

WINNING THE '20S

# THE BUSINESS IMPERATIVE OF DIVERSITY

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**T**HE NEXT DECADE IS fast approaching, and there are no spoilers. It's likely that the years to come will be marked by geopolitical and economic uncertainty, with continued disruptions from digital challengers. Organizations that are ready to learn and pivot on the fly will be the ones that not only stay afloat through the 2020s but thrive.

How can business leaders ensure that their organizations are primed for innovation and reinvention—and thus be as prepared as possible for the relentless change the next decade will bring? The not so secret but often elusive answer: diversity.

Increasing diversity is a moral imperative, but it is also becoming a powerful business requirement. Organizations equipped with a range of voices and perspectives throughout the ranks are better able to innovate, take risks, solve problems creatively, bounce back from failures, and turn challenges into opportunities. But progress around the world, especially in leadership roles, has been lackluster. (See the exhibit.)

Now is not the time, however, to be discouraged. To not only cope with the uncertainties of the global economy in the next ten years but gain advantage, leaders must make diversity an urgent priority in their strategy playbook.

## The Link Between Diversity and Innovation

Instinct tells us that diversity should spark innovation. When a team is made up of people who have a great deal in common, we risk “group think”—a sameness of perspectives that can lead to complacency, stagnation, and even downfall. Such homogeneity also inhibits a company's ability to respond to challenges in a resilient manner.

And it turns out that our instinct is right: we can move beyond assuming the benefits of diversity and back it up with data. A BCG study of more than 1,700 companies around the world shows that diversity increases the capacity for innovation by expanding the range of a company's ideas and options, leading to better financial

## Little Progress on Gender Diversity in the Past Ten Years

Average share of women managers at large companies (%)



**Sources:** Thomson Reuters; BCG Henderson Institute analysis.

**Note:** Includes listed global companies with at least \$10 billion in sales or \$20 billion in market capitalization that are reporting gender diversity data.

performance. And the BCG Henderson Institute recently demonstrated that gender diversity, for example, not only correlates with but is predictive of future growth.

Diverse and inclusive organizations generate unconventional solutions and offer up more ideas, increasing the likelihood that they will deliver winning products and services and greater long-term growth. Over the long haul, growth is the predominant driver of outperformance. And in an environment of declining aggregate economic growth globally, innovation provides the necessary fuel for an individual company to grow.

In the corporate world, the primary types of diversity that come to mind—gender, ethnic, racial, and sexual orientation—all drive success. But so do other kinds, including work experience, age, educational background, and nation of origin.

Cognitive diversity—people with different ways of solving problems working together—is also key. Joint research by BCG and AI-neuroscience startup pymetrics shows that large companies need diversity in cognitive skills in order to master the range of strategies—from classical to adaptive to visionary—needed to cope with the complex and dynamic environments they face.

And the more types of diversity the merrier. Companies that have achieved diversity on multiple dimensions are stronger innovators than those that haven't. In addition, when an organization invests in digital innovation, the advantages of diversity multiply, allowing it to better capitalize on those investments.

Furthermore, diversity is most important at the top. There is a clear correlation between the diversity of management teams and an organization's overall level of innovation. For example, nearly half the revenue of companies that have more diverse leadership comes from products and services launched in the past three years. And those companies have higher EBIT margins as well, delivering 9 percentage points more than those with below-average diversity on their management teams.

The composition of the boardroom—a topic in the spotlight of late—is also important, as its diversity leads to a broader range of ideas and publicly expresses how committed the company is to embracing diversity overall. Gender diversity on boards has become mandatory in some countries, but good board governance has always encouraged diversity, starting with the basics of including people from outside the organization.

## Diversity Also Builds Resilience

The most innovative companies will be at an advantage in the coming years, but that won't be enough. Rapid changes in technology, the complex dynamics of globalization, and political uncertainty worldwide are creating an unpredictable business environment that will make it harder for companies to endure. Public companies today have a one-in-three chance of ceasing to exist in their current form over the next five years, owing to failure, takeover, or other causes. That's a rate that's six times higher than the rate 40 years ago.

Greater diversity fosters innovation, but it can also strengthen resilience—the capacity to survive the unexpected—which is an equally important weapon heading into the next decade. Diverse companies are better than their more homogenous counterparts at withstanding unanticipated changes and adapting to external threats.

In fact, diversity is a pivotal feature of all long-lived natural and social systems, including companies. When a company can deploy a range of perspectives and ideas, it effectively has more ways of hedging the unexpected. Diversity not only mitigates against the risk of system collapse but is also the grist for evolutionary adaptation. It allows for constant variation and experimentation with products, strategies, and business models—essential in maintaining fitness in a changing environment.

Not surprisingly, when smaller, short-term failures occur within a resilient workplace culture, winning companies learn and thrive. A crisis provides an opportunity to adapt, as long as the company has a wide range of perspectives to pull from and the means to choose the best ideas and act upon them.

And as the business environment grows more complex and dynamic, a uniform and steady approach to strategy and execution isn't sufficient. Instead, companies need to apply a diverse set of approaches to succeed in different environments. That kind of constant adaptation will promote longevity, since in a changing environment it

is not enough to focus on the traditional question of strategy: How good is my game? An equal emphasis needs to be placed on the question, How long will my game last?

One executive from a Fortune 500 company used half of each management meeting to open up a conversation about recent failures and the lessons those failures provided. Jeff Bezos of Amazon is likewise well known for embracing failure, writing to shareholders that “failure and invention are inseparable twins.” The goal is to avoid a success trap—an overreliance on the approaches that produced yesterday's success, often at the expense of tomorrow's—by constantly seeding new approaches.

## Unlocking the Potential of Diversity

Achieving diversity in the workplace has been a struggle globally—more so in some regions than others—with progress being slowest in the leadership ranks. And even when companies can impress the outside world with increased diversity numbers or commitments, they're not always able to convert that structural progress into business success.

Leaders need to focus on three primary areas in order to push for progress on diversity and unlock its potential.

### **BUILD AN INCLUSIVE WORKPLACE**

Diversity has become top of mind for business leaders everywhere. But so far they're not only not getting the numbers they need; they're also not gaining as much as they could from the numbers they have.

Hiring more diverse talent is only the first step. Leaders have to move beyond compositional diversity and create a workplace that allows diversity to thrive. In other words, diversity won't work for companies if they aren't working to build an environment that unlocks the potential of diversity and ensures that the best ideas and practices can emerge and be embraced.

Explaining the challenge of building an in-

clusive workplace, Citigroup CEO Michael Corbat recently said, “I think we’ve been okay at bringing women and minorities into the firm, but I don’t think we’ve created the environment that creates the sustainability of them wanting to be there.”

As in biological evolution, taking advantage of diversity within an organization requires the ability to select and amplify the best approaches. When that kind of adaptive mechanism is baked into the environment and operations of the organization, diversity can do its best work. And the resulting adaptive, inclusive workplace will allow for easier maintenance of a diverse pool of talent over time, including a pipeline of leaders contributing to the innovative capabilities and resilience of the organization for the long term.

There are five enabling factors needed to create this kind of inclusive environment: participative leadership, with different views readily heard and appreciated; a strategic emphasis on diversity led by the CEO; frequent and open communication among teams; a culture of openness to new ideas; and fair and transparent employment practices, including equal pay. When a corporate ecosystem has all of these in place, the organization will be able to reap the true business benefits of diversity and be ready for the next decade.

### **DON’T BECOME COMPLACENT ABOUT PROGRESS**

As companies improve their diversity numbers and build an environment conducive to unlocking the power of diversity, leaders may think their job is done. In fact, building and maintaining diversity will become even more mission critical over time and has to stay at the top of the agenda. Rather than being satisfied with 30% diversity in leadership, for example, it may be time to aim for 50%.

Three steps can accelerate the progress of diversity initiatives and build the innovation capabilities and resilience of organizations:

- **Come to an honest consensus on how much progress the company has**

### **made on its diversity initiatives and how much further it needs to go.**

Express a sense of urgency about the need for real change, ensuring that the workforce hears a strong, vocal leadership commitment—and hears it often.

- **Define ambitious, realistic, and specific targets.** Leaders must tailor goals to the unique needs of the organization and revisit them periodically, since strategies for diversity today may not respond to the challenges of the future. For example, a company may make strong progress on gender diversity in leadership, but a new corporate acquisition could necessitate a different type of diversity, such as in geographic or academic background.
- **Apply the specific measures that will achieve those targets, including the tried-and-tested measures, such as antidiscrimination policies and bias awareness training.** Also don’t overlook the “hidden gems”—the measures that work but tend to be undervalued by senior-level management—as well as specific measures that may be necessary for a particular company, such as boosting cognitive diversity.

### **INCREASE DIVERSITY—AND WIN THE RACE FOR TALENT**

How companies attract and retain talent in the next decade—and how they populate their leadership positions—will be a strong predictor of their success or failure. Talent will be in short supply in the world’s largest economies, and specific capabilities will be even rarer: 30% of the skills that will be needed just by 2020 are lacking or are seen as not critical in today’s talent pool. It will therefore be especially important for companies to activate an always-on recruiting, retention, and retraining strategy in the coming years.

Technology will play a powerful role—for better and for worse—in shaping how diverse the workforce of the future will be. AI, for instance, could erode progress in gender diversity. The IMF projects that more jobs currently held by women are at

risk of elimination as a result of AI than those held by men.

Offsetting this risk, technology could likewise help. AI and neuroscience-based skills assessments, for example, can actually reduce bias in hiring by focusing on empirical patterns, thus expanding the potential talent pool.

Those that don't address their diversity failings will be missing out on hiring and retaining top talent and will not survive technological upheaval. But an ambitious strategy to increase diversity—and a plan to create a workplace environment that embraces it—will lead to an innovative and resilient company poised for growth and long-term wins.

**A**CHIEVING INNOVATION AND resilience through diversity is crucial for succeeding in the 2020s. The push for diversity is visible everywhere—in headlines every day and as a regular part of business strategy conversation. As a largely internal matter, it should be controllable and predictable, but it remains an underleveraged opportunity to create a competitive edge.

No matter the industry, diversity and inclusion have to be a business imperative—a core part of a company's collective purpose. If leaders successfully drive diversity and establish the workplace environment that allows it to thrive, companies will gain the ability to innovate, grow, and withstand the shocks of the coming decade.

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