some cases, we also include C-3 (for example, vice presidents) where these executives are listed on a company's website or annual report as being part of the executive management team.

— Board of directors refers to the official directors of the corporate board, including both independent and executive directors, responsible for governance and, in some cases, management of the business. The composition of boards varies considerably across the sample, and the degree of diversity observed in particular geographies may be influenced by government diversity quotas.

Methodology for determining diversity quartile

Companies in our global data set were grouped into quartiles based on the diversity of their organizations at each level. For gender diversity, quartiles were based on the percentage of women at a given level, and set relative to the total ("global" sample) of 15 countries: Brazil, Mexico, United Kingdom, United States, Australia, France, Germany, India, Japan, Nigeria, Singapore, South Africa, Denmark, Norway, and Sweden.

For ethnic diversity, we reprised a metric used in our original Why Diversity Matters publication: the normalized Herfindahl-Hirschman Index (NHHI) used by economists to measure market concentration and competition within an industry. We adapted the NHHI metric to differentiate diversity in companies that had the same number of non-majority executives, but where one

executive team included a greater range of ethnic backgrounds. Since the publication of the original research, we have inverted the ratio such that an NHHI measure of 0 indicates a team where everyone has the same race or gender. Increases in NHHI indicate an increase in ethnic/cultural diversity.

$$HHI=\sum N(si\ 2)$$

$$NHHI=(HHI-1/N)/(1-1/N)$$

$$NHHInew = 1—NHHIold$$

where N is the number of ethnic groups in the specific geography

Ethnic diversity quartiles were also set globally. However, given the limited availability of ethnic/cultural demographic data, the sample was much smaller—only 6 countries out of 15: United States, United Kingdom, Brazil, Mexico, Singapore, and South Africa.

While our correlations are based on the companies' NHHI ratios, we also aggregated ethnic/cultural minority representation among the companies, by industry and by geography. We define ethnic group identity as it is understood in each geography:

- United States: white/European ancestry, black/African ancestry, Latino/Hispanic of any race, Asian/Asian ancestry (including South Asian), other (including mixed race)
- United Kingdom: white/white British, black/Afro-Caribbean, Asian (including South Asian), other (including mixed race)
- South Africa: black, white, colored, other
- Singapore: Chinese, Malay, Indian, other (including white European)
- Brazil: black, brown (including mixed race), white, yellow (Asian), other
- Mexico: white, mestizo, indigenous, black, other

Methodology for financial performance

We grouped companies into peer groups based on industry group and headquarters geography (nationally or, if necessary, to ensure a sufficient sample size, regionally). Within each industry-geography pair, we then determined the relevant benchmark for "outperformance" for the financial metric:

- EBIT margin benchmark set to be above the median for the relevant industry-geography peer group

We fit all the financial data to curves and determined that differentiating the bar for financial performance was a necessary step to ensure that we were truly capturing those companies with superior profitability.

Regression analyses

We ran multivariate regressions to confirm that the relationship between either type of diversity and financial performance exists. We generally publish all results and note statistical significance. We consider as statistically significant any correlations with a p-value of <0.05. We also note where p-values meet a slightly lower bar of <0.1.

Cohort analysis

For gender-cohort analysis, a subset of US and UK companies with available gender data in 2014 and 2019 was used (365 companies). They were segmented into cohorts based on diversity baseline in 2014 and rate of change to 2019 diversity landscape.

For ethnic cohort analysis, a subset of US and UK companies with available ethnicity data in 2014 and 2019 was used (241 companies). They were segmented into cohorts based on diversity baseline in 2014 and rate of change to 2019 diversity landscape relative to the "fair share" of ethnic and cultural diversity of the respective country (non-majority population percentage).

In both cases, we established the matrix cutoffs based on the companies' distribution in each of the axes.

Sentiment analysis methodology

We followed a three-step process for this analysis:

1. We analyzed comments from Glassdoor and Indeed. We considered US-based comments made in 2017–19.
2. We selected keywords based on the following factors:
    - We utilized results from the 2020 McKinsey Quarterly inclusion survey to develop keywords and phrases.
    - We applied an inclusion framework with indicators of equality, openness, and belonging, and enablers of diversity and supportive leadership.
    - We scrutinized the existing set of comments to align language used in comments with keywords.
    - We assigned each comment a sentiment through an algorithm: positive, negative, or neutral. We analyzed keywords in phrase groups, applying unique word usage and colloquial expressions (for example, boys' club, pilot project versus airline pilot). Finally, we iterated the algorithm to reduce the error rate; the sample error rate for sentiment analysis is between 3 and 10 percent.
3. We analyzed the results by industry and by themes. We focused on our inclusion scores and on comparing industry differences.

This methodology was corroborated by MIT researchers in the Culture 500 research and in a study undertaken over three years, which provides some validation to our approach.[25] MIT / Glassdoor had a similar error rate, which they have indicated is a typical rate for sentiment analyses. MIT / Glassdoor also had statistically significant findings on the determinants of culture from analyzing publicly posted employee comments.

The benefits of this approach are as follows:

— **Scale:** We have used an advanced natural language processing algorithm which has analyzed 30,000+ comments and is able to pick up how people speak colloquially about I&D topics and distinguish between different meanings of the same words.

— **Accuracy:** The average US political poll surveys 1,000 voters, or approximately 0.001% of all registered voters in the United States, whereas the proportion of our scraped comments to the US employee base is an average of 0.26%.

— **Representativeness:** Glassdoor's give-to-get requirement whereby users must leave reviews in order to read reviews results in lower polarization of comments.

— **Consistency:** We are able to compare companies across an identical time period and method of giving feedback.

Nevertheless, we recognize inherent limitations to our sentiment-analysis methodology, as follows:

— The volume of relevant comments may be insufficient for certain industries.

— There is limited ability to assess sentiment expressed specifically by diverse talent owing to the lack of gender/racial minority markers.

— The methodology may be paradoxically biased towards positive comments in low-representation industries (for example, basic materials).

— Certain keywords are inherently skewed negatively or positively (for example, microaggressions, supportive manager).

— It may be difficult to distinguish comments made by frontline workers where relevant.

— There is no employee-verification system to ensure that employees do indeed work for the referenced companies.

[25] Donald Sull, Charles Sull, and Andrew Chamberlain, "Measuring Culture in Leading Companies," *MIT Sloan Management Review, June 2019.*

Deep-dive company profiles

We conducted outside-in research on 18 companies in our data set and developed case studies for each, using publicly available information from their respective websites. We supplemented our findings with senior executive interviews, including the companies profiled.

To know more about our case studies, or if your company would like to participate in our research in the future, please contact the authors.

Limitations of this work

This work adds to a growing body of research on the business case for I&D, and sheds light on how companies can use diversity as an enabler of business impact. Several caveats are worth highlighting:

— Correlation is not causation. There are real limitations, and we are not asserting a causal link. As with many levers of business performance, particularly at such a high level, this would be challenging to demonstrate, likely requiring detailed longitudinal studies. Yet, while not causal, the relationship is real. We have found statistically significant correlations between higher levels of diversity and above-industry-average financial performance in our original 2015 report, our 2018 update, and this report. Moreover, other research gives us good insight into what might underpin the relationship, and our interviews tell us how companies can make material differences in their I&D outcomes. Taking all these into account, we think companies on the hunt for growth can get much more tactical on how they think about I&D as a lever to pull on the path to growth.

— Just as we cannot assert causality, we cannot say definitively what drives the correlations we find. It is theoretically possible that the better financial outperformance enables companies to achieve greater levels of diversity. Companies that perform well financially may choose to deploy more of their resources toward more advanced talent strategies, thus allowing them to attract more diverse talent, for example. However, in practice this seems unlikely. We have observed that most companies only embark on a major transformation when they have a burning platform to do so.

— As standardized measures of inclusion are developed, it may become possible in the future to conduct more large-scale analysis to explore a potential correlation between inclusiveness and financial performance.

— Measuring diversity in critical value-creation roles is a logical next step in this analysis, as an outside-in assessment of top teams is limited in its ability to focus on diversity in value-critical business areas and roles throughout the organization.

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