

think:act CONTENT

Fresh thinking for decision makers

Diversity & Inclusion
too soft a subject? | Not
at all! | It's a practical,
hard financial factor that
drives tangible results |
Diversity and Inclusion
is a strategic issue that
belongs on every CEO's
agenda

Diversity

*is the state of being diverse –
a diverse company is better able
to understand the marketplace
and is better equipped to create
value from it.*



Inclusion

*An INCLUSIVE ORGANIZATION utilizes and values
its diversity by supporting the development of
the capabilities of all of its employees.*

Each employee has a distinctive set of competencies, values and aspirations for professional and private life. To attract and retain a diverse, talented workforce, companies need an inclusive environment.

DIVERSITY & INCLUSION

As CEO, surely you could be forgiven for seeing Diversity & Inclusion (D&I) as a bit of a soft issue, more political correctness than business concern, and, if anything, a topic for HR. Well, no. In fact, you would be neglecting a topic that drives tangible financial results and is a strong indicator of management and leadership performance. D&I is a strategic issue that belongs on the CEO's agenda.

D&I LEADERS OUTPERFORM THEIR PEERS

Diverse and inclusive companies clearly outperform their competitors on the hard financials. Studies have shown that they are 69% more profitable, realize a 35% higher return on equity and 34% higher total shareholder returns. Why is that? Certainly, such companies tap a wider pool of competencies and often have a more dynamic and creative environment. But the characteristics of diversity and inclusion are hard to measure, and views differ on what is cause and what is effect. It is therefore instructive to look at the (measurable) effect of D&I on the top and bottom lines.

TOP-LINE GROWTH	
<ul style="list-style-type: none"> ● Drives sales growth and wins market share in global markets ● Increases employee engagement and stimulates their creativity and drive ● Helps attract and retain (increasingly scarce) talent 	<ul style="list-style-type: none"> ● Increases access to capital markets by positively rating companies on indexes that are relevant to and rewarded by shareholders ● Mitigates compliance risk
BOTTOM-LINE RESULTS	

In its work with clients, Roland Berger Strategy Consultants has identified more than 40 major companies around the globe that prove these benefits are real. One of the largest diversified technology companies in the world used diverse employee groups to mirror customer segments and thus involve customer experience in product development – with marked results. For the Indian market, for example, team members that understood and identified with local customers worked with technology experts to design an electrocardiogram for remote medical treatment that fits into a physician's backpack. A telecom multinational, by utilizing its diverse workforce, realized several product innovations, including spoken text messages for the visually impaired. It also realized EUR 330 million in additional revenue by running marketing campaigns that emphasized how the diversity of its workforce and their competencies enabled it to find the best solutions to customer needs. A German producer of milling and drilling machines unlocked an annual sales potential of EUR 50 million through targeted customer marketing – by positioning its products with marketing campaigns and materials in Polish, it spoke to a major segment of its European market: Polish craftsmen. That is not theoretical, not "soft", not just politically correct, not "just HR". That is real business impact. That is CEO territory.

DIVERSITY&INCLUSION AS A SUCCESS FACTOR



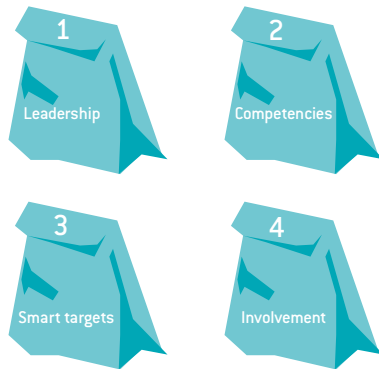
Source: Pepperdine University, Catalyst



REAL BUSINESS IMPACT

Our research confirms that D&I has real business impact

FOUR TAKEAWAYS - WHY D&I WORKS



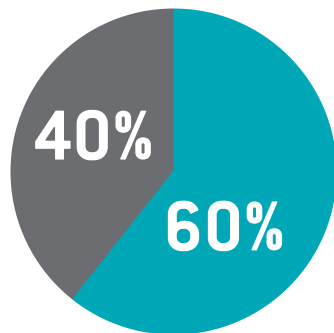
WHAT A CEO SHOULD KNOW – FOUR D&I TAKEAWAYS FOR YOU

Even if D&I belongs on the CEO's agenda, that agenda is invariably crowded. We have therefore summarized what we have learned in four takeaways –why D&I works [1], how it works [2], what it aims for [3] and how to measure, understand and improve it [4]. These takeaways bring together our insights, but also helpful tips and tools for the CEO who wants to make D&I work for his or her company.

1. D&I IS A KEY INDICATOR OF LEADERSHIP AND MANAGEMENT PERFORMANCE

Why can D&I deliver the benefits described above? As CEO, you make the best possible use of all assets at your disposal – capital, production assets and human capital. Each is monitored and controlled through key performance indicators such as turnover, market share, brand recognition, operating margins, utilization, incident and injury rates, cash flow, working capital and return on investment. We assume that success on such metrics means that the people responsible are doing a good job, but up to now there was no way to measure management and leadership performance itself. With D&I, this has changed. D&I is a good proxy for the quality of your management and leadership pool. Not because minorities in your workforce are in some way better at their jobs, but because D&I removes gender, social, ethnic, religious, physical ability and other biases from your appraisal and promotion processes. As a result, you will consistently appoint the best people to the positions they are most suited to. And the best people will bring you superior performance. D&I is not just a social measure to emancipate. It is a business measure of performance.

MOST COMPANIES ALREADY SEE DIVERSITY AS MORE THAN JUST A QUESTION OF NATIONALITY AND GENDER



Roland Berger interviewed 70 leading companies on Diversity&Inclusion worldwide

Source: Roland Berger Study

2. D&I IS ABOUT MORE THAN GENDER, AGE AND NATIONALITY – IT IS ABOUT COMPETENCIES AND VALUES

Influenced by politics and pressure groups, many companies limit their diversity efforts to gender, age and nationality. Roland Berger interviewed 70 leading companies around the globe and found that over 40% focused exclusively on these areas. The 60% majority, however, saw diversity as a wider issue that included competencies, ways of working and mindsets.

In our experience, focusing on visible indicators of diversity (gender, age, ethnicity, physical ability) can be a good first step towards a competency approach to diversity that is more successful in the long run.

But D&I encompasses more than this. Global competitiveness increasingly depends on winning the war for talent. Yet talent is scarce and, at least in Europe, the (white, male) workforce is shrinking. Companies must expand their sights to other talent pools: women, seniors, ethnic minorities and others. European workforce shortages would fall by 21 million full time equivalents if the participation of women equaled that of men. More women graduate in Western countries than men, in science and engineering, and overall. Science and engineering graduates in China and especially India far outnumber those in the US and Europe. But casting your nets wide can be inefficient, especially if you are looking for specific sets of competencies. In Germany, Roland Berger assessed the competency sets of 2,000 students at high profile universities and 160 young professionals to derive 12 talent segments. Each segment

has a distinctive set of competencies, values and aspirations for professional and private life. Our "RB Profiler" offers you insight into the people with the competencies you are looking for and what attracts them to a prospective employer.

"Janin", for example, is a typical representative of the talent segment sustainable innovators: she is female, studies mathematics, has an analytical and innovative way of thinking, but does not work well in teams or in international settings. Her employer of choice is a large company near her hometown as she values security and being close to family and friends. She is not interested in a career that involves several international postings, so to recruit her, your company must make her a different proposition. Talent segment profiles are invaluable tools that will help your company find and recruit people with the competencies and values you need.

To attract and retain a diverse, talented workforce, companies need an inclusive environment. More than anything, inclusion is an enabler that brings out the best in people. A company's values, culture and leadership behavior are the foundations of inclusion. For example, if heavy workloads and poor work-life balance drive away talent segments crucial to the company, active promotion of flexible working models by role models in management may help. A cultural profiler can enable companies to optimize their cultures and values, spot mismatches with talent segments and identify areas for improvement.

3. QUOTAS DON'T WORK – SMART TARGETS FOR EVERYONE DO

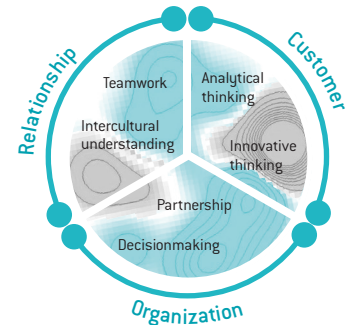
In many European countries, politicians and pressure groups are calling for quotas, mainly in the share of women in management and board positions. These quotas are either mandatory targets, as in Norway, or voluntary ambitions, as in the Netherlands. However, our interviews with 70 companies worldwide suggest that quotas do not work and are often even counterproductive. Most companies (70%) cite risks of "positive discrimination" and a loss of meritocracy.

Quotas put the cart before the horse. They try to enforce outcomes rather than remove barriers. There is nothing worse than ambitious targets that are unattainable. To meet quotas, you end up promoting people beyond their capabilities and both they and your business will suffer. It is better to set realistic and smart targets for everyone. The choice for one or the other depends on the company, but a combination of both is typically best.

1. REALISTIC TARGETS: Realistic targets take into account industry characteristics such as heritage, business model and geographic footprint. Targets also need to be practical in terms of promotion schedules and timelines. A target of 30% women or non-Westerners in top management positions sounds great, but if you currently have less than 20% of that minority in middle management, it is a self-defeating goal. And in many industries, lateral hiring for top positions produces mixed results at best.

2. SMART TARGETS: Smart targets tackle root causes. For example, in some companies you need international experience to advance to the top. A smart target in this case would be one that ensures that all high potentials are supported in pursuing international positions –

OUR RB PROFILER IDENTIFIES 12 DISTINCT TALENT SEGMENTS



The RB Profiler offers you insights into the people with the competencies you are looking for and what attracts them to a prospective employer

Source: Roland Berger

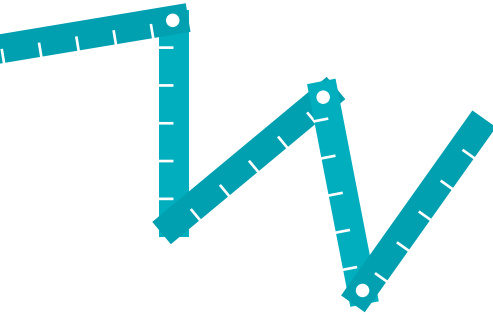
QUOTAS DON'T WORK

70%

of all companies interviewed cite the risk of "positive discrimination" and a loss of meritocracy

Source: Roland Berger Study

**FIRST STEP:
MEASURE YOUR COMPANY AND BUILD
AWARENESS**



Map out the competency sets of your current management to identify specific strengths and stereotypes which are over-represented

through language courses or helping them find jobs for their spouses and schools for their children. Such support must be equally available to all. If some benefit more than others, it is not because they receive special treatment but because they are no longer disadvantaged by the barrier now removed.

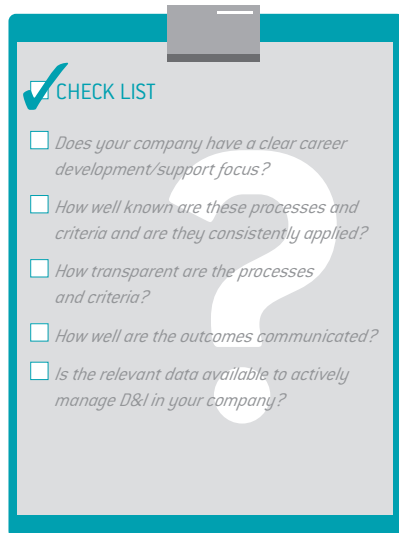
Realistic, smart targets thus make for a level playing field and have three important advantages: (1) they are more readily accepted than pure minority quotas, especially if these are not realistic; (2) they target root causes rather than outcomes and so actually make a difference; and (3) they eliminate factors that obscure merit and ability and so ensure that the best people are appointed to the right positions.

4. BOTTOM-UP INVOLVEMENT OF SENIOR AND MIDDLE MANAGEMENT ENSURES SUCCESS

As our discussion of quotas illustrates, D&I will not work if enforced from the top down. True change needs to be accepted and supported throughout the organization. Senior and middle managers play a pivotal role. A board that decides to make D&I a company priority should engage them from day one and involve them in building the case in three simple steps:

1. MEASURE – to create awareness. Map out the competency sets of your current management to identify specific strengths and stereotypes which are over-represented. Metrics include the share of focus groups (women, non-Westerners, etc.) in middle, senior and top management relative to the total workforce and internal and external benchmarks. Split these into specific job types (e.g. technical, financial) or compare them to revenue breakdowns by country. Look at the evolution of the numbers. Has the competency set of your management remained unchanged for the last five years? Is there a sharp drop of the focus groups above a certain level? Has the pipeline of high potentials developed? What about the distribution of entries, exits and promotions? In our experience, such analyses inevitably lead to the question: “Why is my company’s D&I the way it is and how can we improve it?”

**SECOND STEP:
UNDERSTAND YOUR ROOT CAUSES**



2. UNDERSTAND – to create a sense of urgency and readiness for change. Understanding “why” is the key to the entire process. It requires getting to the bottom of the underlying ambitions and habits of your people, your company and the industry’s culture, formal and informal processes in the organization, written and unwritten rules and overall transparency. There you will find the root causes behind (lagging) D&I. These root causes can be explored through hard data – for example, by analyzing the career paths of top managers to determine through what business units, functions or regions they advanced and find patterns that may explain why they progress and others do not. But the most important insights are derived from standardized, anonymous, in-depth interviews with employees at all levels. Find out why they feel (less) included, what barriers they see and what they think causes such barriers, how transparent and fair they perceive promotion processes to be, what they think of the work-life balance, etc. What your people have to say will give you the best insights into the root causes behind your company’s D&I performance. We have learned that a few quotes from employees are often more striking than a hundred “hard” analyses.

3. IMPROVE – to create action. With awareness and a sense of urgency in place, you should offer managers suggestions on how to improve D&I. Many examples are available from stu-

dies and other companies. Perhaps your own company even has best-practice examples that are worth implementing on a company-wide scale. One simple, but very effective, action is to provide English-language courses for all employees beyond a certain job level. A lack of English proficiency holds back many (non-Western) employees. Using our competency profiler, a company could also customize and focus recruitment efforts based on the talent profiles. An annual strategy retreat with the board gives high potentials nominated by their BU, division, function or region visibility and allows them to network with top management and their peers. Often minority talents do not get noticed because they do not move in the right circles or put themselves out there. As our examples of successful D&I companies show, this annual retreat may also contribute directly to fresh ideas that boost the company's performance. A company could also sponsor a program that helps young parents manage family life and careers – for example, by helping them get into childcare facilities with flexible hours close to work or by arranging household support in case of last-minute business travel. Companies could even go so far as to physically relocate BU or functional headquarters to emerging regions to increase diversity in the company – and win share in growth markets. Whether simple or far-reaching, these are all realistic and smart targets that tackle root causes rather than regulate outcomes. The root causes will always be the best indicator of what and how to change. A balanced set of such actions eventually forms your strategic HR agenda for the years to come.

HOW TO MAKE D&I A SUCCESS

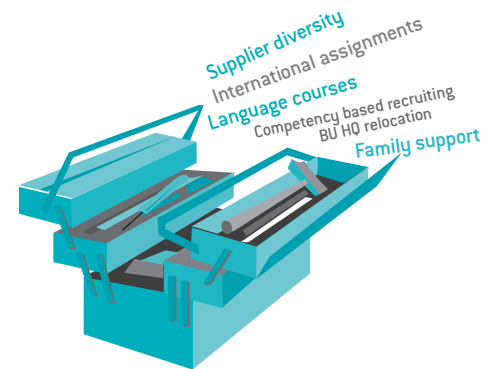
There is no single way to build a more diverse and inclusive company. Each organization must find an approach uniquely suited to its specific situation and needs. However, in our work with and research on D&I leaders around the globe, we have found that (in addition to our takeaways) most successful D&I initiatives have four things in common:

4 STEPS TO MAKING D&I A SUCCESS

1. Focus on inclusion as well as diversity in a broader sense – to help retain and motivate a diverse employee pool;
2. A dedicated project team with a close link to the business – to support and facilitate "yet another" initiative on top of daily business and to underline that diversity is more than HR;
3. Strong board commitment – to drive change that will only come if leaders are visibly committed and set the right example;
4. Extensive change management and communication programs – to make it happen and to stay the course. Do not expect major results within the year.

In our ever-diversifying world, D&I is a strategic issue that belongs on the CEO's agenda. D&I is tangible, measurable and actionable, and it has real impact on revenue, profit and shareholder value. D&I can no longer be seen as a soft, politically correct HR topic. With its ability to measure and drive performance, D&I is a topic of competencies and values rather than (just) gender and nationality. Set realistic and smart targets instead of (just) quotas, involve your senior and middle management, and make the cultural change. Join the ranks of leaders that consistently outperform their competition.

THIRD STEP: PROACTIVE IMPROVEMENT



Our proven action catalogue contains more than 80 D&I measures

IF YOU HAVE FURTHER QUESTIONS, PLEASE FEEL FREE TO CONTACT US:

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