

# Meeting the Inclusion Imperative

How leaders can link diversity, inclusion, and accelerated performance



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# Executive summary

Fifty years or more of corporate efforts to build diverse workforces—and at least a decade of trying to ensure diverse employees feel included and able to contribute—have left most corporate leaders frustrated. Both diversity and inclusion have been harder to achieve than anyone expected, while the evidence mounts that companies that get them right can see a significant improvement in performance, including financial performance. However, too few companies are seeing their efforts to improve diversity and inclusion (D&I) pay off, and most are wondering how to move forward.

New research from Heidrick & Struggles defines the size of the gap between corporate efforts to ensure employees feel included and the perceived contribution of D&I to business

success—and identifies a group of companies closing the gap that we call the D&I Vanguard. Notably, the companies in this group have also generated a five-year revenue compound annual growth rate (CAGR) 62% higher than that of the other companies in the survey.

Given that many companies are finding it hard to make progress on diversity alone, the Vanguard group's achievements are well worth celebrating and exploring. And their actions suggest a way forward for other leaders seeking to improve D&I overall, inclusion specifically, and business performance, by creating organizations where inclusion and business strategies are intertwined, mutually reinforcing and amplifying the success of both.

## Getting to the D&I Vanguard

Share of most companies saying their D&I efforts contribute to business success to a large extent

**19%**  
5-year revenue CAGR  
1.24%



**Leaders have clearly:**  
Defined "D&I"  
Communicated the company's approach to D&I  
Defined why D&I is strategically important



**The company more often than others:**  
Includes specific D&I goals in business strategy  
Assesses its progress toward D&I goals specifically for contributions to financial performance  
Feels inclusive



Share of **D&I Vanguard** companies saying their D&I efforts contribute to business success to a large extent

**33%**  
5-year revenue CAGR  
2.01% (62% higher)

# Getting more from inclusion

Most business leaders are aware that culture matters, for many reasons.



When companies build diverse workforces and then get inclusion right, they can gain a crucial competitive edge in today's volatile, fast-changing environment, in which creative approaches to new challenges and opportunities, and agility, are essential to success.

One edge, of course, is financial. Mounting evidence from a number of highly respected sources—including McKinsey & Company, the Peterson Institute for International Economics, and the *Wall Street Journal*<sup>1</sup>—continues to reinforce the fact that there are strong correlations between various types of diversity among organizational leaders, as well as employees at all levels, and improved financial performance. Some work also shows that inclusion itself can make a financial difference,

such as one study showing that organizations with inclusive cultures are twice as likely as others to meet or exceed their financial targets.<sup>2</sup>

Other work by Heidrick & Struggles may suggest one reason for this: we've found that employees at companies that are better at setting a strong, clear purpose assess their organization's performance as twice as strong as do people at organizations where purpose is less clearly defined and integrated.<sup>3</sup> For some companies, consistently improving financial performance may be purpose enough, but, increasingly, as customers and potential employees around the world vet companies, they are expecting D&I to be a central tenet of an organization's ethos. And such reputation and talent considerations should, in turn, elevate D&I's importance for all executives.

Leaders are investing in D&I. But even after decades of setting high goals for diversity, and years of introducing all kinds of inclusion efforts, few companies are viewed as truly diverse, let alone inclusive in the ways that enable all employees to contribute fully.

The Heidrick & Struggles survey at the core of this paper—the first step in a long-term research program that will also include in-depth interviews with senior executives from around the world and insights from our work with clients—quantifies the gap between good intentions and hard results and suggests a way to make meaningful progress across this divide (see sidebar, "About the survey," for more details).

1 See Vivian Hunt, Lareina Yee, Sara Prince, and Sundiatu Dixon-Fyle, *Delivering through Diversity*, McKinsey & Company, January 2018, mckinsey.com; Marcus Noland, Tyler Moran, and Barbara Kotschwar, "Is gender diversity profitable? Evidence from a global survey," Peterson Institute for International Economics, February 2016, piie.com; and Dieter Holger, "The business case for more diversity," *Wall Street Journal*, October 26, 2019, wsj.com.

2 Juliet Bourke, *Which Two Heads Are Better Than One? How Diverse Teams Create Breakthrough Ideas and Make Smarter Decisions*, Sydney, Australia: Australian Institute of Company Directors, 2016.

3 Alice Breeden, Becky Hogan, and TA Mitchell, "Bringing your organization up to speed," Heidrick & Struggles, September 12, 2019, heidrick.com.

The executives who responded to the survey are optimistic that companies will expand their D&I efforts yet skeptical of real change in how much effect this will have on business performance. This suggests that there's a reservoir of good will about D&I efforts that leaders can draw from if they find ways to build the links between D&I and contributions to business success. Following are some highlights of our findings:

- Ninety-four percent of respondents say their company's leaders have defined why D&I is strategically important to their organization.
- But only 27% say their companies are inclusive "to a large extent" today, and less than a quarter say they're seeing a large contribution to their business success as a result of D&I efforts.
- Nonetheless, over the next three years, almost all expect their companies will broaden their definitions of diversity, more often have formal strategies to create an inclusive workplace than they do today, and more often be assessing their progress toward D&I goals for contributions to financial performance than they do today. And 59% expect their companies to be largely inclusive three years from now.
- However, the share expecting to see D&I make a large contribution to business success three years from now rises by only four percentage points, to 26%.

This gap between more action on D&I and yet little expectation of change in business contribution is where many leaders are stuck. Why does the gap exist? Our survey suggests that most companies don't treat either diversity or inclusion with the same level of rigor as companies treat efforts they consider truly strategic, such as by assessing D&I's contributions to the company's financial success or consistently linking compensation to progress on D&I goals.

The survey also shows that when companies have added business-specific rigor to their D&I efforts by building more and stronger links among those efforts, business strategy, and financial metrics—and when they are largely succeeding with inclusion today—executives far more often think D&I efforts will make a large contribution to business success. Twenty percent of companies we surveyed are in a group we call the D&I Vanguard, which, according to the survey, is out in front in all those areas, not only in defining diversity and inclusion and communicating the company's approach and D&I's strategic importance, but also in linking D&I to business strategy, assessing efforts for contributions to financial performance, and creating inclusive workplaces.

## About the survey

Our survey explores how executives currently think about D&I and how clearly their companies have been defining and communicating D&I goals, linking them to strategy, assessing their contribution to business results, and creating an inclusive culture.

- **Number of respondents:**  
412, from 412 public and private companies, reached through a survey conducted online and by telephone in August–September 2019
- **Level of seniority:**  
30% C-suite  
33% vice president  
37% director/manager
- **Countries included:**  
Australia, Canada, France, Germany, Mexico, Spain, the United Kingdom, the United States
- **Number of operational regions:**  
54% of companies in the survey are operating in three or more regions of the world
- **Company size by annual revenue:**  
51% \$1 billion–\$10 billion  
49% above \$10 billion
- **Gender:**  
76% male  
23% female  
1% nonbinary
- **Race and ethnicity:**  
68% Caucasian  
32% people of color and/or other
- **Diversity in the C-suite:**  
15.5% of respondents are diverse (women and/or people who identify as a racial or ethnic minority) and in the C-suite
- **The D&I Vanguard group:**  
The 20% of companies surveyed that are clearly defining D&I goals, communicating about them, linking them to business strategy, assessing progress toward D&I goals specifically for contributions to financial performance, and most often find their company currently inclusive

### Inclusion expected to increase, but less confidence in contribution to business success

■ Today ■ Three years from now

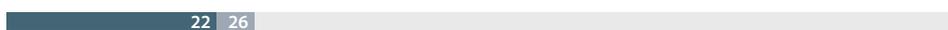
#### Inclusiveness

How inclusive, if at all, do you personally consider your company to be today? Three years from now?  
(% To a large extent)

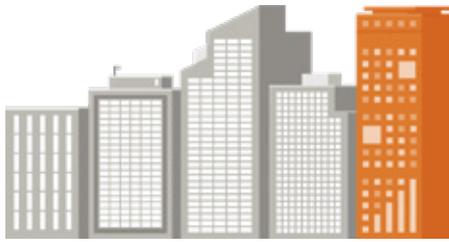


#### D&I's perceived contribution to business success

Separate from any formal assessment of diversity and inclusion efforts, how much, if at all, do you think your company's efforts have contributed to its business success? Three years from now?  
(% To a large extent)



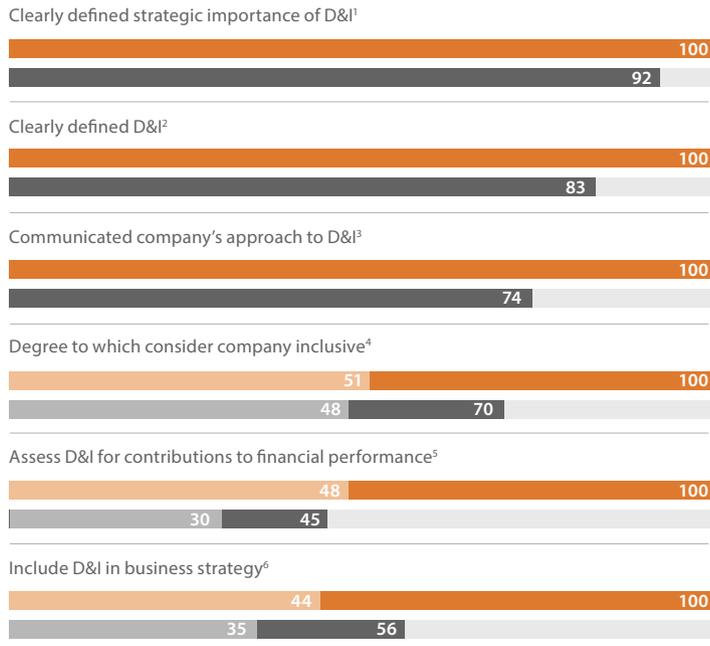
Source: Heidrick & Struggles' diversity and inclusion survey, August–September 2019, n = 412 executives



20% of companies we surveyed are in a group we call the D&I Vanguard

### What it takes to be in the Vanguard

D&I Vanguard    % Somewhat    % Yes/To a large extent  
 Other companies    % Somewhat    % Yes/To a large extent



Must choose "To a large extent" for at least one of these three questions

Note: This chart includes data from the following survey questions:

- 1 Have your company's leaders clearly defined why diversity and inclusion is strategically important to the company?
- 2 Have your company's leaders clearly defined the term "diversity and inclusion"?
- 3 Have your company's leaders clearly communicated the company's approach to diversity and inclusion to the whole company?
- 4 How inclusive, if at all, do you personally consider your company to be today?
- 5 To what extent, if at all, is your company's progress toward its overall diversity and inclusion goals assessed specifically for contributions to financial performance?
- 6 To what extent, if at all, does your company include specific diversity and inclusion goals in each of the following types of strategies?

Source: Heidrick & Struggles' diversity and inclusion survey, August–September 2019, n = 412 executives

The survey shows that these companies also focus specifically on inclusion more intensively and formally than do other companies in the survey. Notably, the companies in the D&I Vanguard show higher revenue growth relative to other companies in the survey over both three- and five-year periods: the three-year revenue CAGR for the Vanguard group is 5.36%, and for the others is 4.55%. Over a five-year period, the Vanguard's revenue CAGR is 2.01%, and the others' is 1.24%.<sup>4</sup> For a hypothetical company with \$10 billion in revenue at the beginning of the five-year period, this would suggest \$410 million in additional revenue over those years.

While diversity is important for several reasons, many companies are finding it hard to make progress on diversity alone. Thus the D&I's Vanguard's emphasis on inclusion is well worth exploring in detail, and that's why—as crucial as the numbers are—we've chosen to focus more in this report on what it takes to achieve meaningful inclusion. The Vanguard's intentional and consistent actions suggest a way forward for other leaders seeking to more often see their D&I efforts contribute to business success.

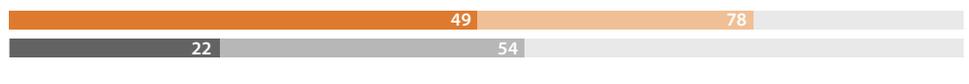
<sup>4</sup> According to Heidrick & Struggles' analysis of financial data on the companies responding to the survey, which was collected by a third party and provided to Heidrick & Struggles anonymously.

### The Vanguard difference

D&I Vanguard    Now    Three years from now  
 Other companies    Now    Three years from now

#### Inclusiveness

How inclusive, if at all, do you personally consider your company to be today? Three years from now?  
 (% To a large extent)



#### D&I's perceived contribution to business success

Separate from any formal assessment of diversity and inclusion efforts, how much, if at all, do you think your company's efforts have contributed to its business success? Three years from now?  
 (% To a large extent)



Source: Heidrick & Struggles' diversity and inclusion survey, August–September 2019, n = 412 executives

# The state of D&I efforts today

To understand what the Vanguard companies are doing differently, it's important to have the overall context.



The majority of survey respondents overall—86%—say their company's leaders clearly define D&I, and virtually all respondents, 94%, say their companies have a formal strategy to create an inclusive work environment at some level—team, national, business unit or functional, or global. Yet only 27% say their company is inclusive “to a large extent” today, and a further 49% say it’s “somewhat” inclusive. Our experience suggests that while definitions and strategies for D&I are far more prevalent than they were even a decade ago, most still fall far short of committing to the breadth of change necessary to fundamentally shift an organization.

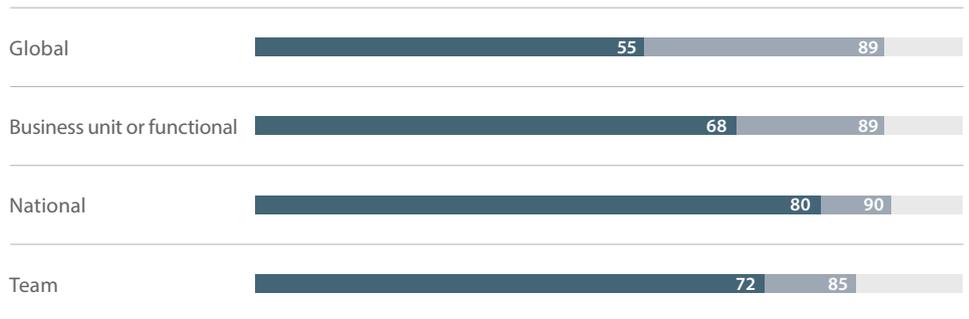
Nonetheless, most leaders we surveyed believe that, in three years, their companies will have further formalized such strategies across all levels of their organization. And, as we noted, 59% expect their companies to be inclusive “to a large extent” three years from now.

## More formal inclusion strategies expected at every level

*Does your company have a formal strategy to create an inclusive work environment for all employees at each of the following levels? Three years from now, do you expect your company to have a formal strategy to create an inclusive work environment for all?*

(%)

■ Now    ■ Three years from now



Source: Heidrick & Struggles' diversity and inclusion survey, August–September 2019, n = 412 executives

Our survey also quantifies the widely acknowledged belief that, despite ongoing efforts, the needle barely seems to budge in terms of ensuring D&I contributes to organizational effectiveness and business results.

Indeed, respondents don't expect much in the way of D&I translating into concrete business results. Only 22% of all respondents say their company's D&I efforts are contributing to its business success "to a large extent" today, with that number inching up to only 26% three years from now.

Why? The survey findings suggest two reasons. First, D&I efforts are rarely held to the same standards, or subjected to the same follow-through, as core strategic priorities: while 49% of respondents say their company's inclusion efforts are "to a large extent" explicitly linked to specific strategic goals, only 28% say that "to a large extent" the company includes specific D&I goals in its business strategy—and only 22% assess these D&I efforts "to a large extent" based on their contribution to financial performance.

Of course, there is no simple, single metric with which to assess D&I contributions to financial performance. Companies are trying, tracking links among diversity and innovation (driven by better market knowledge and by having access to a broader range of experience); employee attraction, retention, and engagement; better team dynamics; and a range of other factors. So the fact that nearly a quarter of the companies we surveyed say they are finding ways to do so is, in fact, a hopeful sign.

Second, looking at how companies describe inclusive workplaces and cultures, the survey suggests many are still focused on the basics of making diversity work, not on ways that true inclusion can contribute to business success. For example, companies most often focus on factors such as creating an atmosphere in which employees do not experience harassment (35% say this is a main focus), rather than on factors such as regularly communicating about the strategic importance of D&I (28%, statistically significantly lower than 35%) or

ensuring employees feel aligned with the company's purpose (22%). Certainly, aspects of inclusion such as not experiencing harassment are crucial, but their relative importance over factors that, other Heidrick & Struggles work shows, connect more directly to business performance is notable and suggests how far many companies have to go.<sup>5</sup>

Much of this may be the result of D&I efforts having often been isolated in the HR department rather than being a focus of the most senior corporate leaders, as some studies suggest—or it may simply be that companies can consider only a few priorities at the core strategic level, and most don't include D&I. Whatever the reasons, turning to what the companies in the Vanguard group are doing differently than others in the survey suggests steps that can help leaders make up the difference between the ambitious degree of inclusion most executives expect in their organization three years from now and their lack of confidence in D&I's contribution to their business success.

<sup>5</sup> Alice Breeden, Becky Hogan, and TA Mitchell, "Bringing your organization up to speed," Heidrick & Struggles, September 12, 2019, [heidrick.com](https://heidrick.com).

Many companies are still focused on the basics of making diversity work.



# Shifting the trajectory: Enter the D&I Vanguard

The companies in the D&I Vanguard group are more often aligning D&I goals with those of the business and holding progress toward those goals to a financial standard, according to our survey.

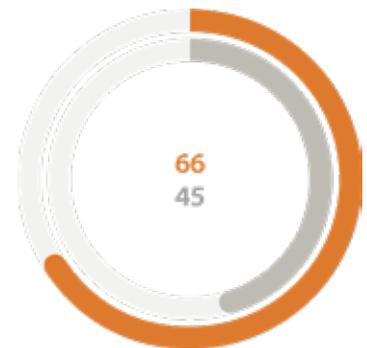


Companies in the Vanguard significantly more often take formal steps to build inclusion specifically (not only diversity) and to link D&I to business strategies. Furthermore, the more often they report that they take these steps “to a large extent,” the more often they report that D&I is a large contributor to their business success. And there is a marked difference in the degree of that business success: the five-year revenue CAGR of companies in the Vanguard group is 62% higher than that of the other companies in the survey. The Vanguard group’s better-defined approach and more impressive results merit a closer look at what specifically they are doing differently, both strategically and tactically.

## Formal links to business strategy, with clear objectives

Simply to be among the 20% of survey respondents that form the Vanguard group, respondents had to say that their companies are clearly defining D&I goals and communicating them to the organization, as well as that they “somewhat” or “to a large extent” link those goals to the business strategy, assess D&I efforts based on their contribution to financial performance, and have an inclusive environment today.

Beyond these efforts, it’s particularly notable that most companies in the Vanguard group focus specifically on how inclusion can contribute to strategic goals: 66% of the Vanguard respondents say that, “to a large extent,” their companies’ inclusion efforts—formal or informal—are explicitly linked to specific business strategic goals—a statistically significantly higher share than the 45% of other respondents.



Most companies in the Vanguard group focus specifically on how inclusion can contribute to strategic goals: 66% versus 45% of other respondents.

## Greater inclusion for business impact

D&I Vanguard companies also more often define “inclusive workplaces” and “inclusive cultures” in specific ways that leverage the broader benefits of inclusion, such as ensuring diverse voices are heard and recognizing contributions of people from diverse backgrounds. And, perhaps in part because they so often link inclusion efforts to specific strategic goals, Vanguard companies also statistically significantly more often than other companies have formal strategies to create inclusive work environments at the national and team levels; indeed, 83% of Vanguard companies have such strategies at the team level compared with 69% of other companies.

That is important because, even though we view inclusion as a leader-led process, it takes leaders at all levels—inclusion becomes operational and meaningful when people understand how it affects the work they do every day. In that context, it’s particularly notable that survey respondents from companies in the D&I Vanguard most often view D&I efforts as contributing to business success by increasing employee engagement, at a statistically significantly higher level than respondents at other companies.

## Links to compensation

It’s a truism, but also a fact of organizational life, that what gets rewarded gets done. In our experience, linking compensation to progress on D&I can be tricky to manage in the absence of a strong business case. However, the Vanguard companies—which more often report overt links between D&I efforts and business strategy—also statistically significantly more often than other respondents say compensation is tied to progress toward diversity and inclusion goals across the organization.<sup>6</sup> Forty-three percent of Vanguard companies tie individual compensation to progress toward D&I goals—a clear way to highlight to individual leaders the importance of D&I efforts to the company.

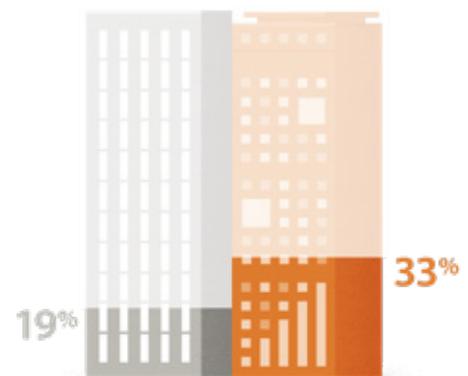


<sup>6</sup> The only exception is at the national, or country, level; the Vanguard group does more often tie compensation to progress toward D&I goals at that level, but the difference with other companies is not statistically significant.

## More and more and more

When we correlated what survey respondents said about their D&I best practices—clearly defining and communicating D&I goals, linking those goals to business strategy, assessing progress specifically for contribution to financial success, and achieving a relatively high degree of inclusion—with perceived business impact, we observed positive reinforcement. The greater the number of best practices followed and the greater the degree of adherence to these practices (whether “minimally,” “somewhat,” or “to a large extent”), the greater the reported contribution from D&I efforts to business success.

Almost all of the small subset of the Vanguard group whose companies integrate all best practices “to a large extent” and have achieved inclusion “to a large extent” also see a large contribution to business success from D&I efforts. Making up a third of the full Vanguard group, companies that integrate all best practices “to a large extent” and have achieved inclusion “to a large extent” or “somewhat” see a large contribution to business success. And those companies outside the Vanguard group, which integrate best practices “somewhat” at best, least often see D&I making a contribution to business success, at just 19%.



# Inclusion imperatives for leaders

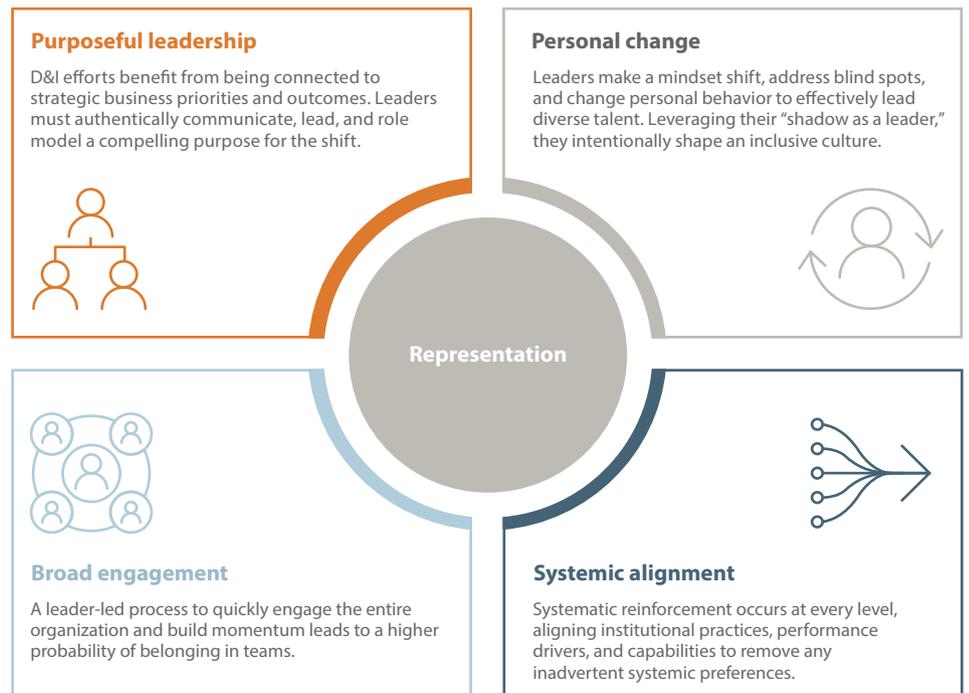
While the companies in the D&I Vanguard seem to be headed in the right direction, there is clearly room for improvement.



Despite their progress, it's notable that only one-third of the Vanguard see a large contribution from their D&I efforts to business success today. What can leaders at these companies—and indeed those at any stage of progress on D&I—do to ramp up their diversity and inclusion efforts and build the critical bridges to business performance? Heidrick & Struggles' 40 years of experience with building winning teams and winning cultures, combined with our long-standing commitment to helping companies build diverse leadership teams, suggest leaders should focus on five areas, as shown at the right.

The work starts with leaders building diversity at all levels—focusing on representation in alignment with the strategy—and, in particular, fostering promotion and retention among diverse employees to ensure more of them reach the executive ranks. By any measure, there are still far too few diverse senior executives.<sup>7</sup> That matters in itself—and also because any major organizational change starts at the top. Leaders should set big goals for diversity, aligned with their organizational purpose and business strategy.

## Focus areas for team and culture inclusion efforts



<sup>7</sup> For more on diversity in the top role, see *Route to the Top 2019*; and for more on diversity in the boardroom, see *Board Monitor US 2019*, *Board Monitor Europe 2019*, *Board Monitor Australia & New Zealand 2019*, *Board Monitor Canada*, *Board Monitor Hong Kong*, and *Board Monitor Singapore*; all are available on [heidrick.com](http://heidrick.com).

Building the bridge from diversity in numbers to inclusion must usually include personal change: leaders themselves becoming more inclusive. A recent Heidrick & Struggles analysis of the behaviors of more than 2,200 organizational leaders shows that inclusive leaders—those who seek out and value individuality to gain different perspectives, create a sense of belonging for all team members, and build deep alignment on a clear purpose—are also seen as meaningfully improving both their colleagues’ work and their own overall impact.<sup>8</sup> For many leaders, getting better at all these behaviors will take some significant commitment to personal change.

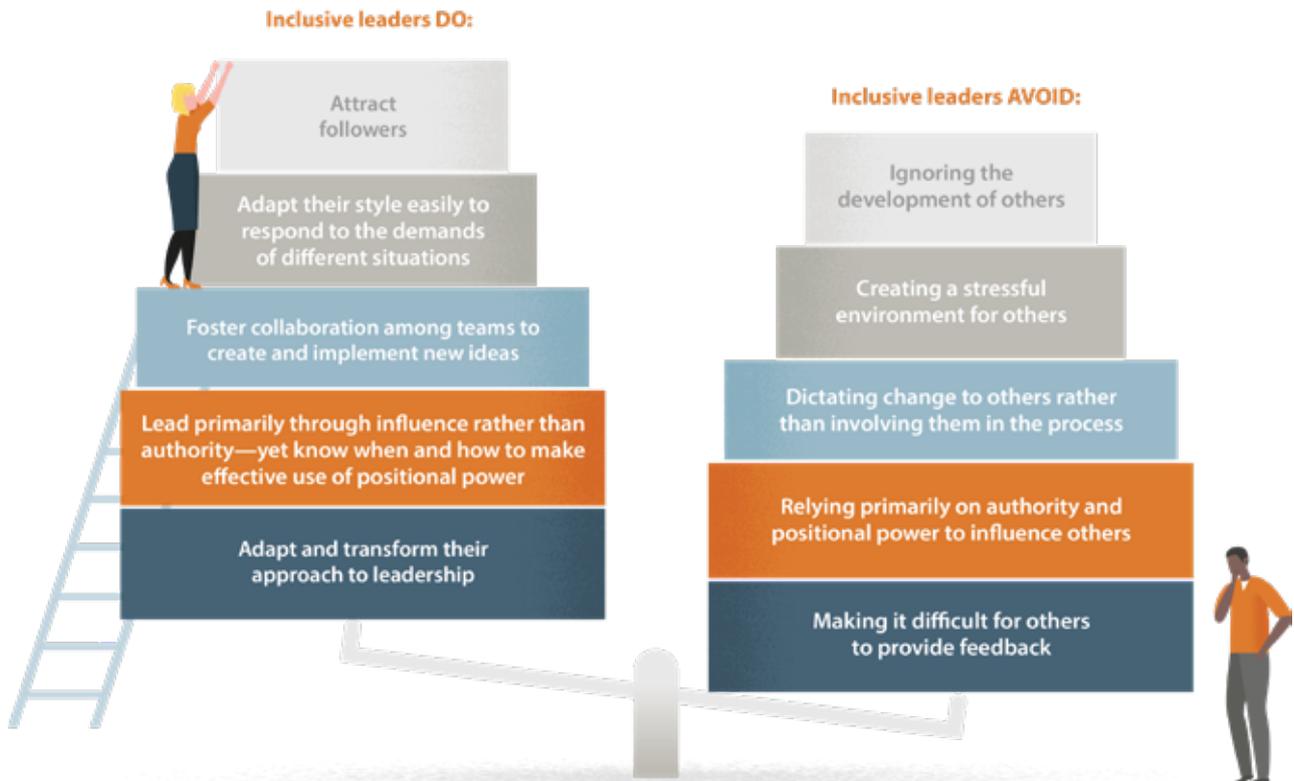
In our survey, we focused most on areas that relate to broad engagement and systemic alignment. Given the power the survey suggests of taking all of the Vanguard actions “to a large extent,” we suggest leaders also bolster organization-wide efforts in all the areas central to being in the Vanguard: defining and communicating D&I and why it matters to the business strategy, linking D&I goals to the strategy, assessing D&I efforts based on their contribution to financial performance, and creating an inclusive environment (this last point, of course, is a central goal of our entire approach). Taking coordinated actions in all these areas should, we expect, help leaders to cross the gap between the large increase in D&I efforts that survey respondents expect and the relatively small increase in business impact they currently expect.

We suggest leaders also bolster organization-wide efforts in all the areas central to being in the Vanguard: defining and communicating D&I and why it matters to the business strategy, linking D&I goals to the strategy, assessing D&I efforts based on their contribution to financial performance, and creating an inclusive environment.

<sup>8</sup> See Karen Rosa West and Megan Herbst, “What inclusive leaders do—and don’t do,” Heidrick & Struggles, April 27, 2020, heidrick.com.

## Moving toward inclusion

Our work shows that



# Defining D&I

As leaders define what D&I means for their organizations, they should do so in the context of the capabilities they will need to win with their business strategy.



Other work by Heidrick & Struggles suggests leaders should think about D&I from two perspectives: 1) where including diverse perspectives will improve strategy, foresight, or innovation, and 2) how improving their attraction and retention of diverse individuals will help them stay ahead overall in a highly competitive talent market.

Coles Group, an Australian retailer, has defined its purpose as “to sustainably feed all Australians to help them lead healthier, happier lives.” In pursuit of that purpose, the company started by ensuring its workforce included the same representation of Australian First Nations people as the Australian population, at 3%. Coles achieved that target in half the time it had allowed—and it also became the largest private

employer of First Nations people in the country. Now, with a strategic focus on regional and rural communities, the company has reset its goal for First Nations people in its workforce at 5% and is working to ensure that 3% of the company’s leadership is of First Nations background.<sup>9</sup>

Leaders also need to understand how D&I improves business performance as they seek to define its strategic importance and link it to business strategy. This is a vexed issue, and some leaders remain unconvinced of any specific link. In our survey, when respondents say D&I contributes to their business success, they most often say it’s by ensuring their companies are able to transform to meet changing market conditions and ensuring they have inside knowledge of customers’

interests—both areas in which understanding diverse perspectives is important.<sup>10</sup> In that context, it’s notable that Vanguard companies stand out in the degree to which they have formal inclusion strategies at all levels of the organization and link inclusion efforts, formal or informal, to specific strategic goals.

One example of a company that defined D&I and linked it directly to business performance is Procter & Gamble. P&G drew on an internal team of African-American scientists to develop new lines of hair care products aimed at African-American consumers, launched in 2017 and 2019. In fiscal year 2019 alone, the company saw 5% growth in organic sales of the products.<sup>11</sup>

<sup>10</sup> Both of these factors are key to innovation and are important elements of Heidrick & Struggles’ model for accelerating organizational performance overall, contributing both to the ability to transform through innovation and to build agility through spotting opportunities and threats and adapting to them. The model was first described in Colin Price and Sharon Toye, *Accelerating Performance: How Organizations Can Mobilize, Execute, and Transform with Agility*, Hoboken, NJ: John Wiley & Sons, 2017.

<sup>9</sup> Interview conducted by Heidrick & Struggles’ Michelle Dunne with Coles Group board member Jacqueline Chow, February 2020.

<sup>11</sup> Dieter Holger, “The business case for more diversity,” *Wall Street Journal*, October 26, 2019, wsj.com.

# Communicating D&I

After leaders have made personal mindset shifts to become more inclusive, and defined D&I for their organization, they will be more prepared to lead open discussions on the company's current level of success with D&I, where they want to take the organization, and how they see D&I contributing to business results.



We know that communication is most effective in driving change when leadership messages become part of an ongoing dialogue that enables those affected by the change—who will be essential to making it happen—to have the opportunity to ask questions and provide input. In essence, they become co-creators, owning the results with a commitment to making the change a reality and beginning to build a truly inclusive culture.<sup>12</sup>

Starbucks built on a widely publicized incident of racial profiling to strongly communicate its commitment to D&I. In April 2018, two African-American men were arrested in a Starbucks for not ordering while they were waiting for another business associate to arrive. Six weeks later, the company closed more than 8,000 stores across the United States to train more than 175,000 employees about racial bias. Starbucks' efforts, and communication, have continued. In 2019, the company published a report on its commitment to equal justice, written by an outside law firm, and hired its first global chief diversity and inclusion officer.<sup>13</sup>

Even under less dramatic circumstances, robust communication helps companies showcase their commitment to D&I to customers, employees, and investors, among other stakeholders. Bank of America, for example, sees "being a great place to work and investing in the people who serve our clients" as core to "responsible growth." The bank tracks and reports annually and publicly on its diversity and inclusion efforts at all levels, starting with its board (which in 2019 was 47% diverse in terms of gender, race, or ethnicity). It explains in its public report that "we strive to mirror the customers, clients, and communities we serve," and also notes comparative compensation for various diverse groups of employees and employee engagement, which in 2019 had reached a record high, in tandem with a decreasing rate of employee turnover.<sup>14</sup>

<sup>12</sup> For more on Heidrick & Struggles' perspective on culture shaping, see Larry Senn and Jim Hart, *Winning Teams, Winning Cultures*, Huntington Beach, CA: Senn-Delaney Leadership Consulting Group, 2010.

<sup>13</sup> Starbucks, "Starbucks overview of the Covington assessment on civil rights, equity, diversity, and inclusion," January 23, 2019, [stories.starbucks.com](https://stories.starbucks.com).

<sup>14</sup> Bank of America, *2019 Human Capital Management Report: Being a Great Place to Work*, November 2019, [investor.bankofamerica.com](https://investor.bankofamerica.com).

# Linking to strategy and assessing performance

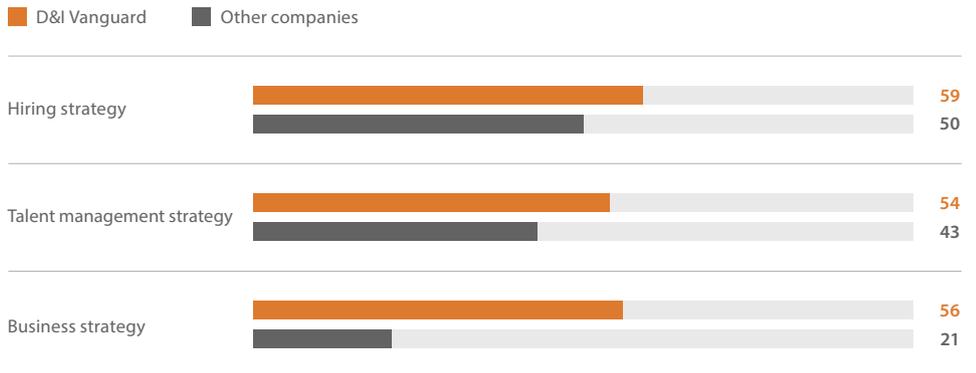
Our survey shows that all companies have room to improve in linking D&I goals to business strategies, which leaders should then seek to filter through to hiring strategies as well as talent management strategies.



Another company drawing on the diversity of its employees to understand and reach new markets is the consumer-goods company Clorox. Clorox, like many companies, has a range of employee resource groups (ERGs), which serve a variety of functions, including building links among different groups of diverse employees and educating all employees about the experiences of diverse employees in the workplace. Clorox, however, also drew on one of its ERGs for innovation ideas, and the result was its first ever LGBTQ-themed product, Burt's Bees Rainbow Pride Lip Balm. Other ERGs advocated for acquisitions of brands that helped Clorox reach more customers in the Asian and Latinx markets.<sup>15</sup>

## Room to improve in connecting D&I goals to strategies

To what extent, if at all, does your company include specific diversity and inclusion goals in each of the following?  
(% To a large extent)



Source: Heidrick & Struggles' diversity and inclusion survey, August–September 2019, n = 412 executives

<sup>15</sup> Clorox Company, "Diversity MBA: Clorox No. 3 place to work," People and Culture blog, August 11, 2016, thecloroxcompany.com.

PepsiCo overtly links diverse representation to growth in its diversity report, explaining that “innovation is critical to our bottom line and our ability to continue to deliver for our shareholders. The best ideas are brought forth by having teams with different backgrounds, life experiences, and multiple points of view.” One example is Somos Pepsi, which the company describes as “an entire value chain based on respect and celebration of the rich and diverse Hispanic culture. From the way products are created to the employees who stock products in the stores, the Somos Pepsi team helps to meet the tastes of Hispanic consumers in an authentic way.” PepsiCo reports a two-percentage-point swing in liquid refreshment beverage sales in a \$31 billion market.<sup>16</sup>

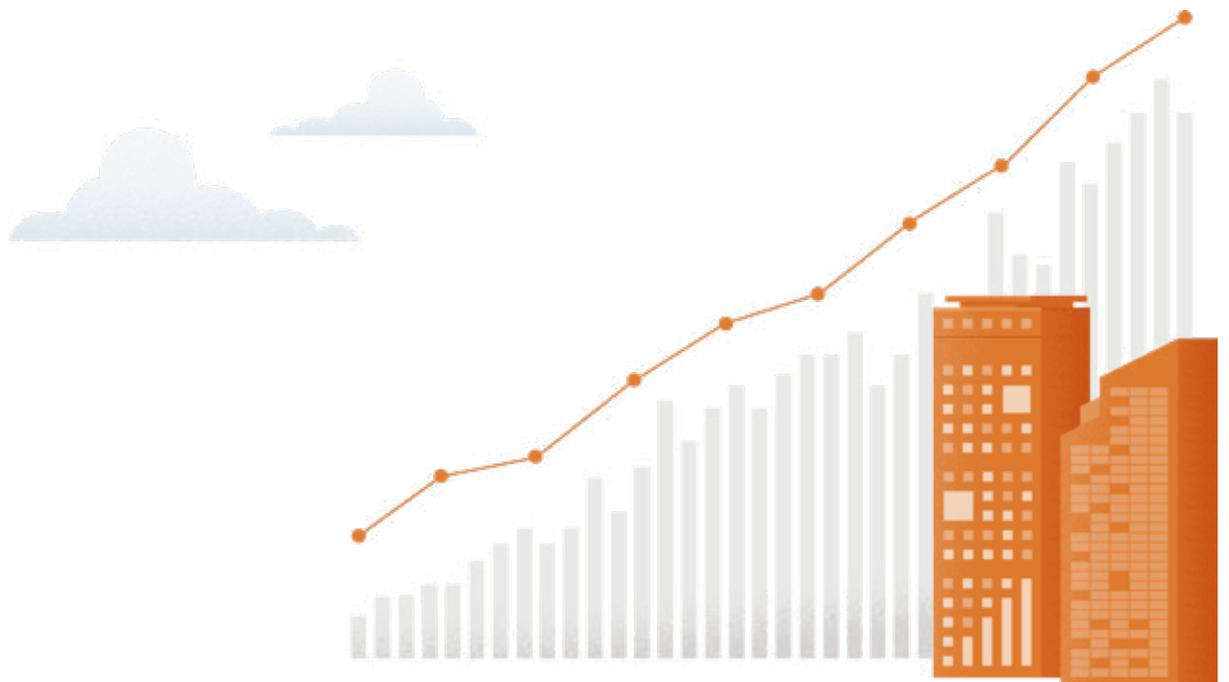
In addition to defining D&I in relation to strategy, as described earlier, assessing progress based on contributions to financial performance is another central attribute of any effort meant to produce business results. As noted earlier, there is no simple, single metric with which companies can link D&I efforts to

business success, but whatever assessment they use, it should be part of regular corporate reporting, such as Bank of America does.

Moving to talent management strategies, leaders will likely need to redesign hiring and promotion policies. One key element is compensation; as noted earlier, Vanguard companies more often tie compensation to progress toward D&I goals than other companies in our survey. One clear, if not simple, tactic is particularly crucial to talent retention: equality of compensation among all employees. PepsiCo is one company that has made notable strides, with tactics including a comprehensive global annual review process. In its diversity report, it notes that “after controlling for legitimate drivers of pay such as job level, geographic location, and performance ratings, men and women are paid within 1% of each other in the 33 countries that represent 93% of our salaried employee population. In the United States, people of color and non-minorities are also paid within 1%.”<sup>17</sup>

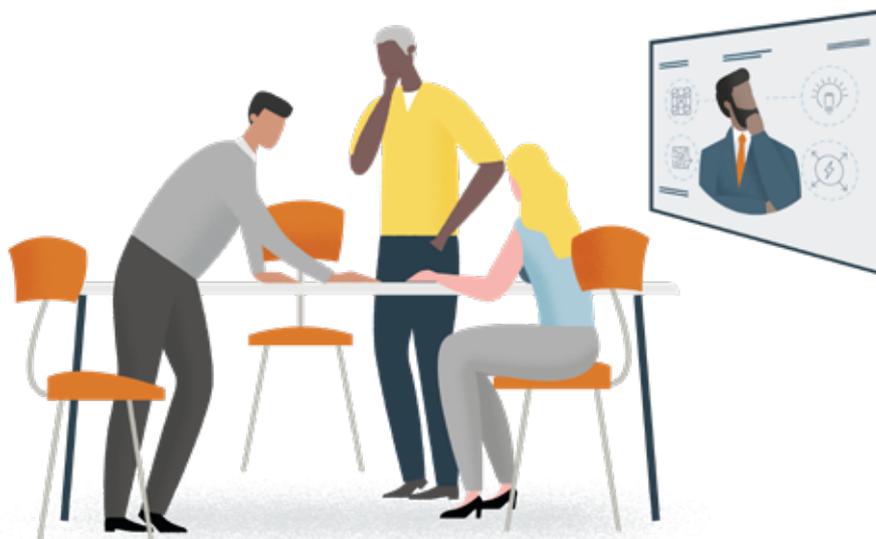
16 PepsiCo, 2018 Diversity Report: PepsiCo's Position, 2018, pepsico.com.

17 Ibid.



# Creating an inclusive environment

To create a truly inclusive culture, companies must move beyond compliance to build inclusiveness in their teams, providing positive opportunities for team members to connect and contribute.



Our survey and other work suggest two additional considerations for leaders. First, as we noted earlier, many companies are in the early stages of creating an inclusive culture, still seeing the most important aspects of inclusive workplaces and inclusive cultures as more compliance related—such as ensuring employees don't experience harassment—than focused on creating positive opportunities to connect and contribute. As leaders build broad momentum and engagement, focusing on these positive opportunities tends to build greater enthusiasm for D&I efforts overall. Leaders may well need to find new structural ways to enable greater collaboration.

Second, focus on teams. Most people work in teams, and teams are very often the organizational level on which the most work gets done. Well-functioning teams, our work has repeatedly shown, are crucial to sustaining performance over time.<sup>18</sup> In this context, it's notable that the Vanguard companies far more often than others have formal strategies to create inclusive environments and tie compensation to progress toward D&I goals at the team level. It's equally crucial that leaders ensure they assess the extent of inclusion regularly and ensure that it continues to improve.

Merck, an acknowledged leader in diversity, uses several tactics to bolster team performance. It has a suite of virtual tools to help create high-performing diverse internal teams. It also has a Best Teams and Talent program that draws on neuroscience to improve performance conversations and help people offer and receive feedback constructively.<sup>19</sup> The company even has a virtual reality experience that allows users to experience firsthand the bias colleagues face.<sup>20</sup>

<sup>18</sup> Colin Price and Sharon Toye, *Accelerating Performance: How Organizations Can Mobilize, Execute, and Transform with Agility*, Hoboken, NJ: John Wiley & Sons, 2017.

<sup>19</sup> MSD, "Learning and development," [msdresponsibility.com](https://msdresponsibility.com).

<sup>20</sup> MSD, "Powered by inclusion: How we celebrate our diverse workforce," [msd.com](https://msd.com).

# An inclusive culture that accelerates performance

While the business case for improvement in diversity and inclusion is clear, too many companies are stalled in the early stages of their efforts.

Companies are in many different places on the road to diversity and inclusion. Some are still focused solely on getting the numbers up, and others are wondering how much of the money they're investing in inclusion efforts is making any difference at all. Many leaders are tired of talking about diversity without seeing tangible results.

But making a commitment to employees and stakeholders on diversity and inclusion is, we suggest, central to innovation, delivering value to customers, and building lasting business success.

The good news is that, judging by our survey results, there is a large reservoir of optimism about progress on D&I that constitutes a solid base for companies to build on. This will, we hope, reenergize leaders at every company to raise the bar both for how well they can succeed with D&I in itself and for how they can create the conditions for it to contribute strongly to their business success. The lessons from the D&I Vanguard group, and the insights from our broader body of work, offer a clear set of steps that leaders can—and, we think, should—take, considering all they stand to gain. Leaders should waste no time figuring out where they stand today and which tactics will be the most powerful as they seek to accelerate inclusion and gain an edge in business performance.

The lessons from the D&I Vanguard group, and the insights from our broader body of work, offer a clear set of steps that leaders can—and, we think, should—take, considering all they stand to gain.





# Diversity & Inclusion Practice

**Heidrick & Struggles' Diversity & Inclusion Practice helps our clients recruit, build, and develop inclusive leaders and diverse organizations that encourage the exchange of ideas and drive innovation.**

At Heidrick & Struggles, we know that an inclusive culture, with a balanced, diverse leadership team and workforce, can strengthen an organization's ability to thrive and grow, bringing together different perspectives and fresh ways of thinking to drive future opportunities.

Our Diversity & Inclusion Practice brings together our highly experienced consultants (across executive search; leadership assessment, development, and coaching; CEO, board, and team acceleration; organization acceleration and culture shaping; and digital acceleration and innovation) to help companies integrate their diversity and inclusion (D&I) initiatives into their broader talent and business strategies to accelerate performance and outperform their peers.

Anchored by data-driven insights gained from our proprietary tools, we offer comprehensive, integrated, and adaptable services and solutions—including talent recruitment, leadership assessment and development, and organizational transformation—to foster diversity and inclusion at the leader, team, and organizational levels.

## Leaders of Heidrick & Struggles' Diversity & Inclusion Practice

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