

# Workplace Diversity & Inclusion: What Every MBA Needs to Know

## Executive Summary

In the last five years, corporate diversity and inclusion (D&I) issues have become increasingly important to employees, investors, customers, and in some cases, even regulators. Despite progress being made, there is still a lack of representative gender and racial-ethnic balance in boardrooms, C-suites, and departments throughout corporate settings. Yet research has shown a strong correlation between diverse and inclusive organizations and financial performance. One [Boston Consulting Group \(BCG\) study](#) found, for example, that companies with more diverse management teams have higher innovation revenue and better financial performance overall.<sup>1</sup>

**“Inclusive, diverse teams produce more innovative ideas, increase creativity, and are more productive.”**

- Paul Knopp, Chair and CEO, KPMG

*Chair and CEO's Statement on Diversity and Inclusion*

Today, companies have opportunities to capture business value by conscientiously improving the diversity of teams throughout their organizations and actively fostering cultures of inclusion. MBAs preparing for leadership roles should be armed with an understanding of the ways that D&I leads to business value creation and be poised to take action in cultivating diverse and inclusion organizations.

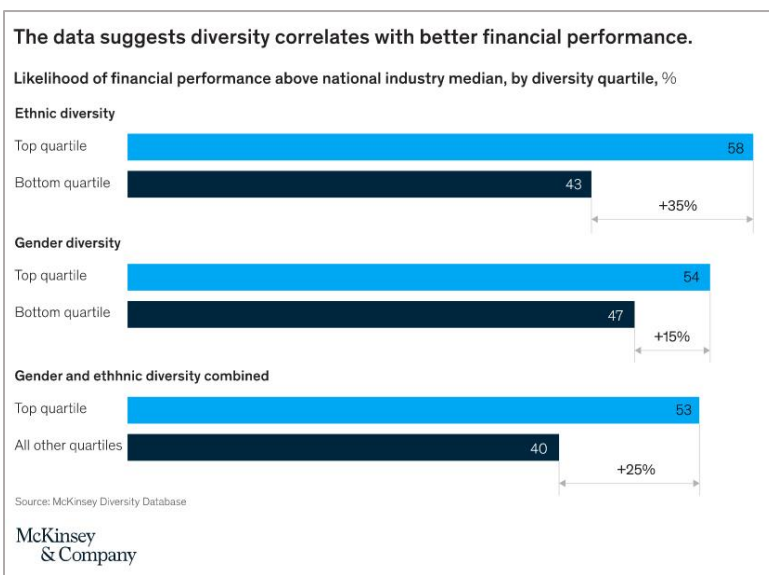
## The Issue

While the importance of diversity and inclusion (D&I) has risen in visibility in recent years, the fact remains that women and historically marginalized racial/ethnic groups are under-represented in many corporate roles—and particularly on senior corporate leadership teams and boards. Among S&P 100 companies, leadership teams and company boards are still overwhelmingly white and male. White men make up about a third of the

U.S. workforce, but in 33 of 54 companies sampled in the S&P 100, they held more than 50% of board seats.<sup>2</sup> Black and Hispanic workers are often overrepresented in technician, assistant, and laborer roles and are under-represented in senior positions.

The leadership imbalance is not unique to the U.S. In the U.K., in 2020, there were just 13 women CEOs of FTSE 350 companies—a mere 5% of company leaders.<sup>3</sup> (Famously, at one point in April 2020, there were more CEOs named Peter on the FTSE index than women CEOs.<sup>4</sup>)

Workforce gaps vary by industries and by type of role. For instance, Black and Latinx workers together made up 30.2% of the U.S. workforce in 2019, but only 19.7% of the roles categorized by the



Source: McKinsey & Co., *Why diversity matters*, Jan. 2015.

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Economic Policy Institute as "management occupations" and only 18.8% of the "business and financial operations occupations."<sup>5</sup> (Note that other types of diversity—for instance, LGBTQ identification or socioeconomic status—are also important in creating diverse and inclusive workplaces, but data is often not collected or reported in the context of employment trends.)

Corporate D&I strategies aim to address these gaps by improving the *diversity* of the organization's workforce and teams, ensuring *equity* for all employees in terms of pay, promotion, and access to opportunities, and creating an organizational culture of *inclusion*, which welcomes, accepts, and promotes employees of all backgrounds. While metrics of racial and gender diversity are fairly straightforward, measures of inclusion can be harder to assess. McKinsey's "Diversity Wins" report studies employee sentiment on inclusion in three areas: equality, openness, and belonging. Their analysis of employee reviews on Glassdoor found that while employee sentiment on diversity was 52% positive, sentiment on inclusion was markedly worse at only 29% positive.<sup>6</sup>

### Business benefits of D&I

Closing opportunity gaps and improving corporate D&I practices have tangible benefits for companies. Multiple studies have now shown that companies with higher levels of diversity in their executive teams are more likely to outperform their peers. Boston Consulting Group (BCG), for instance, has found that companies with more diverse management teams have higher innovation revenue and better financial performance.<sup>7</sup> McKinsey & Co. research has found that companies with the most gender-diverse leadership are 48% more likely to outperform the least gender-diverse companies.<sup>8</sup>

D&I programs can help improve decision-making, customer insight, employee attraction and retention, and can enhance a company's brand.<sup>9</sup> Deloitte has found that diverse and inclusive companies see concrete benefits such as increased productivity, creativity, and innovation as well as employee retention, because employees trust their organizations and believe they can bring their authentic selves to work.<sup>10</sup>

Managing a diverse and inclusive workplace culture is now seen as a key leadership skill for many companies. Companies recruiting MBAs have started to look for inclusive leadership qualities during their recruitment processes, preparing leaders early on to think about how D&I can create more value for the company. Deloitte, for instance, now includes an inclusive leadership metric in their recruitment process for advanced degree candidates applying to the company, reflecting a practice already in place for evaluating the promotion of the firm's senior leaders.<sup>11</sup> This move underscores the importance the company places on developing inclusive leaders to better harness the benefits of D&I such as an increase in team performance, decision-making ability, and collaboration.

### Business Risks

Companies that fail to proactively manage D&I issues face several potential business risks that could have implications for financial performance, access to talent, and access to capital.

#### Black and Latinx workers are underrepresented in professional occupations

Shares of employment in total workforce and in professional occupations, by race/ethnicity, 2019

	White	Black	Latinx	AAPI
<b>Total workforce</b>	61.4%	12.8%	17.4%	7.4%
<b>All professionals</b>	70.5%	10.0%	9.8%	8.9%
Management occupations	72.5%	8.9%	10.8%	7.1%
Business and financial operations occupations	69.7%	9.7%	9.1%	10.8%
Computer and mathematical science occupations	64.0%	10.5%	8.9%	16.1%
Architecture and engineering occupations	69.5%	5.9%	8.1%	15.9%
Life, physical, and social science occupations	67.6%	6.0%	8.7%	17.1%
Community and social service occupations	60.8%	20.5%	12.8%	4.6%
Legal occupations	79.8%	6.9%	6.2%	6.5%
Education, training, and library occupations	73.8%	10.0%	9.7%	5.8%
Arts, design, entertainment, sports, and media occupations	71.6%	8.2%	12.0%	7.4%
Health care practitioner and technical occupations	69.3%	10.9%	6.9%	12.2%

**Note:** Racial and ethnic categories are mutually exclusive. *Latinx* refers to Hispanic/Latinx of any race while *white*, *Black*, and *AAPI* refer to non-Hispanic whites, non-Hispanic Blacks, and non-Hispanic Asian Americans/Pacific Islanders, respectively.

**Source:** Economic Policy Institute Current Population Survey Extracts, Version 1.015 (2021), <https://micro-data.epi.org>.

U.S. data. Source: Economic Policy Institute and the Department for Professional Employees, AFL-CIO, "Racial representation in professional occupations," <https://www.epi.org/publication/racial-representation-prof-occ/>.

### Performance-related financial risk

**McKinsey & Co.** research finds that companies with the lowest rates of ethnic and gender diversity are 27% more likely to underperform financially compared to other companies.<sup>12</sup> Researchers at Harvard Business School likewise found that investment teams made up of diverse managers outperformed those of homogenous teams, concluding: "The difference is dramatic. Along all dimensions measured, the more similar the investment partners, the lower their investments' performance. For example, the success rate of acquisitions and IPOs was 11.5% lower, on average, for investments by partners with shared school backgrounds than for those by partners from different schools. The effect of shared ethnicity was even stronger, reducing an investment's comparative success rate by 26.4% to 32.2%."<sup>13</sup>

### Access to capital

As more investors factor ESG (environmental, social, & governance) criteria into their investment portfolios, D&I metrics can influence access to capital. ESG reporting frameworks like the Global Reporting Initiative (GRI) standard ask companies to report on metrics like board diversity and gender pay equity.<sup>14</sup> A **Nasdaq** rule approved by the SEC in Aug. 2021 now requires companies to publicly disclose board-level diversity statistics and to have, or explain why they do not have, at least two diverse directors.<sup>15</sup> Also in 2021, **Goldman Sachs** CEO David Solomon announced that the investment bank would not take a company public unless it had one board member from an underrepresented group. Solomon suggested this was to drive greater performance for shareholders, stating, "The performance of IPOs where there has been a woman on the board in the U.S. is significantly better than the IPOs where there hasn't been a woman on the board".<sup>16</sup>

### Talent attrition

Perhaps most obviously, failure to adequately address D&I can lead to difficulty attracting and retaining talent, which is especially relevant in a tight job market like the "Great Resignation." Companies with poor reputations may fail to win over the best candidates for their teams and bear higher costs for recruiting and retraining new staff after turnover. New employees are wary of joining firms that have a tarnished record; for instance, **Google** has faced allegations of racist and biased hiring practices, both toward employees and with its technology, factors which have affected growth and retention of employees from under-represented groups, especially Black women.<sup>17</sup>

### Liability risk

Companies that fail to address discrimination, or don't take complaints of discrimination seriously, also face significant liability risks. In October 2021, **Tesla** was ordered by a federal jury to pay a former employee \$137 million after ignoring his complaints of repeated racial harassment while working at Tesla's Fremont factory and the company's failure to take action.<sup>18</sup>

### Regulatory risk

In some instances, D&I may be even be mandated. California created a law (AB 979) that requires boards of publicly traded companies based in the state to have at least one racially, ethnically, or otherwise diverse director on the board by 2021, following a similar law (SB 826) that requires publicly traded companies headquartered in California to have at least one woman on their boards.<sup>19</sup> Failure to comply can result in a \$100,000 fine for the corporation's first violation and a \$300,000 fine for each subsequent violation.<sup>20</sup>

### Reputation risk

D&I missteps do not always come to light outside of a company's internal culture, but when they do, it can have damaging consequences for corporate leaders and brands. As an example, **Facebook** has repeatedly appeared in the press accused of discrimination in its hiring practices.<sup>21</sup> D&I factors may also be a consideration for some customer segments. Gen Z customers are more likely to be aware of a brand's D&I practices and to factor those into their purchase considerations.<sup>22</sup>

## Opportunities

Many companies today are exploring a range of strategies to create more inclusive workplaces and enable diverse teams to succeed—with the ultimate goal of creating a better-performing organization overall. Strategies like improved hiring practices, managerial accountability, and employee resource groups can lead to more diverse, equitable, and inclusive workplaces.

### Enhanced hiring practices

Workplace diversity strategies often begin by addressing diversity in hiring practices. Many firms see an opportunity to level the hiring playing field through blind resume reviews<sup>23</sup>, removing referral processes<sup>24</sup>, creating diverse hiring committees, crafting job descriptions with inclusive language, and/or creating an evaluation matrix based on key job qualifications.<sup>25</sup> Danielle Brown, Intel's former Vice President and Group Chief Human Resources Officer stated, for example, "Implementing diverse hiring panels has enabled us to cast a wider net at the outset of the hiring process and systematically help reduce unconscious bias in our hiring."<sup>26</sup> Many employers also see opportunities in expanding where they recruit to include, for instance, historically black colleges and universities (HBCUs), women's colleges, and/or affinity groups like Prospanica.

### Pay equity and transparency

Assessing pay equity by demographic group can help lessen bias in promotion practices. Citi was one of the first companies to publish pay data, breaking it down by adjusted pay data (comparison across the same job function, level, and geography) and raw pay data (comparison across the whole organization). This data provides transparency into the working reality for Citi employees and identifies areas of improvement for the company. In 2021 Citi found that in comparable roles, women were paid about 99% of what men were paid (and made pay adjustments accordingly). However, more notably, across the organization, the raw data

showed that women typically made 74% of what men made, highlighting the fact that more of them were working in lower-paying roles. Citi then used this information to commit to increasing female representation in Managing Director to Assistant Vice President roles.<sup>27</sup>

#### CEO Action for Diversity & Inclusion

CEOs from more than 2,000 companies including PwC, 3M, Accenture, GM, Morgan Stanley, Johnson & Johnson, and Walmart have signed a pledge to "drive measurable action and meaningful change in advancing diversity, equity and inclusion in the workplace" as part of the [CEO Action for Diversity & Inclusion Coalition](#).

### C-suite leadership

Creation of a Chief Diversity Officer (CDO) position that—importantly—reports to the CEO and is part of the senior corporate leadership team can signal an important commitment to D&I strategy. In 2021, 52% of S&P 500 companies had a CDO, up from 47% in 2018.<sup>28</sup> Visa is one of those companies; in 2021, it named a new CDO who would join its executive committee and report directly to the company's Chairman and CEO.<sup>29</sup>

### Diverse teams across the organization

In creating a culture of inclusion, it is important for employees to be able to see peers, role models, and mentors who look like them across the organization. Representation of diversity is important at all levels of the

company (staff, managers, hiring teams, boards). Apple has made an effort to increase the representation of diverse talent and tracks its progress from year to year. Between 2014 and 2020, the number of employees from groups commonly underrepresented in tech (defined by Apple as "female, Black, Hispanic/Latinx, multiracial, and Indigenous people") grew by 64% to about 50% of Apple's U.S. workforce. Apple tracks data across the whole company, for leadership positions, and also for promotion opportunities which helps the company assess its success in recruiting and retaining diverse talent.<sup>30</sup>

### Development and growth

Training and development is needed on multiple fronts, and presents an opportunity for consultants, universities, executive coaches, and industry groups. Many companies are expanding access to training programs and workshops for managers to become better at cultivating a culture of diversity and inclusion. Training initiatives can also prepare women and racial minorities for leadership opportunities. For instance, the Black Boardroom Initiative, which is supported by Amazon, Microsoft, Zillow, and other large firms, prepares executives for board roles and facilitates match-making for board seats.<sup>31</sup> Institutionalizing mentorship and sponsorship opportunities within the company is another strategy. A mentor is normally someone equipped to guide and advise, while a sponsor, in addition to guidance, advocates on behalf of another person, especially in regards to upward movement within the company.<sup>32</sup>

### Managerial accountability

A leadership team that champions D&I strategies and communicates the business value of those programs is important to creating an inclusive company, and increasingly, companies are linking D&I goals to managerial performance metrics. In 2021, Mercer found that 27% of the S&P 500 had executive pay tied to diversity, equity, and inclusion goals, including companies like Starbucks, Uber, and IBM.<sup>33</sup>

### Employee resource groups (ERGs)

Employee Resource Groups are employee-led groups comprised of individuals who join together based on common interests or demographic factors. ERGs can help foster a sense of community among individuals who share similar identities or interests. (ERGs are also sometimes referred to as Employee Networks, Business Resource Groups, or Team Member Networks.) At [Bank of America](#), one in every four employees is a member of at least one Employee Network. At [Slack](#), members of their five ERGs are eligible for Slack's Rising Tides program, a six-month program for "high performers and emerging leaders at Slack who have historically lacked access to this type of support." The program provides career development training, executive coaching, and mentorship from an executive team member.<sup>34</sup>

### External partnerships

Thoughtful collaboration with industry groups can help companies expand their networks, recruit from wider pools, and support inclusion in the workplace. Partnerships can range from financial sponsorship to co-hosting events, fellowships, training, or recruiting activities. For instance, [Bank of America](#) lists among its partners: Out & Equal, The Hispanic Promise, the National Association of Black Accountants, and Women in Finance Charter in the UK, among others.<sup>35</sup>

**"Decency compels us to make sure all deserving people get the opportunity to be a contributing member of a team and truly belong."**

- Bill Boulding, Dean, Fuqua School of Business, Duke University

### Talent pipeline programs

Long-term workforce changes often require companies to look beyond their immediate hiring practices and cultivate a talent pipeline that helps train, mentor, equip, and empower under-represented groups to enter and be successful in an industry—long before they apply to a specific role with the company. For example, [EY](#) has implemented a multifaceted sourcing strategy building a pipeline from high school through Partner by recruiting from a variety of colleges, including an alliance with HBCUs, professional affinity organizations, and community colleges. Their strategy has proven fruitful to date; racially and ethnically diverse professionals account for 40% of full-time new hires from college campuses and 50% of experienced hires.<sup>36</sup>

### Takeaways for MBAs

1. Studies show that companies that lead on D&I initiatives often outperform their peers on financial returns, innovation, and employee satisfaction metrics.
2. To truly realize value, companies must incorporate D&I into areas of the company beyond hiring practices, including organizational culture, employee promotion, succession planning, and managerial accountability.
3. Today's MBAs are expected to be well versed in D&I best practices and to be prepared to lead in actively building diverse teams and cultivating equitable and inclusive organizational cultures.
4. Interweaving D&I into the fabric of an organization benefits the organization in many ways, and so the responsibility to create an inclusive culture needs to be owned by everyone.

### Further Reading

[Diversity Wins: How Inclusion Matters](#), McKinsey & Co., 2020.

[CEO Blueprint for Racial Equity](#), PolicyLink, 2021.

[Unleashing the Power of Inclusion](#), Deloitte, 2017.

[Investors are Committing to Action on Diversity. Now What?](#), BSR, 2020.

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  - <sup>3</sup> <https://execpipeline.com/wp-content/uploads/2020/12/The-Pipeline-Women-Count-2020-1.pdf>
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  - <sup>6</sup> <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters>
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  - <sup>18</sup> <https://www.npr.org/2021/10/05/1043336212/tesla-racial-discrimination-lawsuit>
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