

# Good for Business

IMPACT OF DIVERSITY AND INCLUSION AT GLOBAL COMPANIES



**IN AN IDEAL WORLD**, children learn the golden rule. The Golden Rule is the principle of treating others as you want to be treated. It is a maxim that is found in most religions and cultures.<sup>1</sup> In today's world, implementing reciprocal treatment of work colleagues, and incorporating diversity and inclusion policies and practices in the workplace, leads to more than good relationships. It impacts the financial bottom line of businesses, as illustrated by the experience of global companies.

A look back at five years of diversity and inclusion efforts shows improvement, with a long way to go. McKinsey & Company teams prepared three studies in 2015, 2018, and 2020 which researched the business case for diversity.<sup>2</sup> They published *Why Diversity Matters* in 2015, and *Delivering Through Diversity* in 2018, using data from 2014 and from 2017, respectively. For their latest publication, *Diversity Wins- How Inclusion Matters*, on May 19, 2020, McKinsey reviewed 1,000 large companies with annual revenues exceeding \$1.5 billion in fifteen countries (Australia, Brazil, France, Germany, Norway, Denmark, India, Japan, Mexico, Nigeria, Singapore, South Africa, Sweden, the United Kingdom and the United States).

In the 2020 report, companies in the top quartile of gender diversity on executive teams outperformed those in the fourth quartile by 25% based upon profitability, up from 21% in 2017, and 15% in 2014. In 2019, companies with more than 30% of women on executive teams significantly outperformed teams with less than 30% of women or with few to no women.<sup>3</sup>

In the area of ethnic and cultural diversity, companies in the top quartile outperformed those in the fourth quartile by 36% based upon profitability, up

33% from 2017 and 35% in 2014.<sup>4</sup> While there has been improvement, the pace has been slow, and the gap between the top quartile and lower quartile grows, resulting in lost profitability, by as much as 20%.

McKinsey focused on three industries: financial services, technology, and healthcare. It analyzed employee comments connected to five areas: diverse representation, leadership accountability, equality, openness, and belonging. Overall, employee comments tend to be more negative than positive about all five areas, which indicates that even companies with a diverse workforce lack more complete diversity and inclusion integration.<sup>5</sup>

### CURRENT CLIMATE

The issuance of the 2020 McKinsey report was delayed, due to the pandemic, from March 2020 to May 19, six days prior to the killing of George Floyd on May 25th in Minneapolis. Floyd's death arguably set up an intense review of diversity and inclusion policies in society and in companies.<sup>6</sup> In the aftermath, executives at big U.S. companies issued statements condemning Floyd's death and promising to do more to overcome racism and improve diversity and inclusion. These companies include BlackRock, Indeed, Bank of America, Dell, Best Buy, Disney, Lowe's, FedEx, IBM, Nordstrom, Target, Expedia, Goldman Sachs, Ford, Mozilla; Citigroup, Zoom, Tapestry, Starbucks, General Motors, Wells Fargo, Facebook, PayPal, Lyft, Johnson & Johnson, Discovery, Apple, Viacom CBS, Grubhub, Snap, Intuit, Walmart, Gap, WarnerMedia and Intel.<sup>7</sup>

And despite having laws in place banning discrimination for several decades, blacks and minorities disproportionately lag in progress. According to My-

1 Antony Flew, ed. (1979). "golden rule". *A Dictionary of Philosophy*. London: Pan Books in association with The MacMillan Press. p. 134.

2 McKinsey & Company is a US-based management consulting firm, founded in 1926 by University of Chicago professor James O. McKinsey, that advises on strategic management to corporations, governments, and other organizations.

3 <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters>

4 Ibid.

5 Ibid.

6 <https://www.wsj.com/articles/george-floyd-and-derek-chauvin-the-lives-of-the-victim-and-his-killer-11592761495>

7 <https://www.wsj.com/articles/what-executives-said-about-george-floyds-death-11591364538>



*In addition to increased profitability with gender, ethnically, and cultural teams, companies with diverse boards of directors in the top quartile of gender diversity are 28% more likely to outperform the lower quartile financially.*

LogIQ, a data tracker, only 1% of S&P 500 company CEOs are black, out of a total of 11% ethnic minorities who are 3% Latino, 3% Indian, 2% Asian, 1% Middle Eastern, and 1% multiracial.<sup>8</sup>

#### WHAT WINNERS DO AND CAN CONTINUE TO DO

In addition to increased profitability with gender, ethnically, and cultural teams, companies with diverse boards of directors in the top quartile of gender diversity are 28% more likely to outperform the lower quartile financially. Some countries outdo others, like France and Norway, who have an average of 40% women on their boards. However, it goes beyond the board and extends to company leadership and accountability.

In fact, the most successful companies in the diversity and inclusion space use a systemic, business-led approach, including increasing diverse representation in leadership and critical roles, and holding these leaders accountable for meeting goals. In addition to leadership, these companies take steps to strengthen inclusion, including enabling equality of opportunity through fairness and transparency; promoting openness while tacking bias and discrimination; and finally fostering belonging by supporting diversity.

Diving a little deeper, diverse representation involves thoughtful recruitment of diverse candidates utilizing data and analytics to meet key metrics, including using non-traditional recruitment methods. Diverse candidates then need accountable leaders responsible for inclusion and diverse development of their teams, going well beyond just using unconscious-bias training.

Added to these characteristics, successful companies offer equality of opportunity by making promotional opportunities transparent and de-biasing talent processes, especially connected to advancement and equal pay.

Successful companies promote and enforce a culture of tolerance and penalize those who harass, both in policies and enforcement of policies.

#### ONE EXAMPLE

Founded in 1902 as Goodfellow Dry Goods, Target is the eighth-largest retailer in the United States, and has had an Inclusion and Diversity office for the past 15 years.<sup>9</sup> “Diversity & inclusion are at the heart of what we do at Target. 75% of the U.S. 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.” Brian Cornell, Chairman and Chief Executive Officer, Target.<sup>10</sup>

Target tracks diversity and inclusion data through its dedicated D and I analytics team. The company reviews metrics on a quarterly and annual basis, adjust goals as needed, and publishes an annual report reflecting gender and ethnic diversity. For example, in 2019, the total workforce was 50% White, 25% Latin, 15% Black/African American, and 5% Asian. Their board of directors was 54% White, 15% Black/African American, and 31% Latin. Their Officers and Leadership Team need work, though Target’s gender diversity on all levels vary between 30- 40% female and 40-70% male.<sup>11</sup>

Target incorporates D and I values in its corporate culture, reflected in its motto, “stay open.” “It means **getting comfortable being uncomfortable**, and giving everyone access to the same opportunities.”<sup>12</sup> Target reinforces these values by forming Diversity Action Committees in each business area who work with the I and D office to implement strategies to meet D and I goals. The company also has affinity groups for race/ethnicity, gender, ability, sexual orientation, veterans, people with different abilities, and faith.<sup>13</sup>

In its annual metrics-driven evaluation, using corporate survey submissions, DiversityInc ranked Target thirteenth in their top 50 list in 2019. “Earning a spot on the Top 50 List is like getting a ‘Good Housekeeping Seal of Approval.’”<sup>14</sup>

Target’s overall goal is to help all families discover the joy of everyday life, with an emphasis on “all.” Check back to see how they rank in 2020! **W**

<sup>8</sup> <https://www.mylogiq.com/>

<sup>9</sup> [https://en.wikipedia.org/wiki/History\\_of\\_Target\\_Corporation](https://en.wikipedia.org/wiki/History_of_Target_Corporation)

<sup>10</sup> <https://corporate.target.com/corporate-responsibility/diversity-inclusion>

<sup>11</sup> [https://corporate.target.com/\\_media/TargetCorp/csr/pdf/Target-Workforce-Diversity-Report\\_FY2019.pdf](https://corporate.target.com/_media/TargetCorp/csr/pdf/Target-Workforce-Diversity-Report_FY2019.pdf)

<sup>12</sup> Ibid.

<sup>13</sup> <https://www.indeed.com/hire/c/info/what-is-an-affinity-group>

<sup>14</sup> <https://www.diversityinc.com/diversityinc-top-50-lists-since-2001/>