

# Why Diversity And Inclusion Will Be A Top Priority For 2016

With all the press we read about diversity, inclusion, women in leadership, and the need to be open minded about religious and cultural differences, one might ask “*is 2016 going to be the year of diversity in business?*”

I believe the answer is yes: this topic has been raised in the public eye and research now proves that companies with great diversity outperform their peers by a significant margin. If you aren't taking this topic seriously, you should be. Here's evidence:

- [McKinsey's research](#) shows that gender-diverse companies are 15% more likely to outperform their peers and ethnically-diverse companies are 35% more likely to do the same.
- [Catalyst research](#) shows that companies with more women on the board statistically outperform their peers over a long period of time.
- [Deloitte Australia research](#) shows that inclusive teams outperform their peers by 80% in team-based assessments.

We just completed a *two-year research study* (Bersin by Deloitte 2015 [High-Impact Talent Management](#) research) and the results are amazing: among more than 128 different practices we studied, the talent practices which predict the highest performing companies are all focused on building an Inclusive Talent System.

Companies that embrace diversity and inclusion in all aspects of their business statistically outperform their peers.

## The Research

Let me summarize our new research. Over a two year period we surveyed and interviewed more than 450 global companies (including a significant number in Asia, Europe, as well as the US) to identify their level of maturity in a wide variety of talent practices. (These are companies with more than \$750MM in revenues.)

We looked at a total of 128 different aspects of talent management, things like how well companies assess candidates for job and culture fit, how fair their performance management practices are, their culture of learning, their level of maturity in leaders development, and more. (*More details on the methodology [here](#).)*

We then looked at business performance of these 450+ companies (financial and talent outcomes, including cash flow, profitability, innovation, and growth), and correlated the talent practices against performance. We performed a causal analysis to see which practices had the greatest statistical impact.

Our analysis found 31 *distinct talent practices* which are highly correlated with strong business performance. We grouped these into 9 categories and rank ordered them based on impact.

As part of this work we also used the data to group companies into four levels of maturity, and labelled the four levels based on the key practices which emerge at each level. The maturity model is shown below.

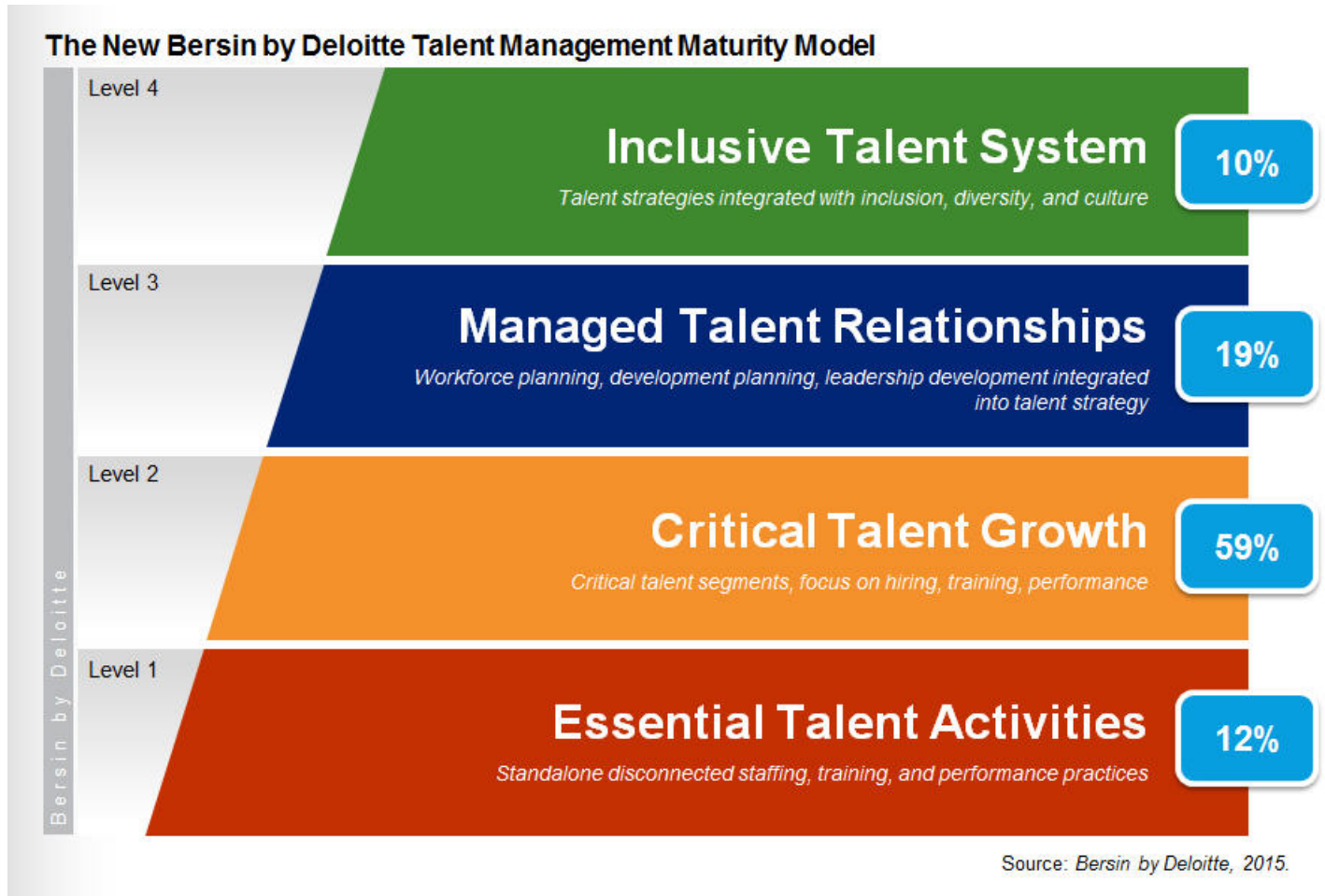


Fig 1: Bersin by Deloitte Talent Management Maturity Model (2015)

As you can see from the data, only about 10% of the companies we studied are truly exceptional talent organizations – with the bulk of companies focused on talent management for operational growth, essential HR needs, and ongoing performance support. The top two groups, Levels 3 and 4, are the exceptional companies and as the labels show, these are companies that look at leadership and inclusion as a hallmark of their talent strategy.

### Business Impact Of The High Performers

Let's look at the business impact. The companies at levels 3 and 4, who we label “inclusive” and “managed” talent companies, are quite exceptional businesses. Specifically, over the period we studied, these companies are:

- **2.3 times higher cash flow** per employee over a three-year period

- The smaller companies had **13 times higher mean cash flow** from operations
- 1.8 times more likely to be **change-ready** and 1.7 times more likely to be **innovation leaders** in their market
- 3.8 times more likely to be able to **coach people for improved performance**, 3.6 times more able to deal with personnel performance problems, and **2.9 times more likely to identify and build leaders**.

In short, these level 3 and level 4 companies are not just “better at HR,” – they are **higher performing companies** measured by business, financial, and talent outcomes.

### The Factors And Dimensions Of High-Impact Talent Management

So what are these 31 “magic practices?” How do these high performing companies differentiate themselves?

As we ranked and sorted these dimensions, we found 9 overall “families” of things and grouped them into a rank list. Here is what we learned:

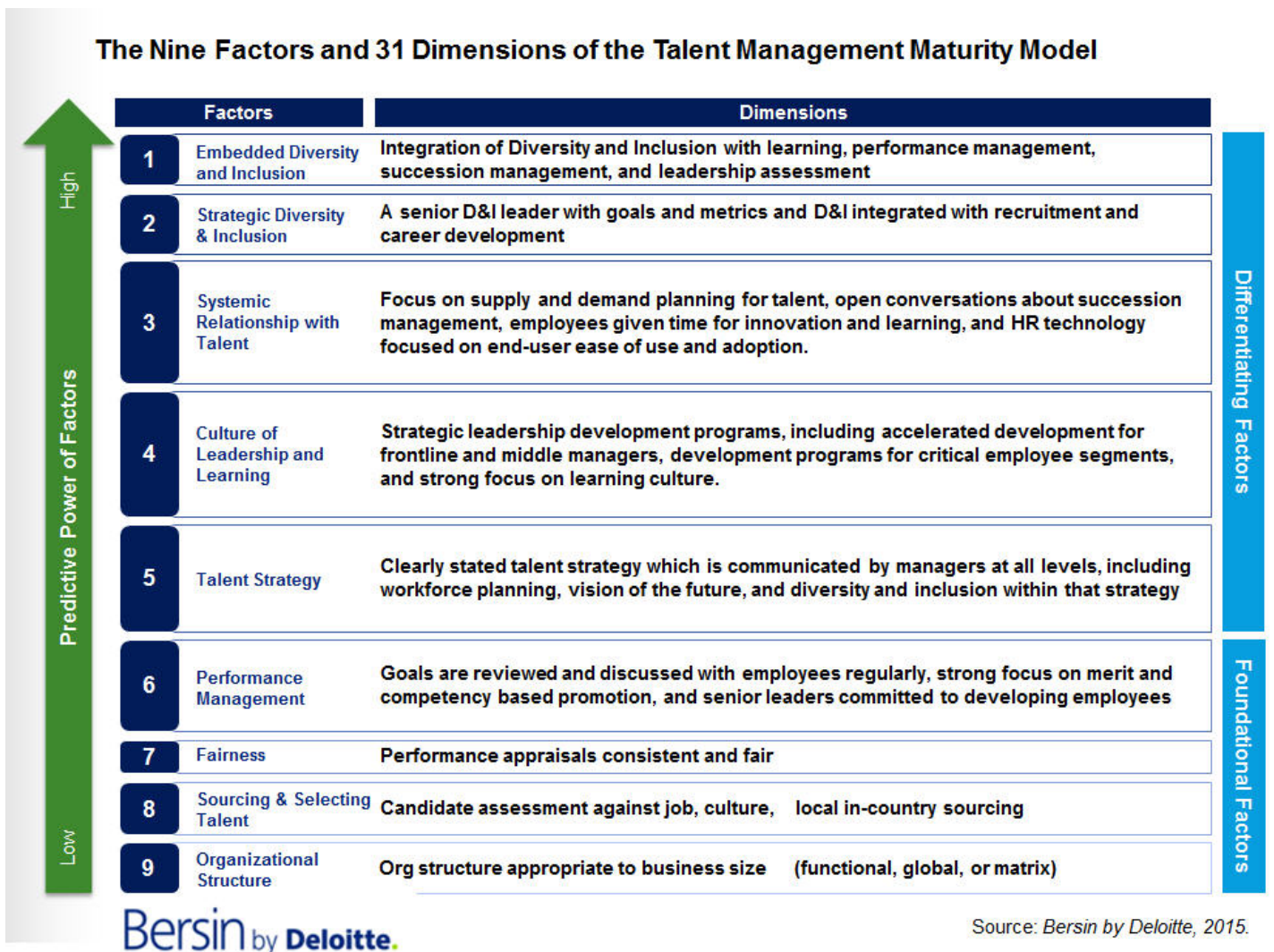


Fig 2: Bersin by Deloitte Talent Management Dimensions of Impact

Let me briefly explain the list, starting at the bottom (foundational factors).

At the bottom of the list (levels 6, 7, 8, and 9) there are **foundational** and fundamental things to do: create a clearly defined organization structure, source and assess people well, localize recruitment and sourcing, and make sure the performance management process is fair and consistent. These core elements: goal management, equitable performance management, and sound in-country sourcing and recruitment make up what we call “essential” and “critical” talent activities – you simply cannot run a company well without them.

Note that in the area of performance management the differentiating factors are not ratings or forced ranking, but the ability for managers to work on goals directly with employees, the focus on merit and behavior as criteria for promotion (not politics), and senior leaders’ focus on employee development (not only employee evaluation).

At the next level up (level 5), we see **differentiating** talent strategies – things that are more difficult and complex to do. The main factor at level 5 is developing and communicating an overall **talent strategy**. This means explaining the type of people we want to hire, what behaviors we value, how we will source and recruit, and how we will manage and lead people. A talent strategy also includes plans for career development, a stated strategy and goals for diversity and inclusion, a discussion of how the company plans and measures talent goals, and the role managers will play. In our [latest research](#) only about 12% of companies have such a strategy clearly detailed, so this is a major area of effort.

Moving up, the next differentiating factor (level 4) are is a focus on **learning, leadership development, and ongoing coaching and performance improvement** – including developmental assignments for leaders, assessment of future leaders, and continuous development of leaders. Learning is a tremendously important part of business performance, because it makes up the sustainability and innovative nature of your business. It is also a major driver of employee engagement and employment brand. If people are not continuously learning, you aren’t iterating, expanding, and continuously meeting new customer needs.

*(Our [High-Impact Learning Culture](#) and [High-Impact Leadership](#) research validates this, showing that these high-performing companies spend 3-4X as much on learning and leadership as their peers and are as much as 8X stronger at innovation, customer service, and employee retention.)*

Moving up further (level 3), we found a variety of planning and strategy programs we call a “**systemic relationship with talent**.” Here companies focus on workforce planning and the development of a total, sustainable work experience which includes easy to use systems, open conversations about growth and potential, and strategic talent mobility. In my meetings with HR leaders we talk frequently about the need for leaders to “export talent” and be rewarded for moving people into new and challenging jobs, often outside of their group. These are systemic practices, because they involve thinking about people as assets for the whole company, and we have to reward leaders for developing, coaching, and moving

people around.

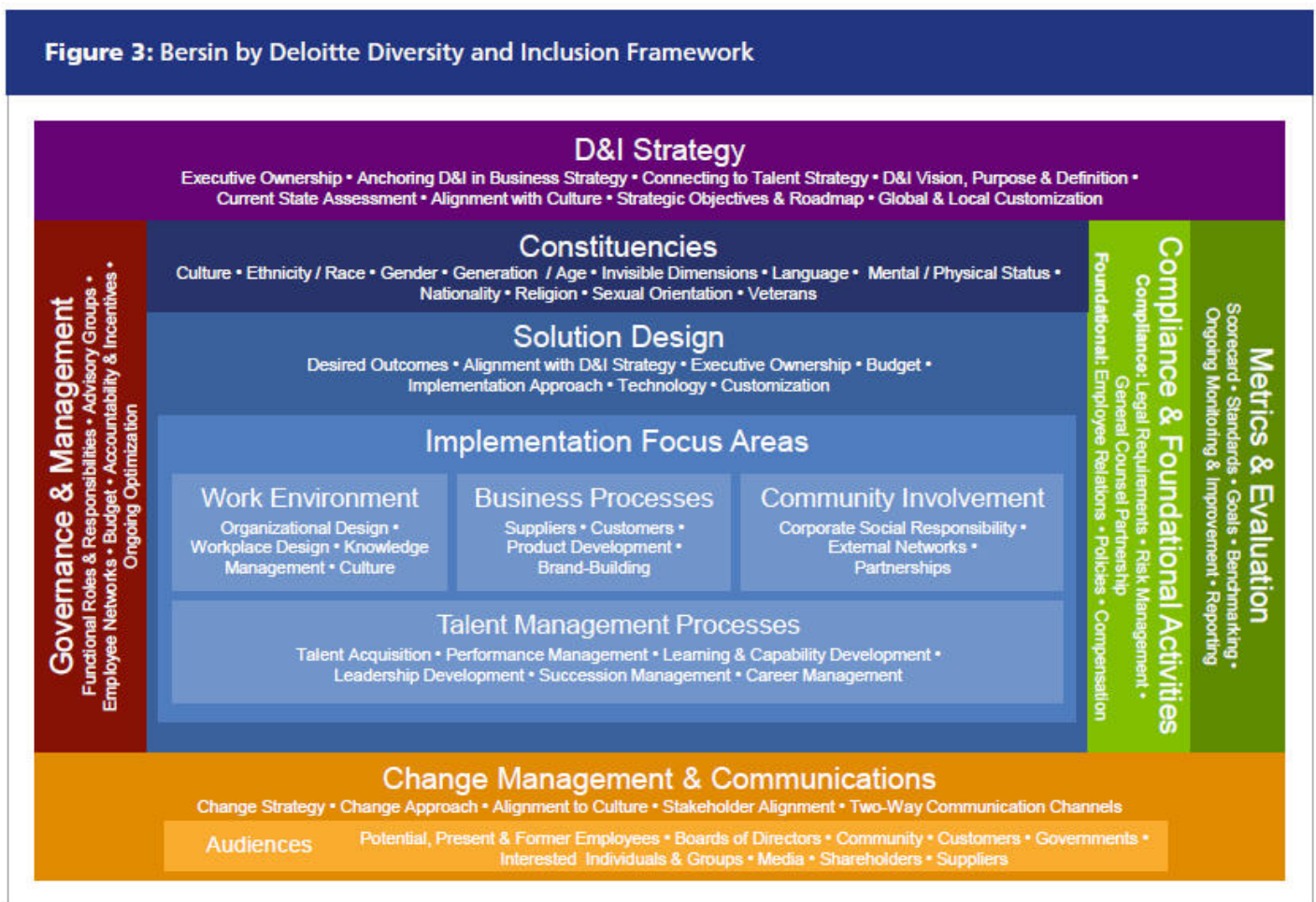
Now to the top. As the chart shows, the two most important areas, those that correlated with the *highest impact* on business performance, are all about **inclusion and diversity**. Inclusion is the goal we want to achieve here, and diversity is the measure of success. As you can see from the chart, this requires embedding inclusion and diversity into hiring, performance management, succession management, leadership development, learning – and specifically measuring diversity and holding leaders accountable for inclusive behaviors and diversity results.

It's striking to me that D&I rated the highest impact of all. It points out that in today's working world, your ability to attract and engage people of all ages, cultures, backgrounds, and types is paramount to your business success.

### What Is A High-Impact Inclusion And Diversity Program?

What does it mean to have a strategic D&I program? As our research shows, Diversity and Inclusion is a top-to-bottom business strategy – not just an HR program.

Our [Diversity and Inclusion framework](#) details the process, which is shown below.



Source: Bersin by Deloitte, 2014.

Fig 3: Bersin by Deloitte D&I Framework

While I don't want to turn this article into a best-practices piece, let me simply say that building a strong "Culture of Inclusion" is difficult, takes executive support, and will touch almost everything you do in leadership and HR. Companies like Sodexo, Novartis, AT&T, and other diversity leaders (you can see the [DiversityInc Top 50](#) here) have been investing in these strategies for years.

Some of the keys strategies we've learned include:

- Creating a top level focus and strategy at the CEO/COO/CHRO level
- Assigning a top executive the responsibility for leading and sponsoring the inclusion and diversity program
- Creating behavioral standards, diversity metrics, and holding leaders accountable for results
- Training people at all levels on topics like unconscious bias, similarity bias, structural bias, and self-rater bias
- Integrating diversity and inclusion strategies in recruitment, performance management, leadership assessment, training
- Creating employee networks (D&I champions, Employee Resource Groups, and Communities of Practice) to bring people together
- Holding your company accountable to compete in external award programs to win and compete in this important area
- Creating an internal and externally visible scorecard to measure progress in all areas. Such scorecards include metrics for recruiting, promotion rates, compensation levels, participation in coaching programs, turnover, participation in ERGs, supplier diversity, and much more.

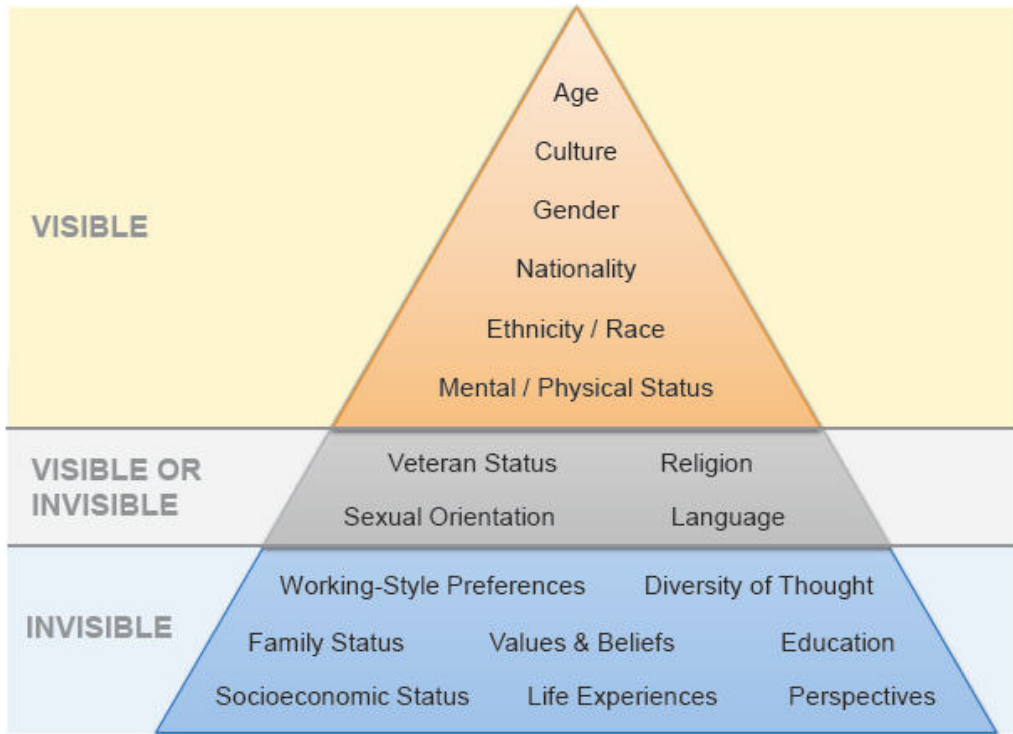
We have interviewed dozens of leading companies in this area and one of the stories I remember was a discussion with the global chief diversity officer at a large food service company. She told us a few years ago that while their scorecards have been tremendously effective at driving change (they used a 1000 point scorecard), she learned that the company should also develop quantitative metrics that would drive behavioral change (ie. what to do, how to ask questions, how to make decisions, etc.).

Here is an anecdote to consider. I recently had dinner with a woman who was an executive at Apple Inc. in the 1980s. She shared with me that at that time Apple was filled with people of all ages and varying backgrounds: engineers, artists, designers, and even musicians. Many of them did not have college degrees but they were all passionate professionals committed to Apple's success. (These were the days when Apple was out-innovating IBM, Microsoft, and almost every other computer manufacturer.) She lamented that today, driven by a new breed of hiring practices, companies focus almost entirely on college degree, GPA, and pedigree – and she believes this has created many of the diversity challenges we have in Silicon Valley.

This is an example of thinking about diversity and inclusion in a holistic way. Rather than just try to hire more women engineers from top schools, how about expanding your whole recruiting philosophy to include engineers, artists, mathematicians, and other creative professionals from a broad set of

experiences. Remember Diversity goes far beyond education and gender.

**Figure 1:** Visible and Invisible Diversity Traits



Source: Bersin by Deloitte, 2014.

Fig 4: Bersin by Deloitte expansive definition of diversity

For example, while most HR managers focus heavily on the need to attract and retain Millennials right now, what about programs to attract and retain boomers? Most companies I talk with are filled with senior professionals who want to work into their 70s or longer – do you have a program to include them in your ever-younger workforce? We can apply this concept to every category listed above.

The message from this research is clear: sustainable business performance today depends on your ability to attract and engage a highly diverse workforce. Failure to do this well will impact your employment brand and your company's innovation. It will take a strategic level of focus and systemic investments in all areas of your people practices to make this happen.

(A subset of our benchmark data on diversity practices is [available here](#).)

### **Bottom Line: What This Research Tells Us**

The message is clear to me: in today's global business environment – filled with challenges in demographics, skills, and culture – companies that build a *truly inclusive culture* are those that will outperform their peers.

Why? **People perform best when they feel valued, empowered, and respected by their peers.**

Neurological research [compiled by David Rock](#) and others shows that our most productive, innovative, and collaborative times at work happen when we *feel like we are a part of the team*. When we feel included and respected, our bodies create hormones and healthy energy that raises our performance at work.

Some academics have statistically proven this in a variety of business situations. [Research by Cedric Herring at the University of Chicago](#) (one of the most exhaustive studies I've found) proved that "Diversity yields superior outcomes over homogeneity because progress and innovation depends less on lone thinkers with high intelligence than on diverse groups working together and capitalizing on their individuality." His statistical research found that across hundreds of companies, diverse teams drive 6% greater revenue, 15% more customer wins, and create significantly higher market share. These teams work better together, innovate more, and come up with superior customer solutions.

## What This Means To You

A few simple lessons:

**First**, recognize that building an inclusive work environment will take senior leadership commitment and a systemic, top-to-bottom approach. You will have to embed embedding diversity and inclusion into hiring, leadership assessment, development, and performance management.

I just finished a two week trip through Asia (Hong Kong, China, and India) and in every one of the 30+ meetings I attended we discussed how important but difficult it is to build a culture which is both globally consistent and locally relevant.

A major insurance company in Hong Kong (one of the fastest growing companies in the world) told me that while their global standards for performance and behavior are very well understood, their businesses in Singapore, China, Malaysia, and Vietnam are each very different. They have local products, localized marketing and sales strategies, and leaders often grown in these local markets. Are they truly "inclusive?" Yes. This HR leadership team was truly multi-national and each of them had spent years working in other countries, so global talent mobility is part of their culture as well. (This company is one of the fastest growing companies in its industry.)

**Second**, inclusion demands fairness in performance management, unbiased career discussions, and forced diversity in leadership and succession management. Reinvention of performance management is one of the hottest topics in HR today, and part of this trend is creating a more developmental, open approach. (Read about the ten best practices [here](#).)

The companies rated highest in High-Impact Talent Management use many techniques to drive this: unconscious bias training, analytics tools and scorecards, diversity metrics. These programs make sure that *managers and executives are not promoting or out-rewarding people in an unfair way*.



We studied the issue of “fairness” in the study and found wide variation in perceived equity. Only 35% of level 1 companies, for example, believe their performance evaluation process is truly “fair” while 94% of level 4 companies feel that way. This is a huge variation, and of course it has an enormous impact on people’s energy, enthusiasm, engagement, and performance at work.

So as you redesign or rethink how you measure and reward people, take the time to build in tools and training to remove bias, measure diversity openly, and make sure everyone is evaluated based on performance and results, not position or tenure. Today’s trend to redesign performance management gives us a once in a decade opportunity to remove bias and make the process more transparent, data driven, and fair.

**Third**, your company must become good at listening and communicating. Level 4 companies differentiate themselves on open, transparent communications about succession, potential, and career growth.

As I describe in [“Feedback is the New Killer App,”](#) these companies are both “**good listeners**” and “**open communicators**” – able to talk about who and why people are put on a “fast track.” This openness, which we highlight in our High-Impact Succession Management research, shows that only when you tell people where they are can they internalize their performance, ask for coaching, and continuously improve. And this openness in itself drives inclusion and diversity conversations to improve.

We live in an increasingly diverse world – strong businesses reflect this society. Take inclusion and diversity and put it high on your agenda for 2016.