

view

People and change
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Why diversity— why now?

Creating sustainable competitive
advantage through diversity
and inclusion



Creating sustainable competitive advantage through diversity and inclusion

By Reggie Butler, Monica Oldham, and John Verderese

In the midst of the current recession, many businesses are focusing on what they see as the basics, and diversity simply is not on—or is falling off—their radar screens. But the reality is that diversity and inclusion matter more than ever to future success. Companies are discovering that to best position themselves for the next business cycle, they need to harness the collective power of their people across the broadest spectrum.



2042

The year by which minorities, now roughly one-third of the US population, are expected to become the majority.

Right now, we're struggling through a severe economic crisis that has toppled prominent financial institutions, caused extreme volatility on Wall Street, and driven scores of companies into bankruptcy. In times like these, when organizations are looking for ways to maximize efficiencies by doing more with less, the tendency is to place diversity-related spending on the back burner.

Forward-thinking leaders, however, recognize the need to invest in diversity and inclusion as part of their overall talent management practices and to continually challenge their organizations to make the connection between those principles and their corporate performance. The payoffs for such investment are real, and they

touch every area of the business by potentially resulting in greater agility, better market insight, stronger customer and community loyalty, innovation, and improved employee recruitment and retention. In today's economic environment, what company can afford to ignore such competitive advantages?

While real, the business benefits of diversity and inclusion won't come easily or automatically. Companies must begin the hard work of changing how their organizations think about diversity and inclusion. Successful leaders neither question nor apologize for pushing forward key business initiatives that drive the growth, development, and competitive advantage for future sustainability. The corporate

dialogue on diversity and inclusion should be no different. When diversity and inclusion are viewed as a priority business strategy, the questions of *Why diversity—why now?* can be answered clearly, with well articulated confidence and authenticity.

Diversity efforts must entail more than just initiatives or stand-alone programs that can be toppled by budget cuts or become victims of lethargy. Success will depend on how the desired mind-set and behaviors cascade down from the C-suite to permeate the entire organization—business unit managers, teams, and individuals alike—until that way of thinking and those behaviors become embedded within every part of the company. That same leadership imperative holds true for any



Leading companies know it's essential to consistently maintain diversity as a top business imperative.

Defining the goal

Why diversity is not enough

Diversity. Inclusion. What's the difference? And does it really matter? You bet. Far from a semantics debate, how you think about your diverse workforce makes a big difference.

When we consider diversity, we look at the full range of human and organizational differences and similarities. Many organizations think of diversity in terms of attributes like generation, race, gender, ethnicity, and sexual orientation; however, there are more than 20 dimensions at play. Acknowledging and even celebrating an organization's diversity are only starting points.

The real payoff comes through creating an environment of inclusion, the process of leveraging each unique individual to strive toward a common goal and objective. When individuals believe they're in an environment that is supportive and collaborative—and that their voices are being heard—increased productivity and a greater sense of loyalty result. This is where transformation takes place, where the impact on your business and the necessary competitive advantage are realized.

type of organization; public-sector and non-profit entities also cannot afford to ignore the transformational power of diversity.

And those organizations that dismiss diversity? Five to 10 years down the road, they may find themselves unable to attract and retain the kinds of customers, employees, and business partners that constitute our changing world.

Reflecting the new economic realities

How organizations handle diversity and inclusion affects not only their people and operations internally but also their customers, suppliers, and other external stakeholders. A number of key drivers have contributed to this shift. Chief among them are the changing demographics in the United States. Minorities, now roughly one-third of the US population, are expected to become the majority by 2042.¹ And consider consumer purchasing power (total personal income, after taxes): In 2013, Hispanics will account for 9.9 percent of all US buying power; African-Americans will have an 8.8 percent share; and Asians will represent a 5.4 percent share.² In addition, Witeck Combs Research expects gay, lesbian, bisexual, and transgender (GLBT) buying power to reach \$835 billion by 2011. Factor in globalization, and the changing

¹ US Census 2000 data.

² Jeffrey Humphries, *The multicultural economy*, 2008. Selig Center for Economic Growth.



faces—in terms of language, culture, and religion—of both customers and workers will represent an even more diverse mix.

Another force that is contributing to the more diverse workforce and customer base is the trend of people living longer and retiring later. As a result, there are now four distinct generations working shoulder to shoulder—traditionalists, baby boomers, Generation Xers, and millennials—each with its own mind-set, work habits, technology attitudes, and customs. Stir into the mix an increasing number of dual-income families and single working mothers, and you have a very dynamic and diverse group. And these trends are being felt at all levels of the organization—on up to the boardroom, where we’re seeing more foreign-born board members than ever before.

Leading companies know it’s essential to consistently maintain diversity as a top business imperative over a period of, at minimum, five years before diversity can gain traction and become part of the way those companies do business. And to truly transform their companies, executives know they’re in it for the long haul. At a 100-year-old utility company that we know, the time horizon on its diversity strategy is 30 years. The company understands that it may take time before diversity becomes a part of its DNA.

Our commitment

Practicing what we preach at PricewaterhouseCoopers

When it comes to successfully embedding diversity and inclusion within a company—especially during challenging economic times—we believe strong leadership is crucial. As PwC’s US Chairman and Senior Partner Dennis Nally says about our own ongoing commitment: “While we must focus on the immediate and burning challenges we and our clients are facing in today’s environment, we also understand that we must continue to attract, retain, and develop the best talent, particularly our diverse talent. That talent will be the key driver in maintaining our competitiveness in the marketplace. In fact, I believe that our focus on diversity positions us to emerge from this downturn even stronger than before.”

That unwavering commitment over the years has helped us achieve positive results, including our recent first-place ranking in *DiversityInc* magazine’s Top 10 Global Diversity Companies and our fifth-place ranking in its Top 50 Companies for Diversity list. However, we know there’s much more work to be done. Priority initiatives include enhancing our recruitment efforts, supplier initiatives, mentoring programs, working-parent resources, affinity groups (including one for special needs caregivers), and work-life programs, such as the Full Circle on-ramping and off-ramping program.

“Some may rationalize that it would be understandable for a business to take its eye off diversity in these challenging times, but that’s not what leadership is about. Leadership requires an ability to take the longer view. We have a unique opportunity right now to invest in and enhance our diverse talent, understanding that investing today promotes innovation, enhances perspectives, and solidifies global relevance tomorrow for our clients’ businesses as well as our own,” says Roy Weathers, PwC’s US Chief Diversity Officer.



Smart business leaders understand that no matter what the business issue, leveraging diversity drives the best business results.

Looking through the lens of diversity

Smart business leaders understand that no matter what the business issue, leveraging diversity drives the best business results. Consider the example of expanding into new markets. One food and beverage company we know of leveraged its workforce diversity to successfully introduce a new product to the growing US Hispanic market. When conducting its market research in order to identify how a product would best meet consumer needs, the company turned inward to its Hispanic affinity group. Drawing on the rich histories and experiences of its members, it gathered valuable insights through interviews and focus groups. Ultimately, the company based its Hispanic market strategy on the real-world feedback coming out of that process—a great example of how an inclusive workforce can have a profound customer impact.

Or think about impending mergers and acquisitions—a complex undertaking even in the best of circumstances. Here the order of the day is to achieve rapid integration so as to realize the full benefits of a

transaction. Now, think about diversity, but not in the typical sense; instead, consider some of its organizational dimensions, such as management status, geographic location, and functional levels. Let's say two organizations are going to merge. One is global, with a very culturally diverse workforce, and the other is regional, with a close-knit, predominantly homogeneous workforce. Or perhaps one of the organizations has a history of promoting women, and the other has never had a woman in an executive position during its 100-year history. When two very different cultures like these attempt to create a new culture—even for clear business objectives—there's bound to be friction. Leaders can diffuse most negative impact by identifying these issues up front. In our experience, ignoring the differences doesn't work; recognizing and strategically addressing them does.

In some business areas, it's easier to see the positive roles diversity and inclusion play. Take talent management, for example. While effectively managing people resources is always important, it's especially crucial

in today's uncertain economic environment. One key focus area is the talent pipeline and the role diversity plays there. The economic downturn can be seen as a blessing in disguise, giving companies easier access to the best talent. It's a myth that in tough economic times your best people have nowhere to go. The fact is, the high-performing individuals want to be part of a high-performing organization, and a company's commitment to diversity and inclusion is one of the dimensions those high performers will evaluate. The best talent actually searches for inclusive environments.

Organizations looking longer term are considering whether they're searching for the right talent in the right places. Demographic projections show that we'll be facing a significant talent gap of workers with specialized knowledge within the next 5 to 10 years. This might call for new approaches to recruiting that tap into every segment of the population—looking beyond only the elite universities or other proven recruiting venues.

Have you considered...

How diversity and inclusion affect your business

Companies that are fully reaping the benefits of a diverse organization consider diversity and inclusion as being central to everything they do, and they ask themselves the following questions.

- **Expanding markets** How will we shift our focus for expansion into new, unfamiliar markets across the globe?
- **Mergers and acquisitions** How do we work through differences to ensure rapid integration and cultural change and then realize the full benefits of a transaction?
- **Talent management** How do we ensure we have the right people in the right roles and that we're leveraging the diverse skills and perspectives they bring?
- **Growth strategy** How will we build the diverse capabilities and leadership competencies required for successful growth?
- **Demographic shifts** How will we address the new demands and needs of a diverse and emerging workforce and a diverse and emerging customer base?
- **Organizational design** How do we design the organization to ensure that diversity is an enabler, not a barrier, to strategy?
- **Business performance** How do we determine the right metrics for measuring and evaluating the diversity-related performance of our business?
- **Sustainability** How do we protect the future success of our organization by selecting and investing in the right leaders for tomorrow?
- **Transformation** How do we accelerate the pace of change and make it stick by creating a culture where diversity is valued and is leveraged for competitive advantage?



True diversity is not just about the mix that constitutes the workforce; it's also about a company's customers and business partners.

Going beyond company walls

True diversity is not just about the mix that constitutes the workforce and how people interact with each other to meet common goals; it's also about a company's customers and business partners.

For example, diversity efforts for fast-food giant McDonald's Corporation grew out of the company's desire to strengthen its brand within its key customer segments. To accomplish this, the company defined a business need for a workforce that was more representative of its targeted markets. In addition to recruiting and training a diverse pool of employees, the company encourages franchise opportunities in urban areas with large minority populations and seeks to build a diverse supplier base.³

Customers were also the impetus for diversity efforts at Denny's Corporation, the restaurant chain that had faced its share of negative publicity during the 1990s for allegedly discriminating against African-American customers. Subsequently, Denny's launched a diversity initiative that

helped the company recover ground with minority customers. The company hired a chief diversity officer, instituted significant diversity training, and demanded that restaurant managers meet diversity goals. To accomplish this last objective, the then CEO revised management's bonuses, tying 25 percent of the payout to meeting diversity goals. Soon after the diversity initiative started, managers began adopting the idea that diversity was an essential part of their jobs, and Denny's soon surpassed its diversity goals.⁴

Measuring progress

Getting diversity right is a complex and broad-reaching undertaking that requires consistent and unflagging effort over time. As you begin to move forward to establish a diverse and inclusive culture at your organization, it's important to track progress.

Achieving true diversity is not a numbers game, but a fact-based approach that includes metrics and measurement is required in order to ensure that diversity

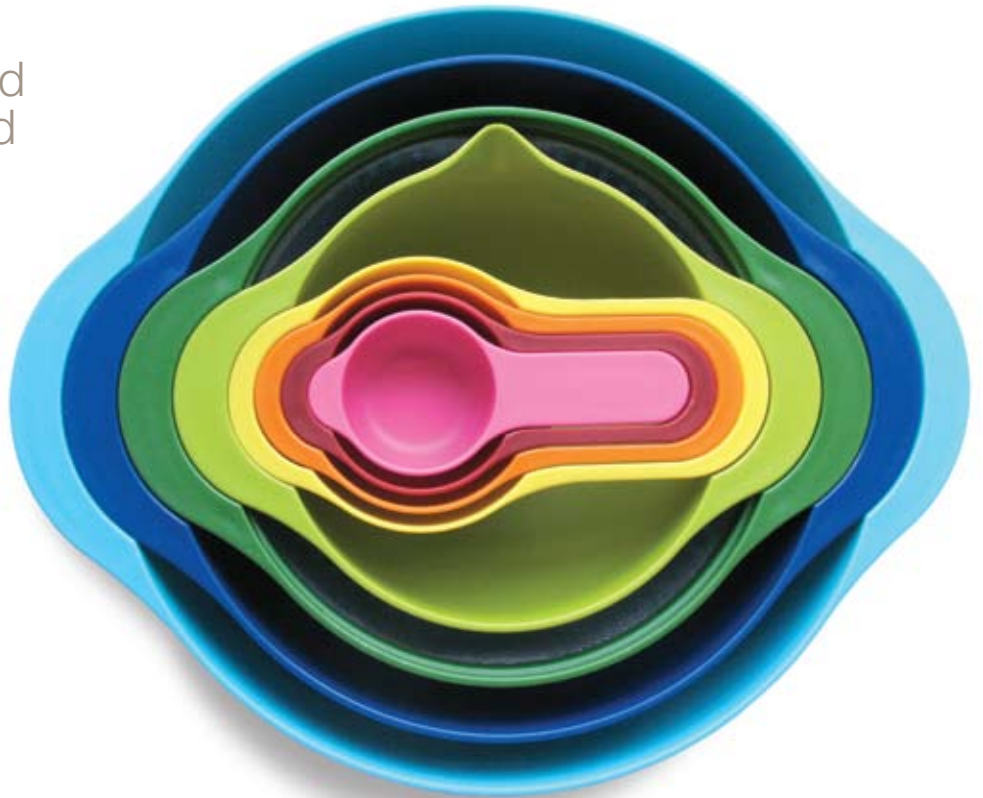
and inclusion efforts are aligned with business objectives. Think about the time and resources some companies have allocated to diversity. It would be a critical misstep to stop, or even pause, those efforts during tough times. Why? It's those same efforts, when applied purposefully now, that will create competitive advantage in the future.

To that end, a look at baseline metrics is in order to make sure people are compensated, promoted, and developed in an unbiased way. Programs should be designed for the various generations in the workforce. For example—given the differences in work habits, behaviors, technology attitudes, and coaching styles—does every age-group feel welcome, supported, and valued in the workplace? Are younger workers trained in the backgrounds and behaviors of older generations so they can better tap into those elders' knowledge and take advantage of cross-generational coaching, and vice versa? Has the

³ PricewaterhouseCoopers Global Best Practices, *Manage workforce diversity*, 2009.

⁴ Ibid.

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company put programs in place to address retiring baby boomers and new millennials but forgotten about the Gen Xers who will be the next leaders in the organization? If the Gen Xers are disengaged and feel undervalued, they may resign, creating a significant leadership gap in the near term.

Looking beyond the usual focus areas of age, gender, ethnicity, and sexual orientation helps establish a baseline for the less-recognized dimensions of diversity. Consider this instance of what appeared to be a gender issue at first glance: A well-qualified woman was unable to advance up the management ladder at her organization. As it turned out, the barrier to her advancement was not related to gender at all; it had to do with where she had earned her degree. The top executives all held MBAs from an Ivy League bastion, while she did not. Prejudice over educational background was the culprit. The moral of the story: Look beyond first impressions to make sure you're not jumping to conclusions about the source of bias or discrimination.

It's also important to look beyond your own personal lens, and perhaps even beyond your own good intentions. Consider the manager who curtails out-of-town assignments for a working mother—without first discussing it with her. Does this hinder the employee's advancement opportunities? Conversely, consider the manager who assumes that a single employee has few important obligations and therefore opts to send him on all the extended out-of-town assignments. What if the employee has elderly parents to look after or other relationships that are important to him? What if he wants to pursue further education or other interests? Now consider how surprised the organization will be when these high performers resign—one of them citing a blocked career path and the other due to travel-related burnout.

Charting your course

What works for one company may not work for another. Each company is unique in its circumstances, challenges, and goals, so in order to “get diversity right”

for your particular organization, you need an end destination and a compass. The first step is to do some hard thinking. An organization's leadership team—often with the help of seasoned facilitators to ensure there is a diversity of voices and ideas—will brainstorm about what it will take to build the capabilities and competencies required for successful growth. Next, the team will consider what's stopping the organization from getting there: Are there individual, social, or organizational barriers in the way? Are the wrong behaviors being rewarded? Is the organization giving off subtle signals that it's not really inclusive?

Questions to consider

- How can your organization ensure that diversity is an enabler of, rather than a barrier to, implementation of your strategy?
- How do you find the right metrics for measuring and evaluating the diversity-related performance of the business?

Guiding principles

Essential elements of an effective diversity strategy

- Tangible, actionable goals, accountability, and oversight by senior leadership
 - Compensation that is determined, in part, by an employee's ability to thrive in a diverse workplace
 - Processes and procedures that make the new programs and initiatives sustainable
 - Ongoing commitment to training, education, development, and regular communications around the strategy
 - A requirement that managers learn and practice the managerial skills necessary in a multicultural work environment
 - A safe place or forum for employees to communicate
 - Behavioral accountability at all levels of the organization
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- What will it take to ensure that you end up with the right people in the right roles, leveraging the diverse skills and perspectives they bring?
- What should your future workforce look like in terms of mirroring and meeting the demands of your customer base and suppliers?
- In short, what constitutes your company's unique set of circumstances, challenges, and goals?

Building accountability into your strategy goes a long way toward keeping both diversity and the quest for inclusion alive across the company at every level. If all of your people own and understand their individual roles and responsibilities in achieving the organization's business objectives, it will be easier for them to understand how their individual attitudes toward diversity and their resulting behaviors can help or hinder the achievement of those objectives.

Ongoing communication is another key to building rather than losing momentum over time. You will reap the benefits of your investment in diversity only if you are relentless in fanning the flames of ongoing efforts. To make sure the initial buzz does not languish over time, communicate new strategies as they evolve, and report on progress both internally and externally.

Reaping the benefits

Surveys consistently show that employees are attracted to companies that lead in the area of workplace diversity. The same is true for customers, suppliers, and partners, who prefer to purchase products or services from companies whose employee profile matches the diversity of the population as a whole or that of their own company profiles. Diversity in the workplace may strengthen any organization's ability to offer the best resources to clients today while positioning the organization for longer-term success.

The clarion call is to move beyond diversity and toward a culture of inclusion. It will take personal commitment and fortitude. There will be times when some decisions may not be popular. That's when leaders will stand out and followers will step up. Companies have to be willing to redesign their current business model and maximize the productivity, creativity, and loyalty of their current workforce—all of it with the purposeful intent of building a diverse pipeline for the future. Sustainable growth and competitive advantage in the future begin with transforming your organization into a high-performing, inclusive culture today.

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