

CHAPTER 4

Diversity's Positive Impact on Innovation and Outcomes

Sylvia Ann Hewlett, Ripa Rashid, and Laura Sherbin

Center for Talent Innovation and Hewlett Consulting Partners LLC

Corporate leaders have long recognised that diverse talent supports innovation, but many organisations fail to fully realise this innovative potential. Diverse talent often have difficulty winning endorsement for their ideas. Many may also be hesitant to speak up and offer their suggestions.

Studies by the Center for Talent Innovation (CTI), a non-profit research organisation focused on global talent and inclusiveness, provide data on these problems and suggest the following two-pronged approach for companies seeking to reap the benefits of diversity through inclusion:

- Build inclusive team cultures, in which team leaders exhibit three of six specific behaviours.
- Foster diversity (both *inherent* and *acquired*, as defined below) in top company leaders.

Inclusive leaders unlock the innovative potential of their teams. With multi-dimensional diversity in senior management,

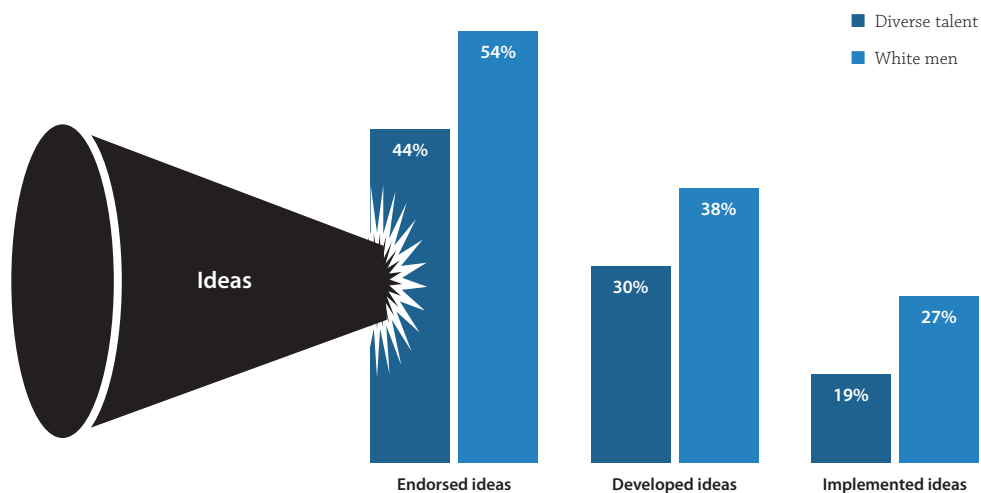
employees are more likely to say they have team leaders who demonstrate inclusive behaviours—and that their companies are growing market share and capturing new markets.

Companies interested in fully leveraging diverse employees should therefore consider a 'package deal': when leadership is both diverse and inclusive, companies can have robust support in place for innovation.

This chapter begins with famous examples of how the lack of diverse viewpoints in leadership can hinder organisations. It then presents CTI research that quantifies some of the benefits that inherent employee diversity brings to a company, and how this value often goes unrealised.

The chapter proceeds with an analysis of proprietary data on how six specific inclusive leadership behaviours at the team level can create an environment that is more conducive to innovation. Additional data on how having inclusive leaders correlates with greater employee engagement and retention are then presented. The chapter concludes by explaining another kind of diversity: acquired. When acquired diversity is present in

Figure 1

Ideas from diverse talent: Stuck in the pipeline

Note: Fifty-six percent of respondents said leaders at their companies do not value ideas for which they personally do not see a need.

senior management, it supports inclusive leadership behaviours. Data on the market benefits that two-dimensional (inherent and acquired) diversity in senior leadership can offer companies are then presented.

Unless otherwise noted in the text or endnotes, the data in this chapter come from a nationally representative survey that CTI conducted in the United States of 1,800 college-educated respondents, ages 21 to 62, working full time in white-collar occupations at companies with more than 50 employees. Forty case studies, Insights In-Depth® sessions (a proprietary web-based tool used to facilitate online focus groups) with over 100 participants from CTI's Task Force organisations, and more than 60 one-on-one interviews helped CTI analyse and interpret the survey findings.

THE DANGER OF NON-DIVERSE LEADERSHIP

A lack of diverse viewpoints can have harmful consequences, as a famous example illustrates: the International Monetary Fund (IMF) failed to predict the enormity of 2008's global financial crisis, and was hampered in its ability to respond. Why did the IMF, which had in its ranks some of the world's most brilliant and experienced economists, stumble in its task of protecting global financial stability?

In a report from 2011, the IMF openly blamed the failure on 'a high degree of groupthink'. IMF leadership, the report explained, suffered from its own homogeneity. The organisation's leaders, mostly men from developed economies with similar educational backgrounds and résumés, ruled out the possibility that a global crisis might start in advanced financial systems. Members from less developed economies who dissented saw their opinions dismissed, the report said.¹

Evidence of the dangers of non-diversity also abounds in the corporate space. To take two examples from the Middle East: Eurostar's offering of a computer tablet for women (called

the 'ePadFemme') and Mattel's attempt to market a Muslim Barbie named 'Leila' both failed to win consumers. Middle Eastern women did not appreciate a pink tablet that steered them to recipes and pregnancy tips,² while families preferred a doll designed in Syria that represented Muslim values.³ Viewpoints put forth by women in Eurostar and Muslims in Mattel might have avoided these costly mistakes.

These examples offer a key insight: a lack of diversity in leadership can hinder an organisation's ability to respond well to a novel situation where innovative thinking is required. Even when diverse viewpoints are present in an organisation (as was the case in the IMF, which included members from less-developed economies), those viewpoints have little impact if a homogeneous leadership team fails to consider them.

FAILING TO FULLY REALISE THE DIVERSITY DIVIDEND

Evidence exists that companies with diverse workforces outperform financially,⁴ and CTI research has identified at least one explanation for this 'diversity dividend'. Inherently diverse employees—with *inherent diversity* referring to an individual's gender, race/ethnicity, age, religious background, socioeconomic background, sexual orientation, disability status, and nationality—can be founts of insights that can help new products match the market. For example, a recent immigrant from Latin America to the United States who speaks Spanish may understand her fellow immigrants' needs and aspirations better than someone from a different background would. Learning Spanish in school generally does not provide the same cultural nuance or empathy as lived experience, or membership in a given community. Someone with that recent immigration experience, thus, could better design a product, service, or marketing campaign that responds to those needs.

Inherent diversity is powerful. CTI research has found that when teams have one or more members who represent the gender, ethnicity, culture, generation, or sexual orientation of the team's target end user, the entire team is at least 144% more likely to say that they understand that end user. A team that understands its target user may be more likely to perceive issues unique to that user, and to home in on solutions that address those issues. As a result, that team may be more likely to come up with ideas for unmet market needs.

Ideas to serve new markets, however, are merely a first step towards the creation of value. To fully innovate, organisations must develop these ideas and deploy them in the marketplace. That process requires decision makers' buy-in and endorsement. In many larger companies, this endorsement must come from powerful leaders scattered throughout divisions and ranks.

CTI research indicates that, when it comes to the ability to recognise the importance of a new idea or concept, leaders are hampered by their own blind spots. The CTI survey revealed that 56% of respondents say that leaders at their companies do not value ideas for which they personally do not see a need. A mostly male leadership, for example, may not show any interest in innovative ideas for better breast pumps, even if many women could speak to a possible market demand.⁵

Leadership's blind spot for ideas that do not fill their personal needs is a serious problem in the United States, where women make up 47.8% of the workforce but only 29.7% of senior management.⁶ Racial and ethnic minorities make up 37.7% of the US workforce, but only 14.0% of senior management.⁷ At the very top, the under-representation is even greater. At Fortune 500 companies, women comprise just 4.8% of CEOs; racial and ethnic minorities comprise 5% of CEOs.⁸

CTI's data indicate that the wisdom of the crowd can be easily lost: women and people of colour are less likely to have their ideas realised (see Figure 1). In the survey, only 44% of women and people of colour reported having an idea endorsed, compared with 54% of white men. Thirty percent said an idea of theirs had been developed, compared with 38% of white men. And only 19% said an idea had been implemented, compared with 27% of white men.

MAXIMISING INNOVATIVE POTENTIAL

To discover how companies can assure employees that their innovative ideas are valued, CTI started at the team level. After all, a manager can be the first barrier to an innovative idea being shared or adopted. CTI conducted focus groups and created a list of common behaviours that team leaders employ to generate innovation. Survey respondents were then asked which of these behaviours their team leaders displayed, as well as whether they agreed with the following three statements that indicate that a team's innovative potential is maximised:

- My ideas are heard and recognised.
- I feel welcome and included within my team.
- I feel free to express my views and opinions.

CTI looked to see which of the leadership behaviours gave the highest boost to a team's innovative potential, and concluded that these would be considered 'inclusive leadership behaviours'. The top six behaviours were:

- ensuring that everyone gets heard,
- giving actionable feedback,
- making it safe to risk proposing novel ideas,
- taking advice and implementing feedback,
- empowering team members to make decisions, and
- sharing credit for team success.

Inclusive leaders were defined as those who exhibit at least three of these six inclusive behaviours. These are leaders who, the interviewees said, enable them to speak up and contribute innovative ideas to their companies.

'I had a great manager once', a healthcare marketing executive told us. 'She said if you didn't have a chance to speak up during a meeting but you had something to contribute, we should speak to her later or send an email. And she made clear that she meant it. She occasionally would announce to the team that she'd received an email with a great idea from so-and-so. It made everyone eager to contribute, that they knew they'd be listened to.'

There is a second reason that fostering inclusive leadership should be a high priority for companies: with inclusive leaders, team members are far less likely to perceive bias.

DIVERSITY AND EMPLOYEE PERCEPTIONS OF BIAS

CTI's most recent research has also been able to measure an additional way in which inclusive leaders help inherently diverse employees thrive: inclusive leaders reduce the experience of bias in the workplace, an area of great interest for many companies.

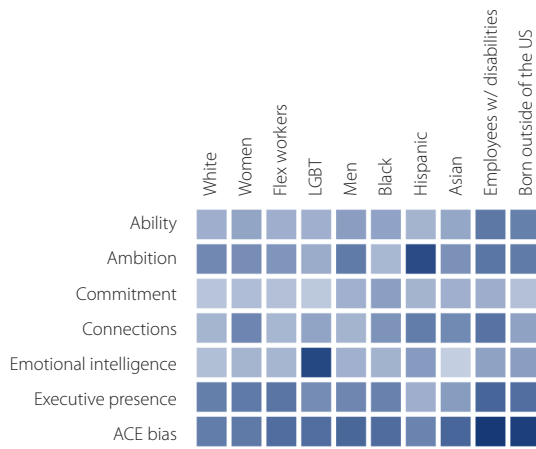
A nationally representative survey that CTI undertook in the United States of 3,570 white-collar, college-educated employees found that, in large companies, people of colour, those born abroad, and people with disabilities are especially likely to perceive bias around assessments of their potential. For example, 11.2% of Asians, 13.9% of employees with disabilities, and 19.7% of employees born in Latin America perceive this kind of bias, compared with 9.2% of the overall sample.⁹

To measure whether employees perceive bias, CTI first identified six key areas on which their potential is assessed (termed the *ACE model*): ability, ambition, commitment, connections, emotional intelligence, and executive presence. Employees were then asked how they assess their own potential on each of these six ACE elements, how they believe their superiors assess them on these elements, and what kind of feedback they have received on these elements.

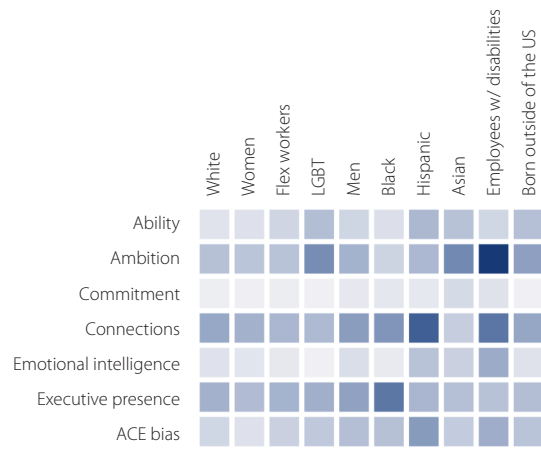
When respondents reported that their superiors' assessment was lower than their self-assessment, CTI researchers deduced that these respondents perceive negative bias around assessments of their potential in this area. When they perceived negative bias in two or more areas, this result was defined as *ACE bias*, since (see below) it has significant correlations.

Figure 2
Bias perceived by employees in large companies

2a: Employees without inclusive leaders



2b: Employees with inclusive leaders



Note: ACE bias means the rate of bias perception in two or more ACE areas. The darkest blue indicates a rate of more than 15%; the lightest white indicates a rate of 0%, and intermediate shades indicate intermediate rates of ACE bias perception. With inclusive team leaders, employees at large companies are 87% less likely to perceive ACE bias and 39% more likely to be engaged.

CTI organised the results into a heatmap (Figure 2) that shows the rate at which different talent cohorts perceive bias in each of the six key areas. The symbols in the left-most column represent (from top to bottom) ability, ambition, commitment, connections, emotional intelligence, executive presence, and overall ACE bias (rate of bias perceived in two or more areas). The boxes represent the level of bias reported, with white indicating 0% in that cohort perceiving bias, dark blue indicating over 15% in that cohort perceiving bias, and intermediate shades indicating intermediate rates of bias perception. The heatmap in Figure 2a shows bias perception levels for employees at large companies who do not have inclusive team leaders. The heatmap in Figure 2b shows bias perception levels for employees at large companies who have inclusive team leaders.

As the heatmaps in Figure 2 show, with inclusive team leaders, employees are less likely to perceive bias. When employees at large companies have inclusive team leaders, they are on average 87% less likely to perceive ACE bias around assessments of their potential than employees on teams without inclusive leaders.¹⁰

For example, at large companies, 20.5% of foreign-born employees perceive bias on two or more ACE elements when their team leaders are not inclusive. But when their team leaders are inclusive, only 3.0% of foreign-born employees perceive ACE bias. Among employees with disabilities at large companies, 21.2% perceive this ACE bias around assessments of potential when their team leaders are not inclusive. When they have inclusive team leaders, only 4.6% of them do.¹¹

This reduction is important, since a perception of ACE bias correlates both with poorer career outcomes for individuals and with behaviours that may prove damaging to their employers.

Compared with colleagues at large companies who do not perceive ACE bias, over the last year those who do perceive it are

32% less likely to have received a raise, 45% less likely to have had their job responsibilities increased, and 25% less likely to have received a promotion.¹²

Those who perceive bias are also more likely to be disengaged, to leave their companies, and to engage in sabotage.

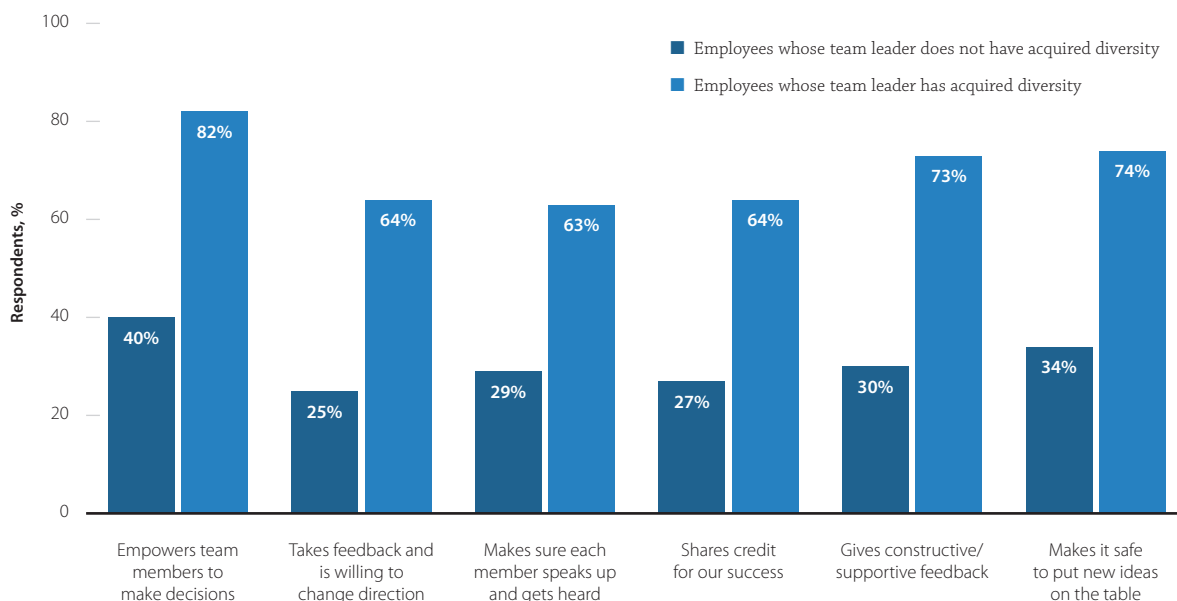
Compared with employees at large companies who do not perceive ACE bias, employees who do are nearly three times as likely (20% versus 7%) to report that they are not engaged at work and 2.6 times as likely (34% versus 13%) to say that they have withheld ideas or solutions from their companies over the previous six months. They are also more than three times as likely (31% versus 10%) to plan to leave their employers within the year, and 60% more likely (48% versus 30%) to have looked for a job while on the job in the past six months. Finally, they engage more frequently in sabotage: they are five times as likely (5% versus 1%) to have discussed their companies negatively on social media and 4.5 times as likely (9% versus 2%) to have intentionally failed to follow through on an important assignment in the past six months.¹³

Inclusive behaviours may be taught, and leadership training likely has a role to play in many organisations, alongside building inclusivity into performance reviews and/or bonus structures for team leaders. But there is another way that leaders can support inclusive leadership: through attention to two kinds of diversity in top leadership.

ACQUIRED DIVERSITY

As companies look to fully leverage inherent diversity at their companies, there is yet another piece to the puzzle beyond inclusive leadership. After all, the ideas an inclusive team leader elicits can wither on the vine if they are not endorsed by top leaders. CTI's research has found that varied backgrounds and experiences can give leaders an appreciation for difference,

Figure 3

Team leadership behaviours: Leaders with and without acquired diversity

Note: All leadership behaviours are as reported by team members.

whether that difference is rooted in gender, age, culture, socio-economic background, nationality, disability status, or sexual orientation. The kind of experience that leads to this appreciation for difference is called *acquired diversity*.

Consider a European who has worked many years in Nigeria. While there, this European has likely developed cultural fluency: a keen sense of the economy and the people, including their needs and aspirations. To take another example, someone who has grown up with a gay sibling may know well the LGBT community's challenges and sensibilities.

Acquired diversity includes not just cultural fluency, but also generational savvy, gender smarts, social media skills, cross-functional knowledge, a global mind set, military experience, and language skills. The CTI survey showed that when team leaders, according to their direct reports, have three or more of these acquired diversity characteristics, they are more than twice as likely (see Figure 3) as team leaders without any acquired diversity to demonstrate each of the six inclusive leadership behaviours.

When acquired diversity joins with inherent diversity at the senior management level, CTI data also indicate a significant rise in inclusive leadership at the team level—and in innovation and market growth.

TWO-DIMENSIONAL DIVERSITY, INNOVATION, AND MARKET GROWTH

To examine how both kinds of diversity can work together in senior leadership, CTI's research looked at what is termed *two-dimensional (2D) diversity*: when company leadership displays at least three inherent and three acquired diversity characteristics.

Only 22% of CTI survey respondents worked for companies with 2D diversity in senior leadership, but many of these firms have a big leg up on the competition. For a start, 2D diversity

in senior leadership correlates strongly with inclusive leadership behaviours at the team level (see Figure 4).

Common markers of innovation also correlate with 2D diversity. Employees at firms with 2D diversity in senior leadership are 95% more likely to say 'We're not afraid to fail', 90% more likely to say 'We take risks', 72% more likely to say 'Nobody's afraid to challenge the status quo', 68% more likely to say 'We embrace the input of members whose background or expertise differs from our own', 63% more likely to say 'We're passionate to succeed', and 60% more likely to say 'We prioritise team success over personal gain'.

Leadership with 2D diversity is also far more likely to reward innovative behaviour: organisations with 2D diversity in leadership are more than four times as likely to reward proposing radical changes to existing models and incentivising employee creativity, for example (see Figure 5).

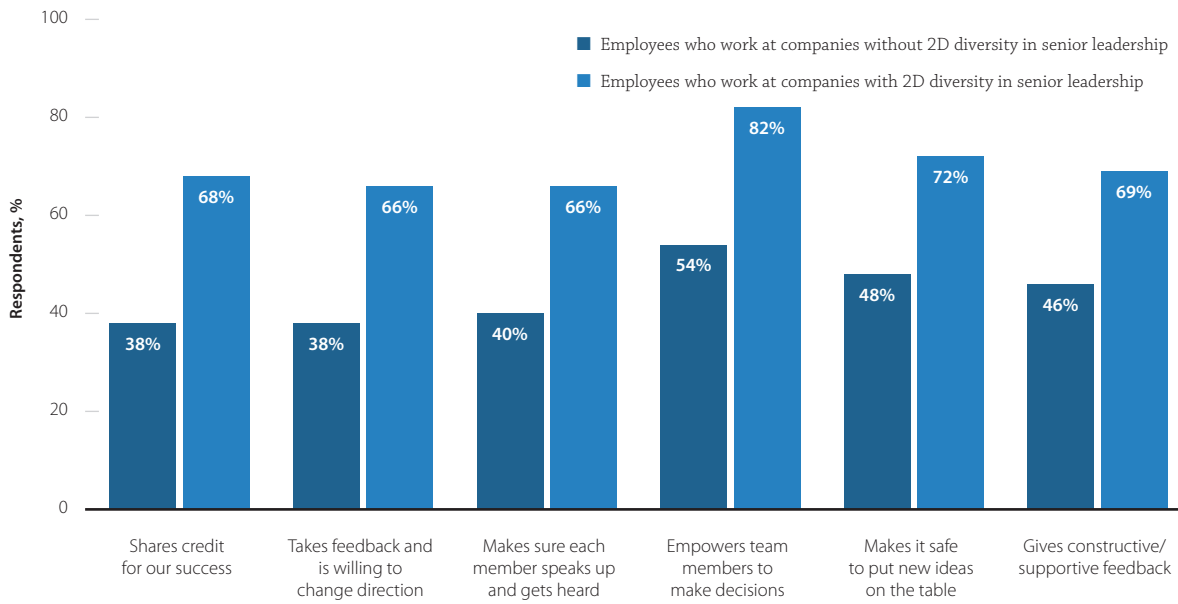
Two-dimensional diversity also correlates highly with reduced chokeholds on innovation. Employees at companies with 2D diversity in senior leadership are:

- 38% less likely to say 'groupthink is a problem' in their teams,
- 40% less likely to say 'leadership at my firm does not perceive value in ideas they don't personally see a need for', and
- 46% less likely to say 'ideas at my company rarely make it to market'.

Two-dimensional diversity has a notably positive impact on inherently diverse talent's ability to win endorsement for their

Figure 4

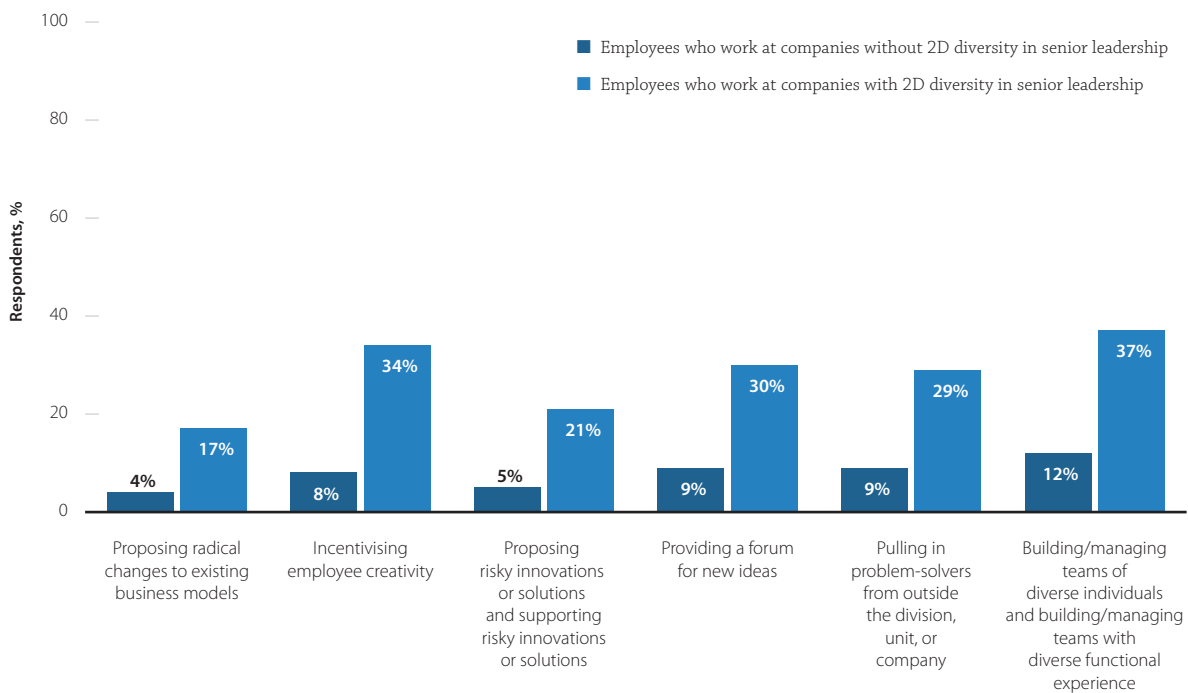
Team leadership behaviours: Companies with and without 2D diversity



Note: All leadership behaviours are as reported by team members. Data were obtained in answer to the question 'Which of the following behaviours does your team leader exhibit?'

Figure 5

Rewarded behaviours: Companies with and without 2D diversity



Note: Data were obtained in answer to the question 'Which behaviours at your company get rewarded either formally or informally?'

ideas. In companies that lack 2D diversity in senior leadership, straight white men are 28% more likely to win endorsement for their ideas than are women and they are 34% more likely to win endorsement than people of colour.

With 2D diversity in senior leadership, this difference in endorsement rates vanishes.

The results appear in the marketplace. Employees who work for publically traded companies with 2D diversity are, compared with those in publically traded companies without 2D diversity:

- 45% more likely to report that their company improved market share over the past 12 months, and
- 70% more likely to report that their company captured a new market over the past 12 months.

Johnson & Johnson offers an example. When she was director of global marketing services at the healthcare giant, Colombia-born Liliana Gil Valletta cofounded a Hispanic employee resource group (ERG) that formed a clear business agenda: to map the Latino market opportunity for each disease area. Senior management provided strong support, and Valletta was able to hold meetings with the company's chairman and present her strategy and recommendations to the executive committee. The firm discovered an unmet business opportunity as a result.¹⁴

CONCLUSION

Innovation is an imperative for corporations. It is crucial for companies to encourage employees to come up with new ideas and to encourage leaders to implement them.

CTI's data indicate two practices to facilitate a culture of innovation. These practices are open to nearly any company, from a high-tech start-up to a long-established conglomerate. The first is to establish 2D (inherent and acquired) diversity in leadership. The second is to foster a set of six inclusive leadership behaviours.

Each method is effective on its own, but implementing both is recommended because they have the potential to build on each other. Two-dimensional diversity in leadership correlates with inclusive leadership behaviours. Inclusive leadership behaviours, in turn, correlate with reduced perceptions of bias around assessments of potential. By reducing employees' likelihood of perceiving bias, inclusive leadership behaviours may thus help diverse talent rise to leadership.

To achieve 2D diversity in leadership, companies may need to re-examine hiring and assessment methodologies and refocus sponsorship programs. To make inclusive leadership behaviours more prevalent, diverse leadership itself is a driver. Other drivers include top leaders setting the tone through town halls and messaging, training programmes for managers, and linking promotion and pay to inclusive behaviours.¹⁵

The desired future state should be leadership that is both diverse and inclusive. With such leadership, CTI data indicate that companies are likely to improve their chances of fully utilising all their employees' potential to contribute innovation and grow their companies' market share.

ENDNOTES

- 1 IEO of the IMF (2011).
- 2 Adekola (2013).
- 3 Zoepf (2005).
- 4 Hunt et al. (2015).
- 5 Winter (2017).
- 6 U.S. Equal Employment Opportunity Commission (2015).
- 7 U.S. Equal Employment Opportunity Commission (2015).
- 8 Zarya (2016); Diversity Inc. (2015).
- 9 Hewlett et al. (2017, p. 13) and unpublished data from report research.
- 10 Hewlett et al. (2017, p. 22).
- 11 Hewlett et al. (2017, p. 13).
- 12 Hewlett et al. (2017, p. 14).
- 13 Hewlett et al. (2017, pp. 16–18) and unpublished data from report research.
- 14 Allwood & Sherbin (2016, p. 30).
- 15 Hewlett et al. (2017, p. 24).

REFERENCES

- Adekola, S. (2013). The iPad for women. *Nouse*, 14 March 2013, available at <http://www.nouse.co.uk/2013/0314/the-ipad-for-women>
- Allwood, N. & Sherbin, L. (2016). *Latinos at work: Unleashing the power of culture*. New York: Center for Talent Innovation.
- Diversity, Inc. (2015). Black Fortune 500 CEOs decline by 33%. *Diversity Inc.*, 30 June 2015, available at <http://bestpractices.diversityinc.com/talent-management/shortfalls-and-bias-driven-discrepancies-war-for-talent/black-fortune-500-ceos-decline-by-33-in-past-year/>
- Hewlett, S. A., Rashid, R., & Sherbin, L. (2017). *Disrupt bias, drive value*. New York: Center for Talent Innovation.
- Hunt, V., Layton, D., & Prince, S. (2015). Why diversity matters. McKinsey&Company, January 2015, available at <https://www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters>
- IEO of the IMF (the Independent Evaluation Office of the International Monetary Fund). (2011). *IMF performance in the run-up to the financial and economic crisis: IMF surveillance in 2004–07*. Washington, DC: International Monetary Fund. Available at [http://www.ieo-imf.org/ieo/files/completedevaluations/Crisis-%20Main%20Report%20\(without%20Moises%20Signature\).pdf](http://www.ieo-imf.org/ieo/files/completedevaluations/Crisis-%20Main%20Report%20(without%20Moises%20Signature).pdf)
- U. S. Equal Employment Opportunity Commission. (2015). 2015 Job Patterns for Minorities and Women in Private Industry (EEO-1). Database, accessed 25 April 2017. Available at https://www1.eeoc.gov/eeoc/statistics/employment/jobpat-eeo1/2015/index.cfm#select_label
- Winter, J. (2017). Why aren't mothers worth anything to venture capitalists? *The New Yorker*, 25 September 2017, available at <https://www.newyorker.com/business/currency/why-arent-mothers-worth-anything-to-venture-capitalists>
- Zarya, V. (2016). Female Fortune 500 CEOs are poised to break this record in 2017. *Fortune*, 22 December 2016, available at <http://fortune.com/2016/12/22/female-fortune-500-ceos-2017/>
- Zoepf, K. (2005). This doll has an accessory Barbie lacks: A prayer mat. *The New York Times* 22 September 2005, available at <http://www.nytimes.com/2005/09/22/world/this-doll-has-an-accessory-barbie-lacks-a-prayer-mat.html>