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KNOW MORE.
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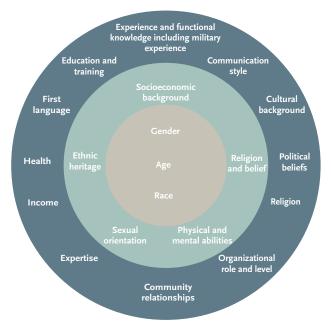# Diversity & Inclusion

Diversity & Inclusion

Diversity and inclusion programs have long been the domain of human resources departments; only recently has the role of corporate citizenship programs come to the forefront of the conversation. Now, companies are not only seeking to achieve the business benefits that are associated with diverse employee populations and successful inclusion programs, but are also working to effect positive social change to ensure the future growth of both the national and global economy.

What is diversity? What is inclusion?[1]

Diversity may represent qualities that are permanent or visible, such as race or gender, as well as those that are ambiguous or less visible, such as ethnic heritage or socioeconomic background (see Figure 1). It may also

FIGURE 1

Diversity characteristics

- ▦ **Visible and/or unalterable**
- ▦ **Less visible and/or ambiguous**
- ▦ **Acquired and/or alterable**

Adapted from: Loden, M. (1995). *Implementing Diversity*. New York: McGraw-Hill.

represent dimensions that are acquired or change over the course of a lifetime, such as military experience or education. It is the combinations of these attributes that make us unique.

Diversity is about differences. Inclusion is the way these differences are harnessed and brought together to reap the greatest possible value—for companies and society, and for individuals. Inclusive environments respect and facilitate connections, making it possible for people to apply their diverse attributes and capabilities toward a common goal.

For companies, recent research has shown that it is not enough to simply hire a diverse pool of employees and set them to work; companies must ensure that those employees are trained, developed, and integrated into the workforce in a way that encourages them to offer their unique skills and perspectives.

Benefits of Corporate Diversity & Inclusion Programs

For many companies, results are realized when diversity and inclusion efforts are embraced at the top. Studies indicate that board diversity is associated with an increase in intangible value through greater innovation and better reputations, and stronger financial performance. A 2011 study found that companies with the highest proportion of women on their boards earn a 26 percent higher return on invested capital than their competitors, as well as a 16 percent higher return on sales.[2]

In order to effectively achieve the benefits of diversity, companies must create strategic inclusion programs that support all employees through both formal and informal means. By partnering with business units across the company, corporate citizenship professionals can support initiatives like employee resource groups (ERGs) and mentorship programs, which foster the connection, development, and advancement of underrepresented groups.

The benefits of adopting diversity and inclusion include:

- **Stronger financial performance, including increased market share**: When companies embrace a wider array of talent, they gain access to broader consumer demographics, especially when diverse employees are supported by culturally experienced leaders. A 2013 study found that publicly traded companies that employed a workforce with diverse inherent characteristics and managers with numerous cultural experiences are more likely to expand their market.[3] Employees at these companies are 70 percent more likely than employees at non-diverse publicly traded companies to report that their firm captured a new market in the proceedig 12 months, and 45 percent more likely to report that their firm improved market share in that same time frame.

- **Increased innovative potential**: The varied perspectives and backgrounds that lead to new ideas—coupled with a wider range of leadership behaviors that foster increased collaboration—ultimately lead to greater innovation. Research finds that this is especially true for industries with high growth potential. A 2014 study found that racially diverse management teams operating in these sectors initiate more competitive actions such as new products, product improvements, price cuts, new advertising campaigns, and new market entries.[4]

- **Greater engagement, resulting in increased job performance and happier customers**: Employees are more engaged when they feel valued for their distinct contributions and are given equal opportunity to perform and develop. Research has shown that these benefits reduce turnover and translate to increased customer satisfaction.[5] A 2011 study found that environments that respect and appreciate diversity see an increase in customer satisfaction.[6]

Delivering Business and Social Value

In the Boston College Center for Corporate Citizenship's State of Corporate Citizenship 2017 study, the majority of business executives reported that diversity and inclusion programs are considered a corporate citizenship priority, and they expect the resources allocated to these efforts to increase in the next few years (see Figure 2).

This finding reflects an understanding that the cultivation of a diverse and inclusive workforce isn't an option, it's a requirement—a point of view backed up by the OECD, which reports that the most promising way of promoting equal opportunities and reducing income inequality is to boost employment and career prospects.[7] A reduction in income inequality will lead to stronger economic growth, but only if people receive access not only to more and better jobs, but also to the obtainment of a living wage, enabling them to escape vulnerability and have a chance at real prospects.

It is a corporate citizenship imperative to address inequality through the acquisition and development of a more diverse workforce. Ultimately, it is also a component of robust and sustainable business.
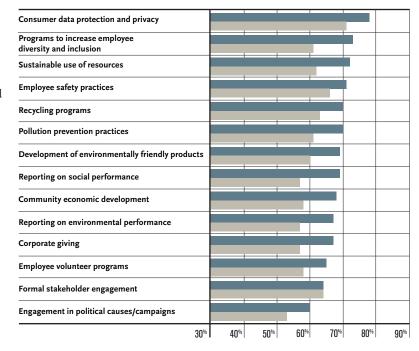
Creating Value for Business and Society

Businesses are valued not only on goods produced and consumed, but also on intangibles, including intellectual capital, individual and corporate goodwill, and corporate reputation. These assets make up a firm's intangible value, which accounts for as much as 87 percent of its market value.[8] A diverse and inclusive workforce positions companies to increase their intangible value through the cultivation of reputation, intellectual property, and innovation.

FIGURE 2

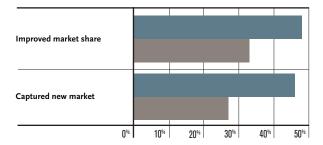Resources will increase for corporate citizenship dimensions in the near future

■ 2016 ■ 2014

Source: Boston College. Center for Corporate Citizenship. *The State of Corporate Citizenship 2017.*

- **Effective diversity and inclusion that bolsters the bottom line.** Research has consistently shown a positive relationship between corporate citizenship activities and financial performance. A 2013 study found that those who performed well in social initiatives—including diversity—had better financial performance.[9] Adopting diversity and inclusion as a corporate citizenship initiative proves to be a win-win: The intangible value that companies accrue from diversity and inclusion programs leads to a better bottom line. In 2014, researchers found that companies led by diverse management teams are more likely to take competitive actions, resulting in increased market share and profits.[10] A firm's external diversity reputation can also contribute to financial performance. By examining the financial data of firms consistently listed on Fortune magazine's annual list of the best companies for minorities, researchers found that positive diversity reputations are associated with higher firm value.[11] A similar investigation of DiversityInc's Top 50 Companies for Diversity list found that positive diversity reputations are correlated with improved market performance, an effect that persists and strengthens over time.[12]

- **Enhancing corporate reputation with diversity.** Corporate citizenship efforts that prioritize diversity and inclusion can advance a multitude of social and business imperatives, including improved stakeholder relations, employee well-being, and reputation. Researchers studied more than 300 of the firms in the Fortune 500—all of which were listed in the 2004 Fortune Corporate Reputation Survey—and found that companies with racially diverse boards have better corporate reputations.[13] This is potentially because a broad array of directors can more effectively communicate with a wider variety of stakeholders and external groups, particularly during reputation-building activities like philanthropy and community relations. Gender diversity also plays a role in developing positive external perceptions. Women board members are associated not only with better corporate reputations, but also with better corporate citizenship ratings.[14] A 2011 study found that boards with three or more women directors had higher corporate citizenship scores, as measured by the MSCI database.[15]

- **Diverse workforce expands markets.** When effectively managed, the power of a diverse workforce can open the door to new competitive possibilities, as the insights of workers with varied backgrounds can lead to a more comprehensive understanding of a broader range of stakeholders. A 2009 study of more than 500 U.S. firms found that workforce diversity is associated with increased sales revenue, more customers, greater relative profits, and greater market share.[16] A 2013 survey revealed that the gains in market share can be significant, especially when diverse workforces are led by management teams with high levels of cultural competency.[17] Employees at these companies are 70 percent more likely than employees at non-diverse publicly traded companies to report that their firm captured a new market in the past 12 months and 45 percent more likely to report that their firm improved market share in that same time frame (see Figure 3).

- **Financial benefits of diverse leadership.** The move to accept diversity and inclusion as both a corporate citizenship effort and prioritized business goal can succeed only with leadership support. In 2015, PricewaterhouseCoopers surveyed 783 board members of publicly traded companies in the United States and found that only 39 percent of directors think gender diversity is a very important director attribute; even fewer found racial diversity

FIGURE 3

Percentage of employees who report that their firm...

■ **With** diverse employees and inclusive leaders
■ **Without** diverse employees and inclusive leaders

Source: Center for Talent Innovation. (2013). Innovation, diversity, and market growth. Retrieved from http://www.talentinnovation.org/_private/assets/IDMG-ExecSummFINAL-CTI.pdf

to be vital.[18] That said, 95 percent of those surveyed believed that adding diversity was at least somewhat important (see Figure 4). The majority reported that diversity leads to enhanced board effectiveness and company performance, and listed a lack of qualified candidates as the top impediment to increasing board diversity.

Companies that do make the effort to prioritize diversity and inclusion at the top reap significant rewards. In a 2011 study, researchers found that companies with the highest proportion of women on their boards earn a 26 percent higher return on invested capital than their competitors, as well as a 16 percent higher return on sales.[19] These findings advance an earlier study conducted in 2003, which found that that gender and racially diverse boards are positively associated with firm value.[20]
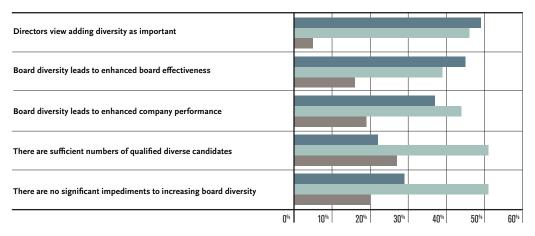
The Role of Corporate Citizenship

Corporate citizenship programs can support diversity and inclusion efforts by offering training programs and supporting resources like mentorship programs and employee resource groups (ERGs), which allow employees to connect with one another and provide mentoring and learning opportunities. They also give professionals access to role models that help them develop and advance. These groups are on the rise with corporate-citizenship-minded companies. The Human Rights Campaign reports that 89 percent of the companies listed in the Corporate Equality Index have an LGBT employee resource group and/or formal diversity council.[21]

The professional relationships created through mentorship programs or ERGs may be built into existing employee resource structures, which may or may not fall under a corporate citizenship department. Even if the initiatives themselves are not managed by citizenship leaders, mentorship can be built in and/or supported by corporate citizenship activity. Corporate citizenship practitioners may partner with their HR counterparts and use traditional citizenship activities like volunteering to help build and foster relationships within the groups and encourage participants so that they realize the benefits of networking and collaboration.

FIGURE 4
Director perspective on board diversity

■ Very much ■ Somewhat ■ Not at all

Source: PricewaterhouseCoopers. (2015). Governing for the long term: Looking down the road with an eye on the rear-view mirror: PwC's 2015 annual corporate directors survey. Retrieved from http://www.pwc.com/us/en/corporate-governance/annual-corporate-directors-survey/assets/pwc-2015-annual-corporate-directors-survey.pdf

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