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Diversity wins: How inclusion matters

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The business case for inclusion and diversity (I&D) is stronger than ever. Taking a closer look at diversity winners reveals what can drive real progress.

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Diversity wins is the third report in a McKinsey series investigating the business case for diversity, following *Why diversity matters* (2015) and *Delivering through diversity* (2018). Our latest report shows not only that the business case remains robust but also that the relationship between diversity on executive teams and the likelihood of financial outperformance has strengthened over time. These findings emerge from our largest data set so far, encompassing 15 countries and more than 1,000 large companies. By incorporating a "social listening" analysis of employee sentiment in online reviews, the report also provides new insights into how inclusion matters. It shows that companies should pay much greater attention to inclusion, even when they are relatively diverse.

By following the trajectories of hundreds of companies in our data set since 2014, we find that the overall slow growth in diversity often observed in fact masks a growing polarization among these organizations. While most have made little progress, are stalled or even slipping backward, some are making impressive gains in diversity, particularly in executive teams. We show that these diversity winners are adopting systematic, business-led approaches to inclusion and diversity (I&D). And, with a special focus on inclusion, we highlight the areas where companies should take far bolder action to create a long-lasting inclusive culture and to promote inclusive behavior.

(Our research predates the outbreak of the global pandemic, but we believe these findings remain highly relevant. See the sidebar, "In the COVID-19 crisis, inclusion and diversity matter more than ever," for more on why I&D must remain a priority even as the context shifts, or read "Diversity still matters" for an even deeper dive. You can also explore a related interactive for another lens on the issues.)

A stronger business case for diversity, but slow progress overall

Our latest analysis reaffirms the strong business case for both gender diversity and ethnic and cultural diversity in corporate leadership—and shows that this business case continues to strengthen. The most diverse companies are now more likely than ever to outperform less diverse peers on profitability.

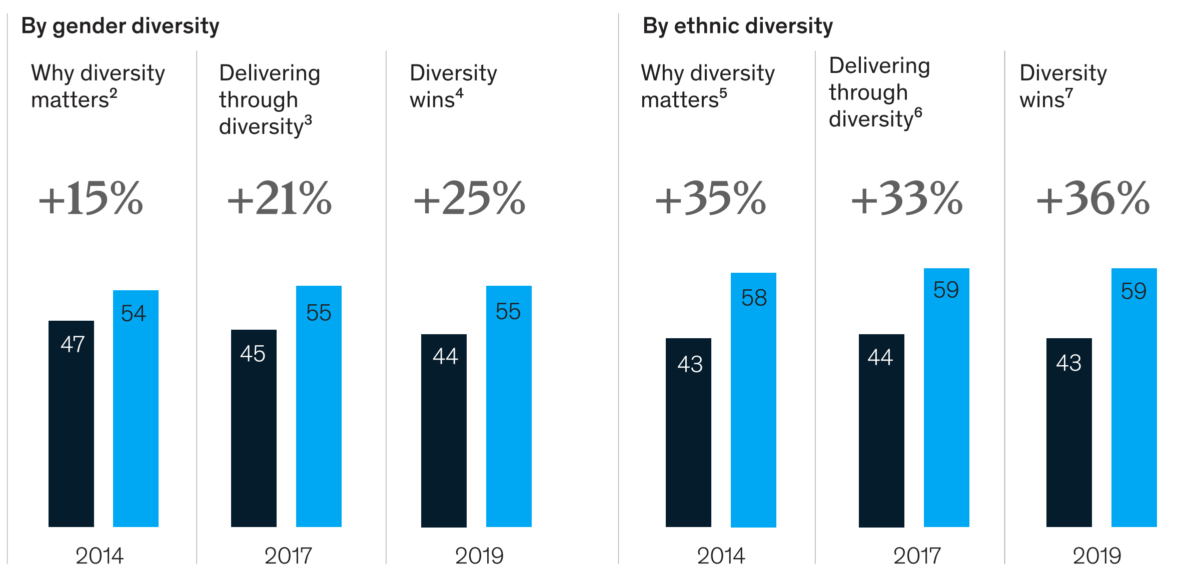
Our 2019 analysis finds that companies in the top quartile for gender diversity on executive teams were 25 percent more likely to have above-average profitability than companies in the fourth quartile—up from 21 percent in 2017 and 15 percent in 2014 (Exhibit 1).

Exhibit 1

The business case for diversity in executive teams remains strong.

Likelihood of financial outperformance,[1] %

Bottom quartile Top quartile



[1]Likelihood of financial outperformance vs the national industry median; p-value <0.05, except 2014 data where p-value <0.1. [2]n = 383; Latin America, UK, and US; earnings before interest and taxes (EBIT) margin 2010–13. [3]n = 991; Australia, Brazil, France, Germany, India, Japan, Mexico, Nigeria, Singapore, South Africa, UK, and US ; EBIT margin 2011–15. [4]n = 1,039; 2017 companies for which gender data available in 2019, plus Denmark, Norway, and Sweden; EBIT margin 2014–18. [5]n = 364; Latin America, UK, and US; EBIT margin 2010–13. [6]n = 589; Brazil, Mexico, Singapore, South Africa, UK, and US; EBIT margin 2011–15. [7]n = 533; Brazil, Mexico, Nigeria, Singapore, South Africa, UK, and US, where ethnicity data available in 2019; EBIT margin 2014–18.
Source: Diversity Wins data set

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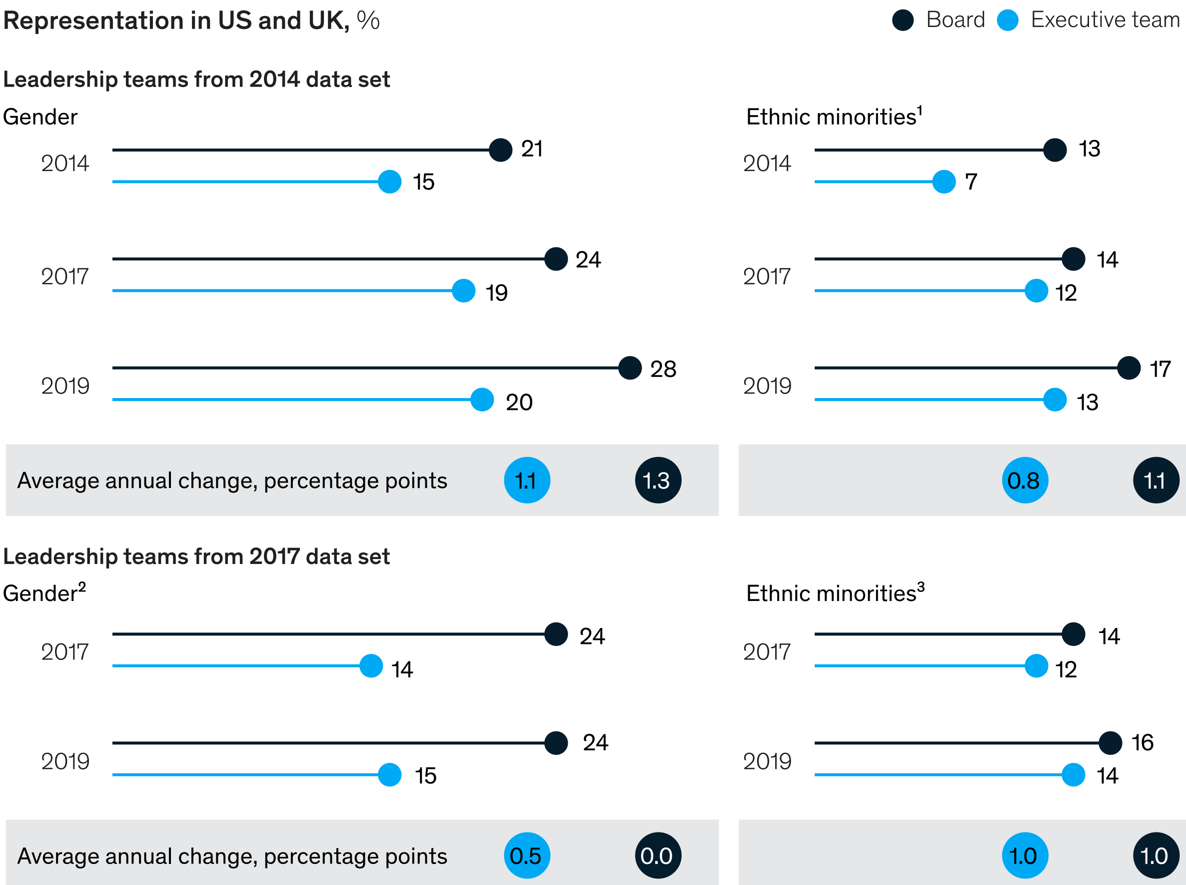
Moreover, we found that the greater the representation, the higher the likelihood of outperformance. Companies with more than 30 percent women executives were more likely to outperform companies where this percentage ranged from 10 to 30, and in turn these companies were more likely to outperform those with even fewer women executives, or none at all. A substantial differential likelihood of outperformance—48 percent—separates the most from the least gender-diverse companies.

In the case of ethnic and cultural diversity, our business-case findings are equally compelling: in 2019, top-quartile companies outperformed those in the fourth one by 36 percent in profitability, slightly up from 33 percent in 2017 and 35 percent in 2014. As we have previously found, the likelihood of outperformance continues to be higher for diversity in ethnicity than for gender.

Yet progress, overall, has been slow. In the companies in our original 2014 data set, based in the United States and the United Kingdom, female representation on executive teams rose from 15 percent in 2014 to 20 percent in 2019. Across our global data set, for which our data starts in 2017, gender diversity moved up just one percentage point—to 15 percent, from 14—in 2019. More than a third of the companies in our data set still have no women at all on their executive teams. This lack of material progress is evident across all industries and in most countries. Similarly, the representation of ethnic-minorities on UK and US executive teams stood at only 13 percent in 2019, up from just 7 percent in 2014. For our global data set, this proportion was 14 percent in 2019, up from 12 percent in 2017 (Exhibit 2).

Exhibit 2

Gender and ethnic diversity in leadership teams progressed slowly in our 2014 data set and even more slowly in our global 2017 data set.



[1] n = 365 for women and n = 241 for ethnic minorities; subset of companies from Diversity Matters 2014 data set with ethnicity data available for 2014, 2017, and 2019. [2] n = 957 (global data set) in 2017 and 2019. [3] n = 528 (global data set) in 2017 and 2019.
Source: McKinsey Diversity Matters data set

The widening gap between winners and laggards

While overall progress on gender and cultural representation has been slow, this is not consistent across all organizations. Our research clearly shows that there is a widening gap between I&D leaders and companies that have yet to embrace diversity. A third of the companies we analyzed have achieved real gains in top-team diversity over the five-year period. But most have made little or no progress, and some have even gone backward.

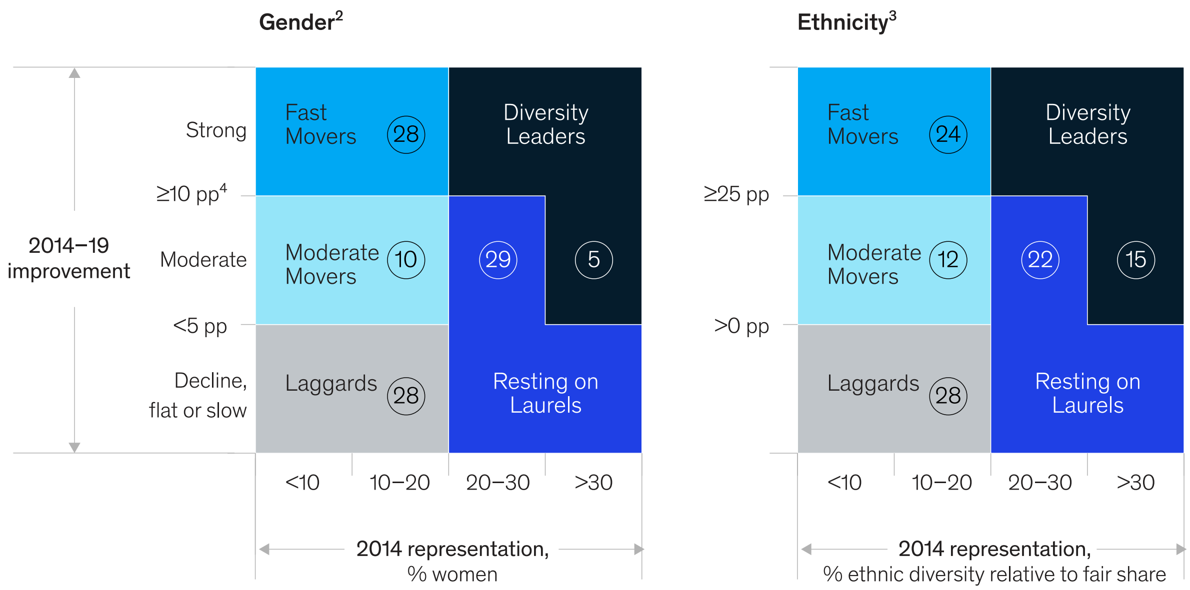
This growing polarization between high and low performers is reflected in an increased likelihood of a performance penalty. In 2019, fourth-quartile companies for gender diversity on executive teams were 19 percent more likely than companies in the other three quartiles to underperform on profitability—up from 15 percent in 2017 and 9 percent in 2015. At companies in the fourth quartile for both gender and ethnic diversity, the penalty was even steeper in 2019: they were 27 percent more likely to underperform on profitability than all other companies in our data set.

We sought to understand how companies in our original 2014 data set have been progressing, and in doing so we identified five cohorts. These were based on their starting points and speed of progress on executive team gender representation and, separately, ethnic-minority representation (Exhibit 3). In the first two cohorts, Diversity Leaders and Fast Movers, diverse representation improved strongly over the past five years: for example, gender Fast Movers have almost quadrupled the representation of women on executive teams, to 27 percent, in 2019; for ethnicity, companies in the equivalent cohort have increased their level of diversity from just 1 percent in 2014 to 18 percent in 2019.

Exhibit 3

We found five cohorts based on the progress of companies on executive diversity from 2014 to 2019.

% of total number of companies[1]



[1]Change in representation on executive teams in UK and US, by cohort.
[2]n = 365; UK and US.
[3]n = 241; UK and US.
[4]Percentage point.
Source: McKinsey Diversity Matters data set

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At the other end of the spectrum, the already poor diversity performance of the Laggards has declined further. In 2019, an average of 8 percent of executive team members at these companies were female—and they had no ethnic-minority representation at all. The two other cohorts are Moderate Movers, which have on average experienced a slower improvement in diversity, and Resting on Laurels, which started with higher levels of diversity than Laggards did, but have similarly become less diverse since 2014.

We also found that the average likelihood of financial outperformance in these cohorts is consistent with our findings in the quartile analysis above. For example, in 2019, companies in the Resting on Laurels cohort on average had the highest likelihood of outperformance on profitability, at almost 62 percent—likely reflecting their historically high levels of diversity on executive teams. Laggards, on the other hand, are more likely to underperform their national industry median in profitability, at 40 percent.

How inclusion matters

By analyzing surveys and company research, we explored how different approaches to I&D could have shaped the trajectories of the companies in our data set. Our work suggested two critical factors: a systematic business-led approach to I&D, and bold action on inclusion. On the former we have previously advocated for an I&D approach based on a robust business case tailored to the needs of individual companies, evidenced-based targets, and core-business leadership accountability.

To further understand how inclusion matters—and which aspects of it employees regard as significant—we conducted our first analysis of inclusion-related indicators. We conducted this outside-in using "social listening," focusing on sentiment in employee reviews of their employers posted on US-based online platforms.

While this approach is indicative, rather than conclusive, it could provide a more candid read on inclusion than internal employee-satisfaction surveys do—and makes it possible to analyze data across dozens of companies rapidly and simultaneously. We focused on three industries with the highest levels of executive-team diversity in our data set: financial services, technology, and healthcare. In these sectors, comments directly pertaining to I&D accounted for around one-third of total comments made, suggesting that this topic is high on employees' minds.

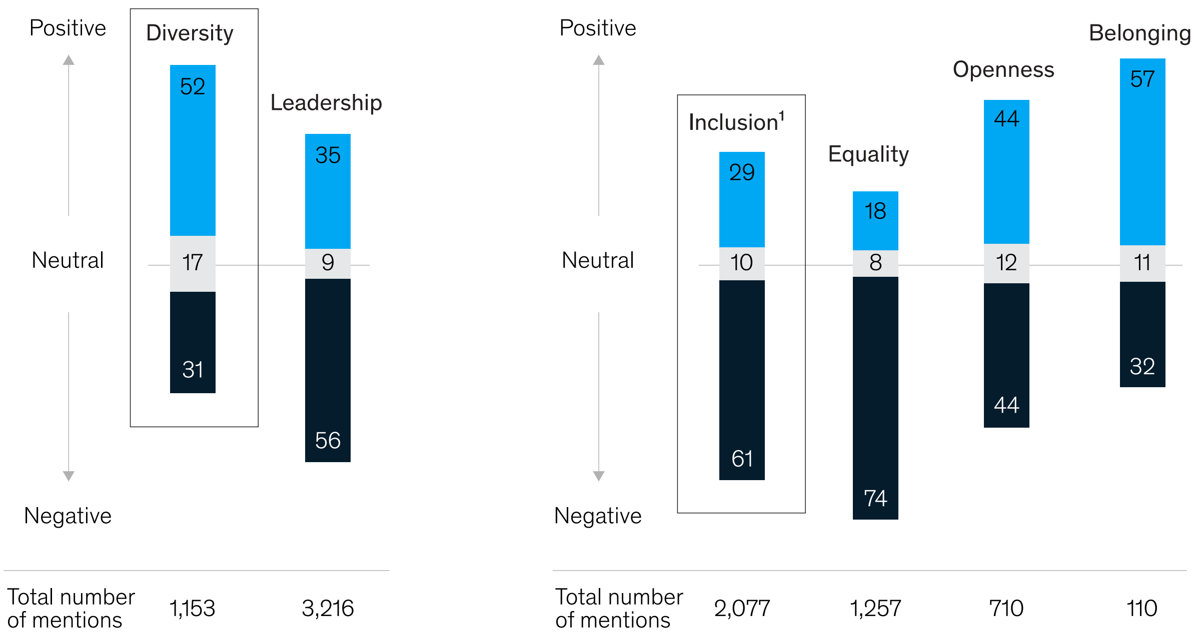
We analyzed comments relating to five indicators. The first two—diverse representation and leadership accountability for I&D—are evidence of a systematic approach to I&D. The other three—equality, openness, and belonging—are core components of inclusion. For several of these indicators, our findings suggest "pain points" in the experience of employees:

- While overall sentiment on diversity was 52 percent positive and 31 percent negative, sentiment on inclusion was markedly worse, at only 29 percent positive and 61 percent negative. This encapsulates the challenge that even the more diverse companies still face in tackling inclusion (Exhibit 4). Hiring diverse talent isn't enough—it's the workplace experience that shapes whether people remain and thrive.
- Opinions about leadership and accountability in I&D accounted for the highest number of mentions and were strongly negative. On average, across industries, 51 percent of the total mentions related to leadership, and 56 percent of those were negative. This finding underscores the increasingly recognized need for companies to improve their I&D engagement with core-business managers.
- For the three indicators of inclusion—equality, openness, and belonging—we found particularly high levels of negative sentiment about equality and fairness of opportunity. Negative sentiment about equality ranged from 63 to 80 percent across the industries analyzed. The work environment's openness, which encompasses bias and discrimination, was also a significant concern—negative sentiment across industries ranged from 38 to 56 percent. Belonging elicited overall positive sentiment, but from a relatively small number of mentions.

Exhibit 4

Overall sentiment on diversity was more positive than negative, but sentiment on inclusion was markedly worse.

Sentiment on diversity and inclusion, %



[1]Weighted average of equality, openness, and belonging.
Source: Glassdoor and Indeed user-generated reviews

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These findings highlight the importance not just of inclusion overall but also of specific aspects of inclusion. Even relatively diverse companies face significant challenges in creating work environments characterized by inclusive leadership and accountability among managers, equality and fairness of opportunity, and openness and freedom from bias and discrimination.

Winning through inclusion and diversity: Taking bold action

We took a close look at our data set's more diverse companies, which as we have seen are more likely to outperform financially. The common thread for these diversity leaders is a systematic approach and bold steps to strengthen inclusion. Drawing on best practices from these companies, this report highlights five areas of action (Exhibit 5):

- *Ensure the representation of diverse talent.* This is still an essential driver of inclusion. Companies should focus on advancing diverse talent into executive, management, technical, and board roles. They should ensure that a robust I&D business case designed for individual companies is well accepted and think seriously about which forms of multivariate diversity to prioritize (for example, going beyond gender and ethnicity). They also need to set the right data-driven targets for the representation of diverse talent.
- *Strengthen leadership accountability and capabilities for I&D.* Companies should place their core-business leaders and managers at the heart of the I&D effort—beyond the HR function or employee resource-group leaders. In addition, they should not only strengthen the inclusive-leadership capabilities of their managers and executives but also more emphatically hold all leaders to account for progress on I&D.
- *Enable equality of opportunity through fairness and transparency.* To advance toward a true meritocracy, it is critical that companies ensure a level playing field in advancement and opportunity. They should deploy analytics tools to show that promotions, pay processes, and the criteria behind them, are transparent and fair; debias these processes; and strive to meet diversity targets in their long-term workforce plans.
- *Promote openness and tackle microaggressions.* Companies should uphold a zero-tolerance policy for discriminatory behavior, such as bullying and harassment, and actively help managers and staff to identify and address microaggressions. They

should also establish norms for open, welcoming behavior and ask leaders and employees to assess each other on how they are living up to that standard.

- *Foster belonging through unequivocal support for multivariate diversity.* Companies should build a culture where all employees feel they can bring their whole selves to work. Managers should communicate and visibly embrace their commitment to multivariate forms of diversity, building a connection to a wide range of people and supporting employee resource groups to foster a sense of community and belonging. Companies should explicitly assess belonging in internal surveys.

Exhibit 5

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For deeper insights, download Diversity wins: How inclusion matters*, the full report on which this article is based (PDF–10.6MB).*

ABOUT THE AUTHOR(S)

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