

## The Impact of Senior Leadership Commitment on Diversity and Inclusion

### Introduction

In a study, funded by Industrial Relations Counselors, Inc., of *The Impact of Senior Leadership Commitment on Diversity and Inclusion*, ORC Worldwide set out to test the assumption that senior leadership commitment is essential to successfully achieving and managing a diverse, inclusive workforce. If that assumption proved correct, we wished to identify the activities in which top leaders can engage that will have the most impact on diversity performance and, further, to determine whether there are some key organizational practices that might so embed diversity into the way the organization does business that top leaders no longer need to be the primary sustainers of the initiative.

### Methodology

Thirty-two North American and European companies responded to an online survey. The survey included questions about the behavior of CEOs and senior leaders in the organization and about programs and processes associated with diversity management. In addition, companies were asked to provide information that could be used to measure the relative success of their diversity and inclusion efforts. These measures included:

- Representation in key talent pools of women, racial/ethnic minorities, and nationals

of countries other than the headquarters country (W/M/NHQs)

- Turnover and promotion rates for women and racial/ethnic minorities
- Employee perceptions of the company's diversity position
- Satisfaction/engagement of diverse employees
- Amount of purchasing budget spent with diverse suppliers
- Increase in sales from diverse market segments

Our aim was twofold: to find out what practices seem to be connected with overall diversity success and also to see if we could pinpoint specific practices that seem to contribute to specific results (i.e., to see if there are certain things a company can do to improve on one or another of the measures).

We identified eight companies (one-fourth of the survey population) that consistently demonstrated high performance on the measures,<sup>1</sup> and we compared the practices in those eight companies (hereinafter referred to as "high performers") to practices in the other 24 to find the differences that might explain the gap in diversity performance. We also looked at which practices seemed to be linked to higher scores on each of the measures. Practices that were associated with a large difference in average score (20 percentage points or more) on several different measures were flagged as potentially significant.

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<sup>1</sup>Each of these eight companies was among the "high performers" on at least half of the possible measures. On representation, revenue, and budget measures, "high performers" were those companies that had above-median scores. On employee survey measures, "high performers" reported "very positive" responses on employee survey questions or said that racial/ethnic minorities were as satisfied or more satisfied than whites.

## Key Findings

Companies with the most successful records on diversity and inclusion tend to share certain characteristics, especially concerning the following:

- The organization’s statement of values explicitly includes diversity and inclusion (as opposed to “respect for individuals” or other more general statements).
- Managers are trained to recognize and avoid “microinequities.”<sup>2</sup>
- The CEO talks frequently to his/her direct reports (the Executive Committee) about diversity, demands regular reports from them on the progress of diversity initiatives, and holds them accountable for both their personal behavior and for meeting objectives such as developing and mentoring diverse people.
- The CEO is held responsible by the non-executive Board of Directors (the Board) for the company’s diversity initiative and his/her compensation is linked to diversity performance.

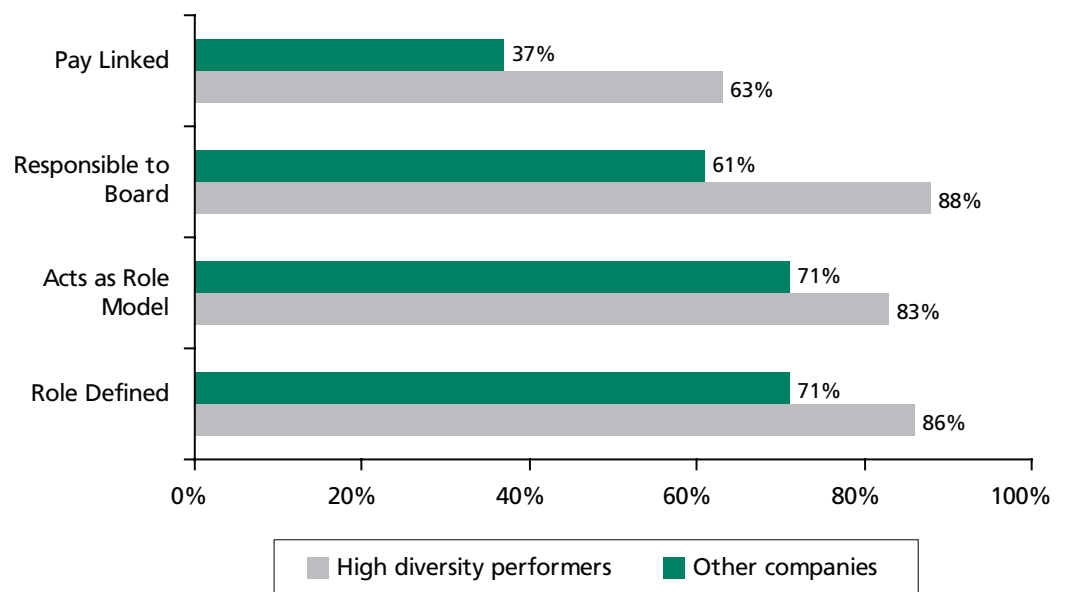
- The Board itself is ethnically and nationally diverse.
- The Board reviews the diversity of high potential pools and succession slates.

## Impact of CEO Involvement

Our findings support the notion that CEO commitment can make a big difference in the success of a company’s diversity initiative, as evidenced by the fact that participants from the high performing companies more often said that:

- The company’s diversity strategy specifically defined the CEO’s role, especially in terms of being a role model through his/her personal behavior.
- CEOs were directly involved in diversity-related activities. (See below for the specific activities of CEOs that are most linked with diversity success.)
- The non-executive Board of Directors holds the CEO responsible for the company’s diversity.
- The CEO’s compensation is linked to diversity performance.

Overall CEO Involvement in Diversity and Inclusion



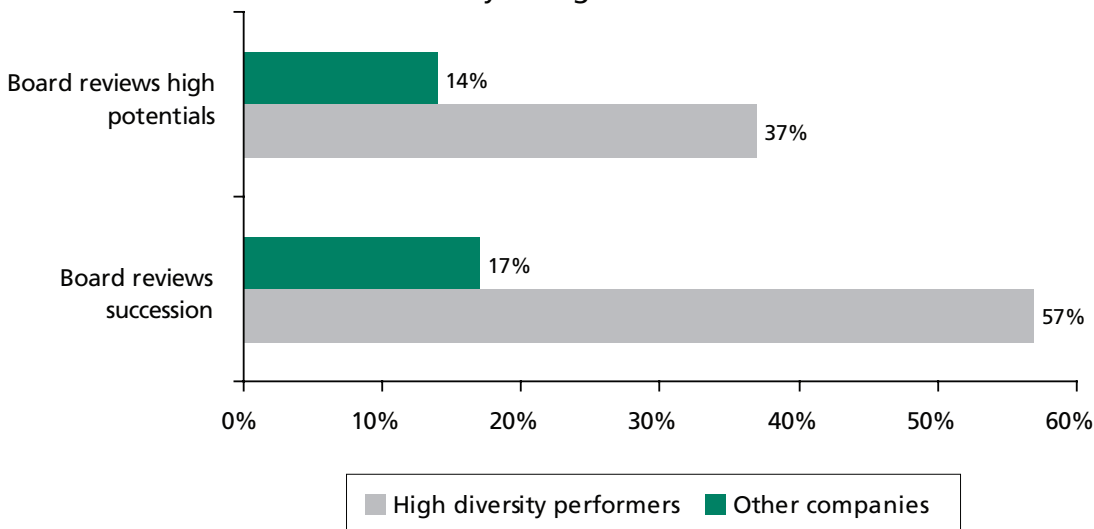
<sup>2</sup>“Microinequities” refers to the often unrecognized, unintentional ways that lingering stereotypes contribute to continued unequal treatment of women, racial/ethnic minorities, GLBT (gay, lesbian, bisexual, and transgender), and disabled individuals, and other diverse groups.

## The Role of the Non-Executive Board of Directors

As noted above, in high performing companies, the non-executive Board of Directors (hereinafter called “the Board”) is more likely to hold the CEO accountable for the organization’s diversity performance. It is also more common in high performing companies for the Board to get

involved in its own right by discussing the diversity of succession slates and/or high potential pools. Companies that involve the Board in this way tend to have a higher percentage of minorities among senior leaders than the median for the survey group. These companies also show more positive employee views of the company’s inclusiveness and openness to new ideas.

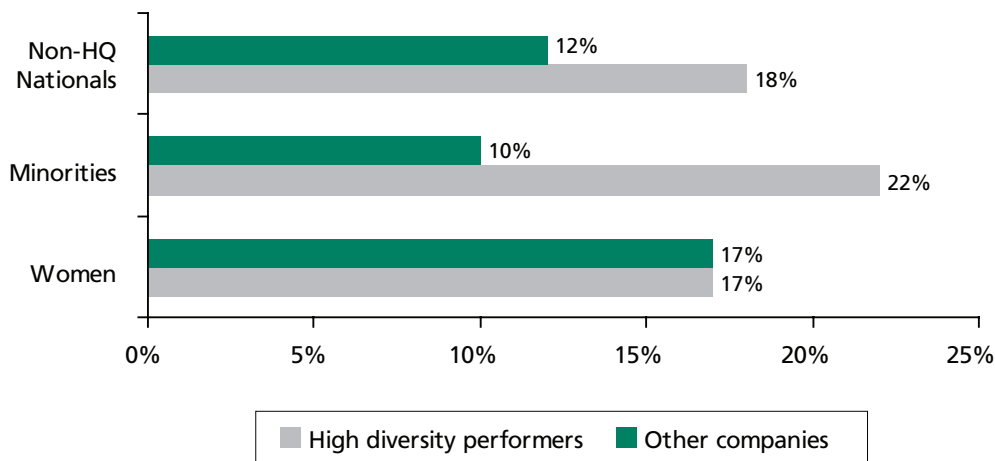
Percent of Companies Whose Boards Review Diversity of High Potentials and Successors



In addition, the diversity of the Board itself seems to be connected to diversity performance. High performing companies in the survey tend-

ed to have more diverse non-executive Boards of Directors, especially in terms of racial/ethnic minorities.

Percent of Board Seats Held by Diverse Groups



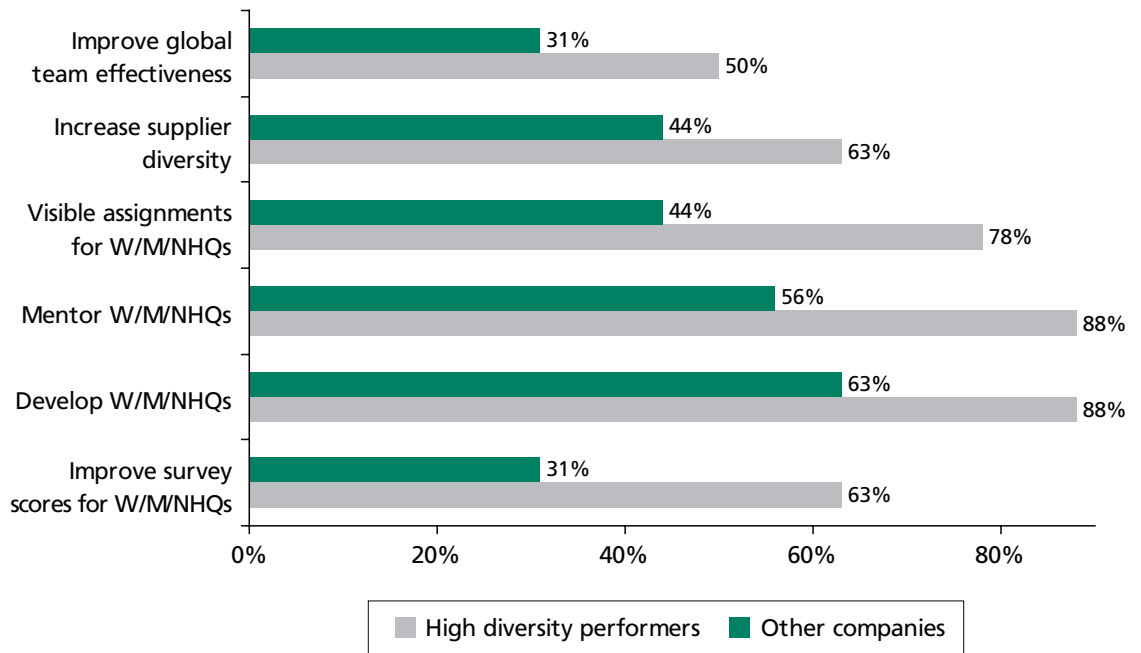
## Executive Committee Commitment

Although respondents of most of the participating companies said that the executives reporting directly to the CEO in their organizations are committed to achieving a company culture and business strategy that values and leverages diversity, higher performers were even more likely to believe so. More importantly, the survey indicates that when members of the Executive Committee formally commit to and are held accountable against certain objectives, companies tend to score higher on diversity performance measures. In particular, the Executive Committees in high

performing companies tend to have objectives calling for:

- Improving employee survey scores from women, minorities, and non-HQ nationals
- Developing the women, minorities, and non-HQ nationals who report to them
- Mentoring women, minorities, and non-HQ nationals
- Identifying women, minorities, and non-HQ nationals for highly visible assignments
- Improving promotion rates of women, minorities, and non-HQ nationals
- Increasing supplier diversity
- Improving effectiveness of teams working in a global or multicultural environment

Objectives of Executive Committee



## Leader Behaviors

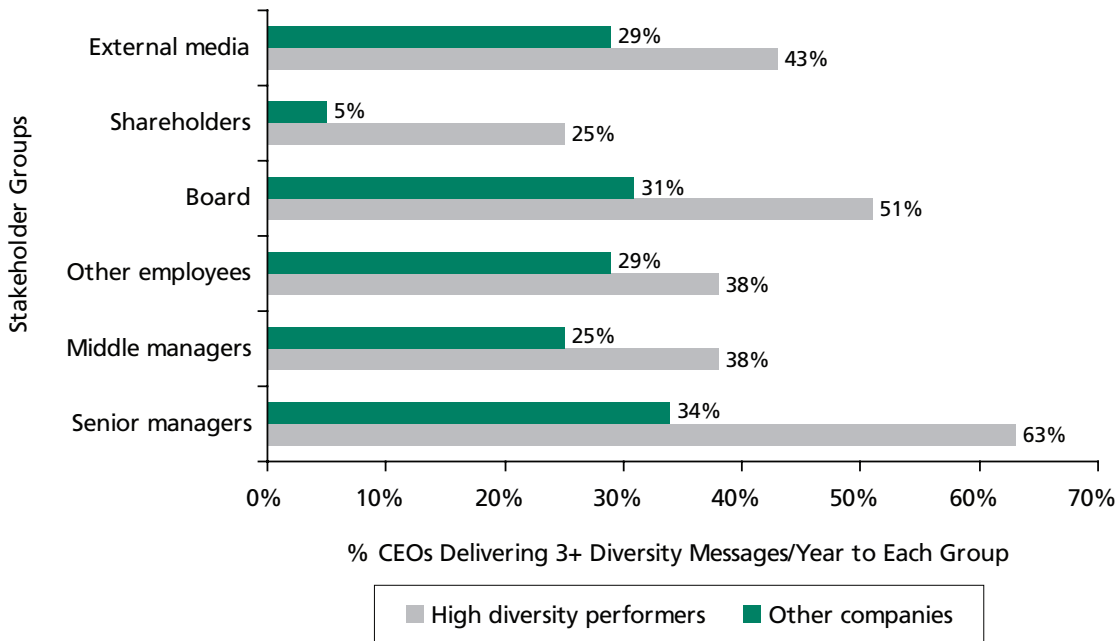
The survey results suggest three areas through which leaders seem to have greatest impact:

- Two-way communications
- Accountability
- Recognition

The CEOs of our eight higher performing companies not only delivered diversity messages more often, but were also more likely to participate in forums through which they could receive information and perceptions from diverse segments of the workforce.

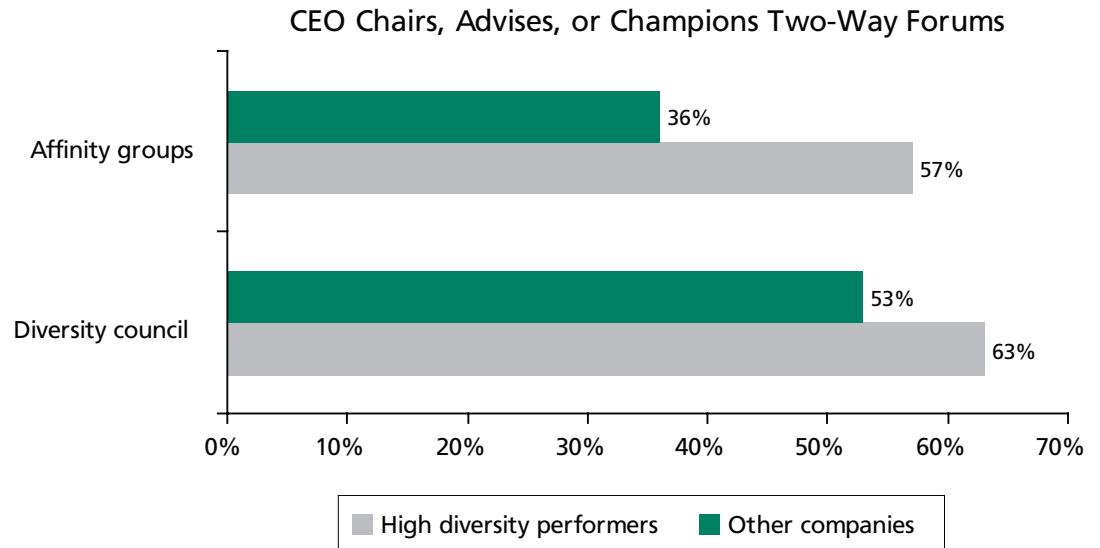
The chart below shows that CEOs of high performing companies were more likely to deliver frequent (at least three/year) diversity messages to each of the stakeholder groups listed. Sixty-four percent of the CEOs in high performing companies—nearly twice as many as in the other companies—speak about diversity frequently to senior managers. Fifty-one percent of CEOs in high performing companies deliver frequent diversity messages to the Board, compared to 31 percent in other companies.

CEOs Deliver Frequent Diversity Messages to Stakeholders



CEOs of high performing companies are more likely to chair, advise, or champion forums

for two-way communication, such as diversity councils and, especially, affinity groups.

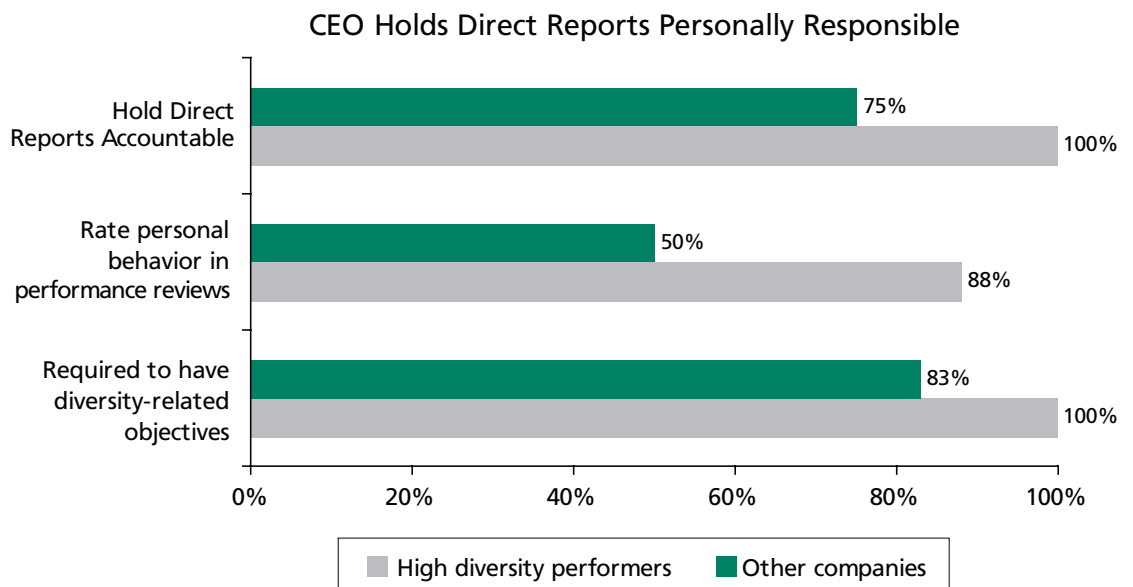


The CEO has two principal tools for holding the organization accountable for diversity performance. He/she can:

- Evaluate the performance of executives through performance review and/or assessment of achievement against objectives.
- Require reporting on diversity metrics.

We found both of these practices to be more common in high performing companies.

Regarding performance evaluation, all but one of the higher performing companies uses both management by objectives and performance reviews, compared to half of the rest of the survey group.

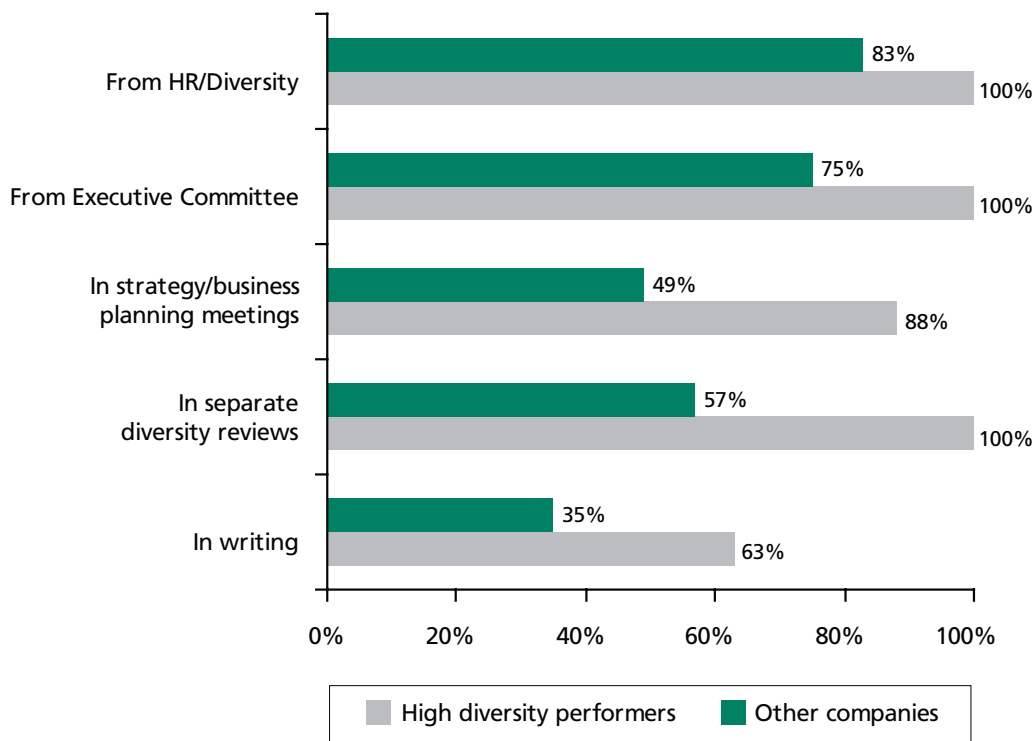


In companies with higher diversity performance, the CEOs are more likely to require regular reports of diversity progress, especially from the Executive Committee rather than just from the HR or diversity function. Furthermore, it appears that when and where the CEO reviews those reports may be important. Most of the companies reported that diversity reports are a part of talent reviews, but, in addition, nearly all of the better performing companies include

diversity progress reports in both regular strategy/business planning sessions and in separate meetings dedicated to review of the diversity initiative. Many CEOs also expect written reports.

The implication is that providing information in a variety of ways and venues and treating such information on a par with other business reporting may help to keep attention focused on diversity-related objectives.

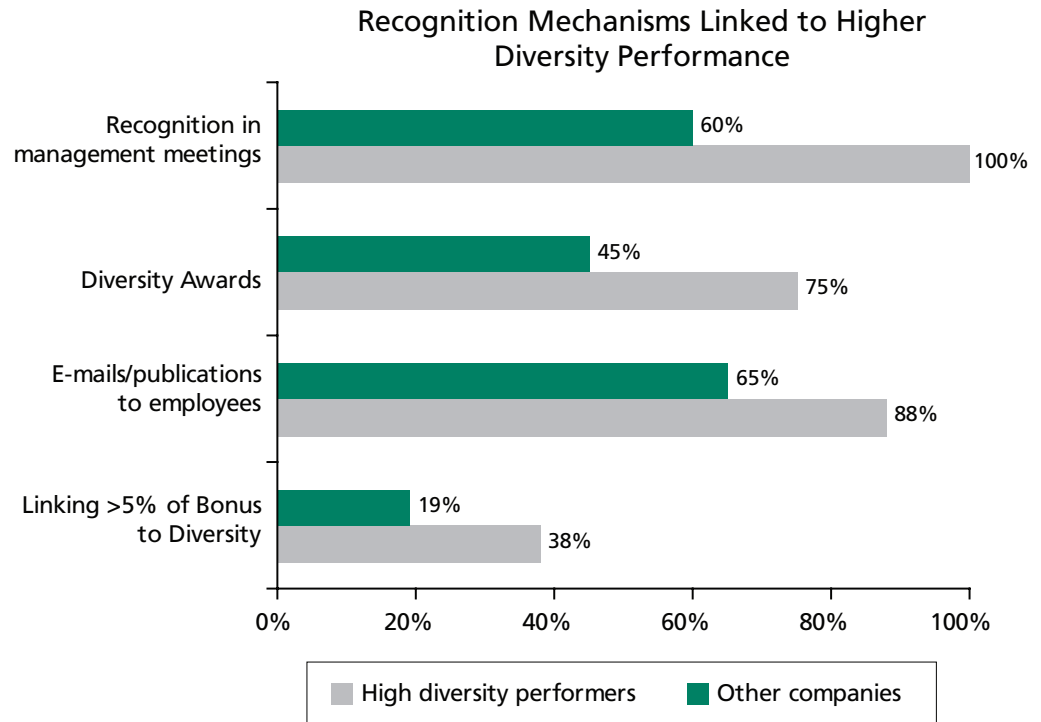
### CEO Requires Regular Reporting



## Recognition

The CEOs of higher performing companies are more likely to use a variety of different recognition mechanisms. Interestingly, the mechanism used most by high performing companies is the least public—recognition in management meetings.

At least 42 percent of surveyed companies also use bonuses to recognize the diversity achievements of the Executive Committee. Those in the higher performing group are twice as likely as other companies to tie a larger amount—at least 6 percent of bonus pay to diversity.



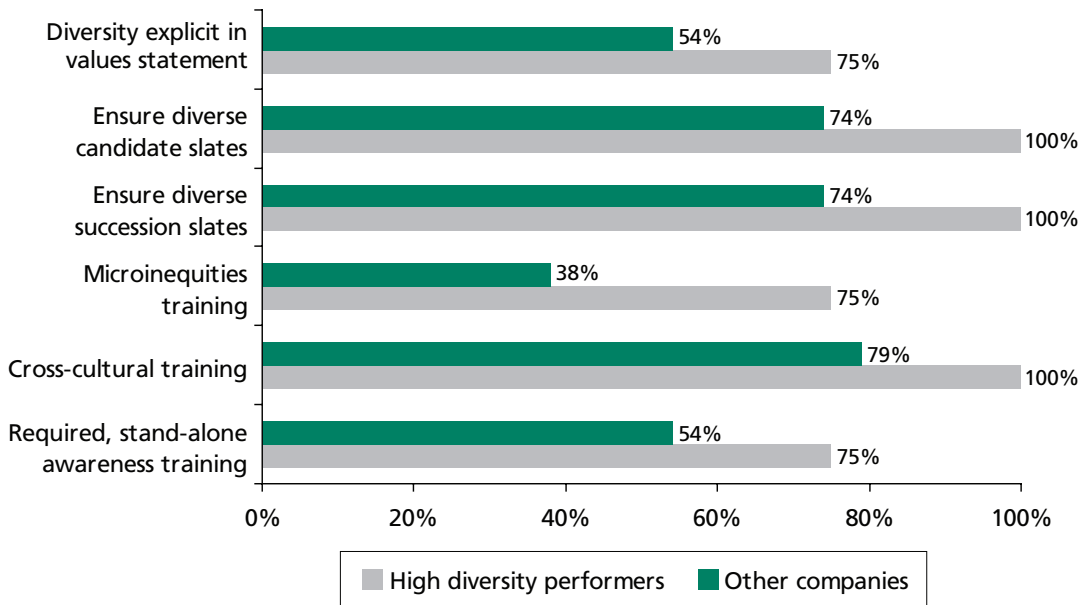
## Key Organizational Processes

Higher performing companies state their commitment to diversity, inclusion, or respect for differences *explicitly* in their statement of values, rather than relying solely on more general declarations of respect for individuals (although many do have these in their values statements as well).

There are also a set of talent management policies and practices that differentiate high performers from others:

- Having recruitment policies that ensure candidate slates presented to hiring managers will include women and racial/ethnic minorities.
- Ensuring inclusion of women, racial/ethnic minorities, and other diverse employees on succession slates.
- Providing certain kinds of diversity training, and doing so in particular ways.

Talent Management Policies and Practices Linked to Higher Diversity Performance



## Observations

In companies with high levels of diversity performance on a number of measures, the CEOs tend to hold management accountable for diversity and recognize and reward their diversity achievements, deliver frequent messages about diversity to key stakeholder groups, and participate in two-way communications forums. Senior managers commit to developing, mentoring, and providing visibility to women, racial/ethnic minorities, and nationals of non-HQ countries. The non-executive Board of Directors, too, plays an important role by holding the CEO accountable and by actively participating in processes to diversify succession slates and high potential pools.

The data also suggests that support from the top is not, in and of itself, sufficient to produce the best outcomes. The highest performing companies have institutionalized diversity and inclusion. They have enshrined their commitment in value statements that explicitly refer to diversity or respect for differences, and they

have integrated diversity and inclusion protections in key organizational processes such as training, succession planning, and identification of high potentials.

This finding is not surprising when we understand that diversity and inclusion is essentially a culture change initiative. To make a lasting difference that can withstand leadership changes and the vicissitudes of the business cycle, diversity must be “baked in” to how the organization goes about its business on a day-to-day basis. Support from the leadership is an important ingredient, but the recipe also requires support from other partners, a well-thought-out strategy that derives its goals directly from the company’s business strategy, and integration with the complete suite of people management systems and processes.

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The full report of *The Impact of Senior Leadership Commitment on Diversity and Inclusion* is available online at <http://ircounselors.org/reports/IRC-Leadership-Diversity-Study-2008.pdf>

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## About IRC and ORC Worldwide:

In the wake of the Ludlow Massacre in the Colorado minefields of 1917, John D. Rockefeller, Jr., created an organization to foster improved employer/employee relations—Industrial Relations Counselors, Inc. (IRC). Incorporated in 1926, it was the first research organization in its field.

IRC advocated the establishment of employee representation plans, which involved employee-elected representatives and regular meetings with management to discuss matters of mutual interest. The idea was greeted with less than enthusiasm by many of Rockefeller's fellow industrialists, but it led to his conviction that there could be a "unity of interest" between labor and management—it was not always necessary for one party to lose in order for the other to win; win-win arrangements and agreements were possible.

IRC continues to be dedicated to its original objective: "To advance the knowledge and practice of human relationships in industry, commerce, education, and government." IRC's work has been guided over these 80-plus years by a board of trustees comprising distinguished leaders of American industry.

IRC became an exemplar of the progressive management view that labor and management, while adversaries, had common interests and that it was the task of the industrial relations function to seek ways to establish this unity of interests. From its inception, IRC has conducted innovative research and produced publications that have broken new ground in the employee relations field. In the 1930s, legislators

drew on IRC expertise concerning pension systems and European experience with unemployment insurance in the establishment of the federal social security system and the design of unemployment insurance in the United States. IRC was also deeply involved in advancing the interests of progressive employers in the formation of national labor policy.

Between 1927 and 1932 IRC was the official representative of American business to the International Labour Office in Geneva, and conducted research there on employment issues in several European countries. IRC research has also dealt with all aspects of collective bargaining policy, remedies in emergency disputes, executive retirement, and job evaluation. For many years IRC's own management development and education courses broadened the expertise of human resources professionals and increased line managers' understanding of employee relations issues. Periodic IRC symposia bring together business leaders and academic researchers to review HR topics of mutual importance.

After several decades, IRC spun off its for-profit company that is today known as ORC Worldwide. Since 1953, ORC has served to assist clients, primarily *Fortune 500* firms, with specialized knowledge and advice about human resources management.

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