

Spotlight



Diversity... is it good for business, really?

Diversity and inclusion initiatives have gained a lot of traction throughout Ireland's corporate landscape. But do they add tangible value for organisations?

BY OLIVIA McEVOY

Although accountants might not be able to bring themselves to agree, it can seem as though there are countless quotations pertaining to, and definitions of, 'diversity'. Malcolm Forbes describes it as "the art of thinking independently together", while others draw on an old Muslim saying that "a lot of different flowers make a bouquet". Despite the overwhelming number of definitions, common ground is reached in the certainty that strength lies in differences.

What is diversity and inclusion?

The EY definition of diversity and inclusion is: "Diversity is about differences, seen and unseen. Inclusion is about creating an environment in which people are valued, feel valued and are able to achieve and contribute their full potential." Creating an inclusive environment improves the way we interact with our people, our clients and our communities. Inclusion is also about leveraging our differences to deliver better business results.

In both this definition and much of the recent commentary on diversity and inclusion, the focus is very much on inclusion. Indeed, some suggest we have achieved diversity and now need to concentrate our efforts on inclusion. There is no doubt that diversity is now an aspiration for most businesses in Ireland as well as globally, but many of those same businesses still struggle to attract a diverse workforce in terms of gender, sexuality, ability, age and education as well as personality type and thinking style.

We tend to view diversity and inclusion as a journey, and it is important to acknowledge that some businesses are in the starting blocks and some are further down the road. Very few have reached 'Destination D&I'. It is, however, true to suggest that diversity can be the easier element to achieve; the real test begins in earnest when you are trying to build an inclusive

environment and leverage diversity to improve business performance. It is equally true to say that, if you are successful in building an inclusive environment, you are much more likely to attract and retain a diverse workforce.

The business benefits

Although it is almost universally accepted now that diversity and inclusion is a business imperative and a 'must have' rather than a rights-based agenda or a 'nice to have', there are some who still question

above their respective national industry medians.

More recently, in 2016, the Peterson Institute for International Economics and EY released a study revealing a significant correlation between women in leadership and company profitability. The report found that companies with at least 30% female leaders had net profit margins up to 6% higher than companies with no women in senior ranks. This report is but one of many to find that gender diversity has a positive impact on

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whether diversity and inclusion can actually deliver better business results and contribute to competitive advantage. Again, there is a wealth of research and countless statistics that support diversity and inclusion as a key driver in achieving success in new markets, improving market share and ultimately driving revenue generation and profitability. While many of these statistics are global and depend on variables such as company size, there remains much indisputable evidence. A highly regarded McKinsey study in 2015 entitled 'Diversity Matters' examined data for 366 public companies across a range of industries in Canada, Latin America, the United Kingdom and the United States. It found that:

- Companies in the top quartile for racial and ethnic diversity are 35% more likely to have financial returns above their respective national industry medians; and
- Companies in the top quartile for gender diversity are 15% more likely to have financial returns

profitability. As such, there are few businesses that can choose to ignore what automatically increases revenue and profitability, but the benefits of diversity and inclusion do not stop there. It also delivers:

- Continuous innovation achieved by harnessing the power of different experiences, knowledge and skills;
- Enhanced team performance and stronger collaboration;
- Increased awareness of biased behaviours and their impact, resulting in better decision-making;
- Enabled leadership to drive cultural change and build high-performing, diverse teams;
- Increased motivation for employees resulting in better job satisfaction, reduced stress and reductions in absenteeism; and
- Enhanced reputation in consumer markets.

Despite the compelling nature of all of the above benefits, it is the

fact that diversity and inclusion is accepted as a key contributor to talent acquisition and retention that sways many businesses to pursue the agenda. No matter the size of your company, the war for talent is a hard one to wage and win. This is particularly the case in relation to attracting and retaining millennials who are the first generation to grow up in the digital age. There are currently more than 500,000 millennials in Ireland and, in just 10 years, they will comprise nearly 75% of the workforce. This elevates the importance of the diversity and inclusion agenda even more, as millennials absolutely expect diversity as a matter of course. Indeed, millennials fully expect to be celebrated for their differences. And how right they are.

Cognitive diversity, which is different thinking styles and personality types, is particularly valued by this cohort as it stimulates dynamic ideas and solutions that can drive innovations in a much more effective way. Indeed, research from the Billie Jean King leadership initiative reports that millennials see the concept of diversity and inclusion through a completely different lens and that there is now a trench between the generational mindsets on the issue. Fundamentally, millennials see diversity and inclusion as a necessary element for innovation. The same report emphasises that companies with high levels of innovation achieve the fastest growth of profits, while radical innovation trumps

incremental change by generating 10 times more shareholder value. The impact of a lack of cognitive diversity and inclusion hits hard on engagement and empowerment, as well as the ability of employees to remain true to themselves.

If any of us are to be fully engaged, we require supportive leadership and a supportive culture. As reported in the Billy Jean King report: "If you want to build a truly inclusive culture – one that leverages every individual's passion, commitment and innovation, and elevates employee engagement, empowerment and authenticity – you should be willing to break down the narrow walls that surround diversity and inclusion, and limit their reach. If you don't know where to start, ask your millennials. Every one of them wants to be heard."

What makes for a good diversity programme?

There has been an understandable tendency to adopt a strand-based approach to diversity and inclusion, with the need to address gender equality particularly obvious. The referendum on marriage equality brought increased awareness of, and focus on, the LGBT strand in Ireland. Therefore, at this juncture and where strides have already been made, we need to step back and take a more holistic and strategic view of diversity and inclusion and integrate it into our corporate strategy and core business activity. The following is central to any successful diversity and inclusion programme.

Diagnostics and diversity and inclusion data: accountants should not need convincing of the importance of knowing the numbers! And they are spot on; it is absolutely imperative to know your organisation. Diversity and inclusion data gives critical insight into organisations. Indeed, even the data we are not able to gather tells its own story. Through diagnostic assessment, data can drive a deeper understanding of the employee experience and where the critical decision points are in order to achieve diversity goals. This might be across any one business component such as talent attraction and retention, performance management and progression or leadership competence and accountability. Detailed data on the likes of recruitment ratios, promotion rates of female employees compared to male employees, or salary-related data allow us to develop tailored action plans to address any specific issue that emerges. As with any other business element, it is vital to ascertain your current state before you can meaningfully set realistic targets and goals and make progress. Once you diagnose the situation, you can establish diversity and inclusion key performance indicator (KPI) frameworks and know how you are going to measure success. One of the challenges for those keen to pursue the diversity and inclusion agenda is that it is sometimes seen as a 'nice to have' add-on. Having evidence-based data helps counteract that and allows us to measure progress and resulting growth.

35%

Of ethically diverse companies are more likely to outperform.

15%

Of gender-diverse companies are more likely to outperform.

0.8%

The rise in EBIT for every 10% increase in racial and ethnic diversity on the senior executive team.

Source: McKinsey. Results show likelihood that companies in the top quartile for diversity financially outperform those in the bottom quartile.

Sustainable strategy and good governance: a diversity and inclusion strategy that is incorporated into business strategy and core business activity is central to success. Very simply, diversity and inclusion needs to become an essential component of how we conduct business. Having a strategy really helps align diversity and inclusion with corporate strategy and enables it to become embedded in the overall culture and governance of the organisation. The strategy needs to be goal-orientated, metric-focused and underpin all diversity and inclusion activity. The strategy should also be accessible and include key principles and messages that can be understood by all.

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Informed, enabled and accountable leadership: any diversity and inclusion strategy or programme needs visible C-suite and executive sponsorship to succeed. Leadership needs to be aware and really understand diversity and inclusion, talking about it with people at all levels, inside and outside the business. As leaders, we also need to live and practise diversity and inclusion in our thinking, recruitment and work practices. In addition to leadership commitment and support, we must also emphasise impact, measurement and accountability. Introducing accountability as part of performance measurement certainly helps to elevate diversity and inclusion from a 'nice to have' to a core element of business activity. However, rather than expecting leadership to

be automatically familiar with and knowledgeable about diversity and inclusion, we need to enable leaders to drive the agenda. To this end, it is essential to resource inclusive leadership and unconscious bias training that enables leaders to build high-performing teams and facilitate innovation.

There are, of course, multiple other tenets of a successful diversity and inclusion programme, including flexible working arrangements that allow for, and support, diversity in the workforce. The visibility of diverse role models should not be underestimated based on the simple premise that 'you can't be what you can't see'. People will naturally seek employment where they see themselves represented in the organisation, particularly at leadership level. Dovetailing recruitment practices with the diversity and inclusion data diagnosis and ensuing metric targets is also a key factor.

Diversity and inclusion into the future

Diversity and inclusion is a key driver of the future we aspire to, where we equate business in Ireland with risk excellence, sustainable growth and performance as well as cutting-edge innovation. It is also a key tenet of success right now. The first step is to truly value, champion and celebrate diversity, creating spaces where different perspectives are encouraged, from a workforce diverse in ability, age, ethnicity, gender, race and sexual orientation, as well as in thinking style and personality type.

With the right strategic approach, leadership support and data analytics, we have the tools to leverage those celebrated differences to build a better working world that is truly diverse and inclusive. It is the right option. It is the business-smart option. It is the only option.



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REPRESENTING DIVERSITY IN FINANCIAL REPORTS

Enhanced disclosure on diversity is an opportunity for companies to set out how embracing diversity can lead to less group-think, greater innovation, progress and growth. A new EU Directive on the Disclosure of Non-Financial and Diversity Information by Certain Large Undertakings and Groups is expected to be transposed shortly and will lead to new disclosures on diversity by large public interest entities (PIEs) with securities traded on a regulated market. This directive is something those complying with the 2014 UK Corporate Governance Code may already be aware of. For such companies, there are already reporting requirements in relation to diversity. The Code notes that a diverse board can lead to "constructive and challenging" dialogue which is "essential for the effective functioning of any board". Companies that comply with the Code are required to include "a description of the board's policy on diversity, including gender; any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives". The Directive requires that impacted PIEs include a description of the diversity policy applied to their administrative, management and supervisory boards in their corporate governance statement. This policy should consider aspects such as gender, age, professional and educational backgrounds. The disclosure should also include the objectives of the company's diversity policy, how it has been implemented and the results in the reporting period. If no diversity policy is applied, the company must give an explanation as to why this is the case. While the disclosure requirements of the Directive and Code will apply to certain entities, diversity may be relevant to all organisations and we are hopeful that this change will lead more companies to voluntarily articulate the positive impact of diversity on their business.



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