



**REVIEW OF THE  
BUSSINESS CASE  
FOR DIVERSITY**

Diversity is good for business—and leading consulting firm McKinsey & Co has got the numbers to prove it. Not only is it good from an ethical standpoint but also from the perspective of a company’s profitability.

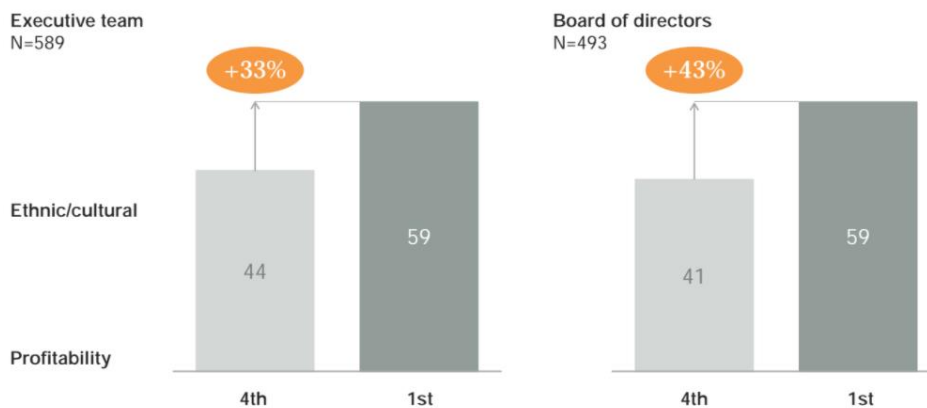
According to McKinsey’s report, “Delivering through diversity”, which defines diversity as a greater portion of mixed ethnic, gender and cultural composition, the more diverse the leadership team, the better the company’s financial performance. This latest study surveyed roughly 1,000 companies in 12 countries and looked at the profits and value created.

When it comes to diversity, companies in the top quartile for ethnic diversity in their executive teams are 33% more likely to outperform their industry financially with above-average profitability, as measured by earnings before interest and taxes (EBIT) margins.

The boost is even bigger for companies that have diversified their board of directors. An inclusive boardroom makes a company 43% more likely to return an above-average financial performance than those with the least ethnic diversity among executives.

### How ethnic diversity correlates with profitability

Likelihood of financial performance<sup>1</sup> above national industry median by diversity quartile  
Percent



<sup>1</sup> Average economic profit margin 2011–15 and average EBIT margin 2011–15

NOTE: Results are statistically significant at p-value <0.5

SOURCE: Company websites; McKinsey Diversity Matters database

The opposite holds true as well: companies that don’t value diversity are suffering financially for it. Companies in the fourth quartile of both ethnic and gender diversity are 29% more likely to underperform compared with their peers.

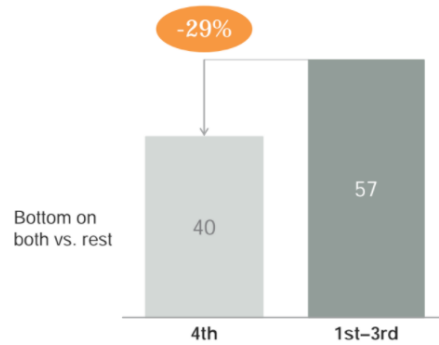
## How low gender and ethnic diversity correlate to poorer financial performance

Likelihood of financial performance<sup>1</sup> above national industry median by diversity quartile  
Percent

Executive team  
N=589

Gender and  
Ethnic/cultural<sup>2</sup>

Profitability



<sup>1</sup> Average economic profit margin 2011–15 and average EBIT margin 2011–15

<sup>2</sup> Executive gender diversity analyzed for 991 companies in all regions. For 589 companies with gender and ethnic/cultural diversity data, in all regions except Australia, France, Germany, India, Japan and Nigeria

SOURCE: Company websites; McKinsey Diversity Matters database

For the construction industry, progress is slow-going, even for companies making the most notable improvements, and executive leadership is often the least diverse area.

*“Our research confirms that gender, ethnic, and cultural diversity, particularly within executive teams, continue to be correlated to financial performance across multiple countries worldwide,”* McKinsey’s authors write in its study. It also notes that despite the proof, black executives continue to be underrepresented, especially in the line roles which could propel them to the CEO pipeline.

Despite it being a challenging goal to fulfil, *“multiple companies worldwide have succeeded in making sizable improvements to inclusion and diversity across their organizations, and they have been reaping tangible benefits for their efforts.”*

Similarly, another leading consulting firm, Boston Consulting Group, recently released its own report, *“How Diverse Leadership Teams Boost Innovation”*. It found a strong correlation between the diversity of a company’s leadership teams and innovation within the company that drives profits. Specifically, management teams with above-average diversity reported a higher percentage of innovation revenues—sales from products and services launched in the three years preceding the report.

Diverse companies also enjoyed better overall financial performance, with EBIT margins for those companies coming in at nearly 10 percentage points higher than for companies with below-average diversity on their management teams.

“Diversity offers organizations a wide range of benefits, and our analysis shows that having a more heterogeneous team can deliver measurable gains in innovation and financial performance,” said Rocío Lorenzo, a partner at BCG and co-author of the report, in a statement.

“Multifaceted teams offer a robust range of perspectives, and this allows organizations to formulate strategic solutions that can help them efficiently accomplish their goals, overcome challenges, and bring new ideas to the table.”

The BCG report surveyed employees at more than 1,700 companies in the U.S. and seven other countries across Europe, Asia, and South America. It looked at the management level for diversity across gender, age, nationality, career path, industry background, and education. The study also makes the case that even a small change in the makeup of the management team, or a couple of dozen people for a hypothetical company with 50,000 employees, can make a difference.

“Crafting a truly effective inclusion and diversity strategy is no small effort, and requires strong and sustained and inclusive leadership,” the report states. “But we, and many of the companies we studied in depth, believe the potential benefits of stronger business performance are well worth it.”

The importance of remaining agile and innovative in an increasingly dynamic business environment makes the potential plusses of increasing diversity all the more powerful.