

One Page on The Business Case for Diversity

We have all heard it time and time again – there is a business case for diversity. The McKinsey Global Institute estimates that achieving gender equality, alone, would add \$12 trillion to the global economy.ⁱ And diversity can also help companies succeed thanks to improving: shareholder value, innovation, sales and customer service.

Shareholder Value

At the simplest level, there are strong and consistent relationships between diversity and bottom-line financial outcomes for organizations. When it comes to gender diversity, we see benefits throughout organizational levels. At the top, having more women on the board relates to 36.4% higher returns,ⁱⁱ lower debt to equity, and higher average growth.ⁱⁱⁱ More women in the C-suite^{iv} and in top management^v predicts firm profitability including a 20% increase in stock prices after a female CFO is appointed.^{vi} And just having more female employees, in general, relates to higher profitability^{vii} and stock returns.^{viii} The benefits of race are even more pronounced than those for gender although there is considerably less research on the topic. For example, McKinsey showed that companies in the top quartile in racial diversity outperformed those in the bottom quartile by 35%, whereas the benefit was only 15% for gender diversity.^{ix}

Innovation

Maybe one of the reasons that diversity relates to improved bottom line outcomes is that diversity breeds innovation. Indeed a multi-year study on earnings in the S&P 1500 revealed that the benefits of gender diversity in top management is actually most pronounced in companies that valued innovation.^x And the findings are quite the same for racial diversity. In a study of national banks in the U.S., racial diversity was positively related to financial performance, and this was particularly true of banks that valued innovation.^{xi} Another study showed that companies with a variety of diversity programs – from disability to gender to race to LGBTQ status—created an average of two extra products in any given year, compared to companies that did not have those diversity programs.^{xii} TWO EXTRA PRODUCTS! So if you want innovation, diversity can be a great place to start.

Sales and Customer Service

Diversity can also help companies reach a broader customer base. Diverse companies are 70% more likely to capture new markets and the reasons are not surprising.^{xiii} It is easier to appeal to new customers when you have members of your product development team, sales team, marketing team that mirror those potential customers. If you increased gender diversity by only 1%, you would increase sales by 3% and for race that increase would be 9%.^{xiv} The reality is, the country is simply becoming more diverse and our companies need to reflect that if they are going to be successful at serving those customers. According to Nielsen group, 43% of the 75 million Millennials identify as Asian, Black, or Hispanic. This will amount to massive shifts in the buying power of ethnic minorities in the near future, highlighting the importance of understanding the customer base. For example, the buying power of Black Americans is \$1.2 trillion and is expected to be \$1.5 trillion by 2021. Women make up 75% of customer purchasing decisions. And that is just thinking domestically. If you consider the global economy, more than 57% of households earning more than 20K a year will live in the developing world by 2025.^{xv} Companies of the future will need to understand these markets in order to succeed.

Summary

In sum, there is clearly a business case for diversity. There are many I hope this one-pager helps you get what you need to make your business case. I have included all of the links on the next page. Enjoy!

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- ⁱ <http://www.mckinsey.com/global-themes/employment-and-growth/how-advancing-womens-equality-can-add-12-trillion-to-global-growth>
- ⁱⁱ Huddleston Jr., T. (2015 December 7). You'd be Smart to Buy Stock in Companies With Women on Their Boards. Retrieved from <http://fortune.com/2015/12/07/female-board-directors-returns/>
- ⁱⁱⁱ Credit Suisse. (2012 July 31). Large-cap companies with at least one woman on the board have outperformed their peer group with no women on the-board by 26% over the last six years, according to a report by Credit Suisse Research Institute. Retrieved from <https://www.credit-suisse.com/corporate/en/articles/media-releases/42035-201207.html>
- ^{iv} Noland, M., Moran, T., Kotschwar, B. (2016 February 8). New Peterson Institute Research on over 21,000 Companies Globally Finds Women in Corporate Leadership Can Significantly Increase Profitability. Retrieved from <https://piie.com/newsroom/press-releases/new-peterson-institute-research-over-21000-companies-globally-finds-women>
- ^v Dezsö, C. L., & Ross, D. G. (2012). Does female representation in top management improve firm performance? A panel data investigation. *Strategic Management Journal*, 33(9), 1072-1089.
- ^{vi} <https://www.spglobal.com/en/research-insights/featured/when-women-lead-firms-win>
- ^{vii} Hunt, V., Layton, D., Prince, S. (2015 January). Why diversity matters. Retrieved from <https://www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters>
- ^{viii} Morgan Stanley. (2016 May 11). Why it pays to invest in gender diversity. Retrieved from <http://www.morganstanley.com/ideas/gender-diversity-investment-framework>
- ^{ix} https://www.mckinsey.com/~/media/McKinsey/Business%20Functions/Organization/Our%20Insights/Delivering%20through%20diversity/Delivering-through-diversity_full-report.ashx
- ^x Dezsö, Cristian L., and David Gaddis Ross. "Does female representation in top management improve firm performance? A panel data investigation." *Strategic Management Journal* 33, no. 9 (2012): 1072-1089.
- ^{xi} Richard, Orlando, Amy McMillan, Ken Chadwick, and Sean Dwyer. "Employing an innovation strategy in racially diverse workforces: Effects on firm performance." *Group & Organization Management* 28, no. 1 (2003): 107-126.
- ^{xii} Mayer, RC, Warr, RS, & Zhao, J. (2018). Do Pro-Diversity Policies Improve Corporate Innovation ?. *Financial Management*, 47 (3), 617-650.
- ^{xiii} <http://www.talentinnovation.org/assets/IDMG-ExecSummFINAL-CTI.pdf>
- ^{xiv} Herring, C. (2009). Does diversity pay?: Race, gender, and the business case for diversity. *American Sociological Review*, 74(2), 208-224.
- ^{xv} Dobbs, R., Smit, S., Remes, J., Manyika, J., Roxburgh, C., & Restrepo, A. (2011 March). Urban world: Mapping the economic power of cities. Retrieved from <https://www.mckinsey.com/global-themes/urbanization/urban-world-mapping-the-economic-power-of-cities>