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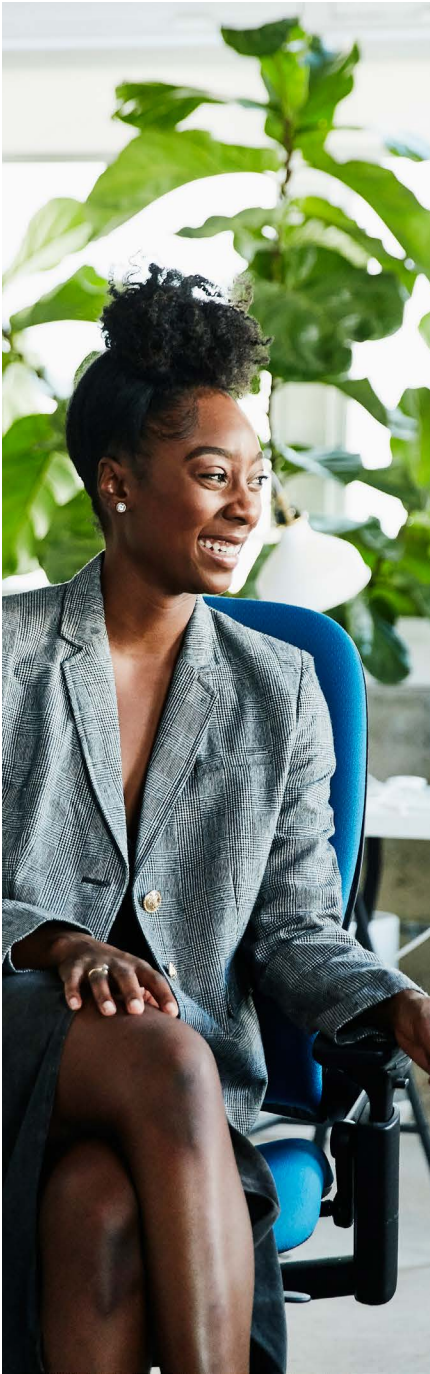
# Diversity Matters Even More

The case for holistic impact

November 2023



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# Executive summary

**For almost a decade through our Diversity Matters series of reports, McKinsey has delivered a comprehensive global perspective on the relationship between leadership diversity and company performance. This year, the business case is the strongest it has been since we've been tracking and, for the first time in some areas, equitable representation is in sight. Further, a striking new finding is that leadership diversity is also convincingly associated with holistic growth ambitions, greater social impact, and more satisfied workforces.**



At a time when companies are under extraordinary pressure to maintain financial performance while navigating a rapidly changing business landscape, creating an internal culture of transparency and inclusion, and transforming operations to meet social-impact expectations, the good news is that these goals are not mutually exclusive. On the contrary, our research suggests a strong, positive relationship between them. And in an increasingly complex and uncertain competitive landscape, diversity matters *even more*.

For this report, the fourth edition of *Diversity Matters*, we drew on our largest dataset yet—spanning 1,265 companies, 23 countries, and six global regions. We also extended our research beyond the relationship between diversity and financial performance, for the first time exploring the [holistic impact](#) of diversity on communities, workforces, and the environment.

## The most compelling business case yet

There have been far-reaching changes in the business environment over the past few years, yet, companies with diverse leadership teams continue to be associated with higher financial returns. Our expanded dataset shows this is true across industries and regions, despite differing challenges, stakeholder expectations, and ambitions.

The business case for gender diversity on executive teams<sup>1</sup> has more than doubled over the past decade. Each of our reports—2015, 2018, 2020, and now 2023—has found a steady upward trend, tracking ever greater representation of women on executive teams. At each time point we have assessed the data, the likelihood of financial outperformance gap has grown: Our 2015 report found top-quartile companies had a 15 percent greater likelihood of financial outperformance versus their bottom-quartile peers; this year, that figure hits 39 percent.

A strong business case for ethnic diversity is also consistent over time, with a 39 percent increased likelihood of outperformance for those in the top quartile of ethnic representation versus the bottom quartile. This has persisted even with eight new economies added in our analysis of 2022 financial data.<sup>2</sup>



1. The business case is the percent difference in likelihood of outperformance between companies in the top and bottom quartile for a characteristic. Outperformance is calculated as the likelihood to place above the median profitability of other companies in the same industry and region. For more information on our calculation of the likelihood of outperformance analysis, see "Methodology for financial performance."
2. Our 2023 report draws on data that was collected in both 2021 and 2022. For this analysis, we used data collected in 2022.

## Equitable representation at the top is within reach

Companies in our top cohorts have shown rapid, groundbreaking growth in representation, with some even attaining gender parity. In fact, diversity-leading companies in the United Kingdom have reached an ethnic-representation average, at 28 percent, that exceeds the region's general population. Diversity-leading US companies have reached 50 percent representation of women on executive teams. In addition, leading companies in the United States now have on average 39 percent of executives from historically underrepresented ethnicities.

Companies with average levels of diverse representation have also shown substantial progress. Eight in ten companies now have at least one woman on their executive team, compared to less than two-thirds in 2020's [Diversity Wins](#).

Considering the dataset as a whole, however, there is still a substantial gap in ethnic representation at top levels. For companies included in both our 2020 and 2023 reports, only 16 percent of leaders on executive teams belong to historically underrepresented ethnicities.<sup>3</sup> These gains have slowed since 2019. In 2020, 61 percent of companies had at least one person in leadership from a historically underrepresented group; this figure has grown only slightly (68 percent).

Because each region has a unique ethnic makeup and cultural norms, we have assessed rates of ethnic representation by evaluating equitable representation levels—how closely leadership mirrors regional demographics.<sup>4</sup> US companies are currently the closest to representing the population at 20 percent ethnic representation, but still lag behind the population share of 41 percent.

We have continued to look at boards, given the association of diverse boards with better financial performance and inclusive growth;<sup>5</sup> even more than executive teams, they can also be a strong positive influence on the societal disposition of a company. This year we once again found that financial impact is linked to increased representation of women on boards. For the first time, we also see a significant association with ethnic representation.

## Diversity supports inclusive growth

Business success is not only about financial returns: with companies across the world considering their holistic impact, we've broadened our research lens to include environmental and social-impact performance.

Our findings are striking. Across all industries surveyed, more diversity in both boards and executive teams, in both gender and ethnicity, is robustly correlated with higher social and environmental impact scores.

We recognize that creating social impact, alongside other business priorities, is a challenging task, even for companies who have strong intentions to do so. Yet, over half of sampled companies in our dataset perform well in community involvement.<sup>6</sup> We find that diverse leadership teams could help to bolster community involvement, positively impacting ethical disposition, community orientation, and the general image of a company.

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3. Historically underrepresented group refers to populations who have historically not been represented within leadership teams at the same rate that they exist within the general population.
  4. Equitable representation refers to the level at which a leadership team's diverse representation matches the level of representation of historically underrepresented ethnicities within a given region's population.
  5. Companies in the top quartile of board-gender diversity are 27 percent more likely than those in the bottom quartile to outperform financially, and companies in the top quartile for ethnically diverse boards are 13 percent more likely to outperform than those in the bottom quartile. We tested a variety of inclusive growth metrics, including social and environmental impact. For every woman added to a company board with ten directors, there was on average a two-point increase in holistic impact scores. Additional detail located on page 16.
  6. Defined as scoring above 75 on the community measure.

## Five levers for change

Our data shows that the more diverse the leadership team, the more likely they are to have made public, mature commitments to diversity, equity, and inclusion (DEI) in their decision-making strategies. Transforming this commitment into bold action is the natural next step. Insights from diversity leaders interviewed for this report surfaced five strategies to turn words into action:

- 1. Commit to a systematic, purpose-led approach to benefit all stakeholders.** Companies should frame and pursue their DEI aspirations—internally and publicly—as core to their mission and embedded into their strategic goals. Having diverse perspectives and backgrounds may be uniquely helpful, as suggested by the relationship between ethnic and gender diversity and companies' inclusive-growth performance.
- 2. Embed your strategy in company-wide business initiatives while tailoring to local context.** While DEI strategy is typically shaped at the top, giving local teams license to tailor to local contexts is key to building ownership and local impact. Agilely launching test and learn cycles for DEI initiatives in specific localities before rolling them out corporate-wide can also support larger DEI goals. In crafting a “global-local” approach to establishing their DEI strategy and values, leaders should build open lines of communication to develop a deep understanding of their workforce, community, and customers. This ensures DEI moves from abstract ideals to concrete actions.<sup>7</sup>
- 3. Prioritize belonging and inclusive practices to unlock performance.** Diverse representation will have the most impact within a culture that fosters inclusion and belonging—which also facilitates retaining diverse talent, innovation, and customer centricity. This support should include making inclusive leadership the norm through management training and accountability, as well as providing high-impact support to affinity and Employee Resources Groups (ERGs) to boost employee satisfaction.
- 4. Embolden and activate champions and allies by providing adequate resources and support.** DEI efforts of individual leaders, particularly women, are often less high-profile or officially rewarded, including their contributions to inclusive leadership, allyship, and employee wellbeing. Companies that recognize these efforts and provide a supportive environment can help these leaders thrive. This support could include mentorship and sponsorship, as well as encouraging and celebrating allyship. Leaders could be measured on their contributions to DEI and employee wellness in their performance evaluations.
- 5. Act on feedback, including dissenting voices.** A culture of feedback on DEI strategy from the workforce and wider stakeholders can provide valuable insights, identifying both strengths and opportunities for change. Leaders can use routine company pulse surveys to collect feedback internally, and social listening externally. It is important for dissenting voices to also be heard to pinpoint root causes of any roadblocks and contribute towards optimizing impact of the DEI strategy.

Despite a challenging business environment, the business case for diverse leadership teams is clear and growing stronger. In this report, our findings also show a statistically significant link between diverse boards and executive teams and higher holistic-impact scores, including on environmental and social measures.

To achieve lasting impact along these dimensions, companies must move boldly beyond increasing diverse representation to integrating DEI in a purpose-driven approach, broadening the company's positive impact across stakeholders, employees, the external community, and the environment.

7. Ella Washington, “The five stages of DEI maturity,” *Harvard Business Review*, November 1, 2022.









# Introduction

**Over the past nine years, we have built a growing database of countries and companies that allow us to look at the relationship between diversity and business performance outcomes. We see that diversity does indeed matter. Companies that make diversity happen also tend to boast better financial results.**

This year, *Diversity Matters Even More* adds striking new insights to that clear story. Compellingly, the business case for diversity at the top levels of companies has only strengthened over time.<sup>8</sup> Further, we can now also say with statistical significance that outperformance of companies with diverse leadership is strongly linked to positive [holistic impact](#), particularly environmental and social outcomes—including a more satisfied workforce. And these results are based on a reinforced dataset: we have expanded our sample to 1,265 companies in 23 economies (eight newly added) and six global regions (Exhibit 1).

Businesses are under unprecedented pressures: simultaneously taking on building inclusive, transparent cultures, and transforming to meet stakeholder expectations, while seeking financial outperformance. But in today's environment, it's more important than ever to double down on anchoring diversity, equity, and inclusion (DEI) to strategy.

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8. The business case is the percent difference in likelihood of outperformance between companies in the top and bottom quartile for a characteristic. Outperformance is calculated as the likelihood to place above the median profitability of other companies in the same industry and region. For more information on our calculation of the likelihood of outperformance analysis, see "Methodology for financial performance."



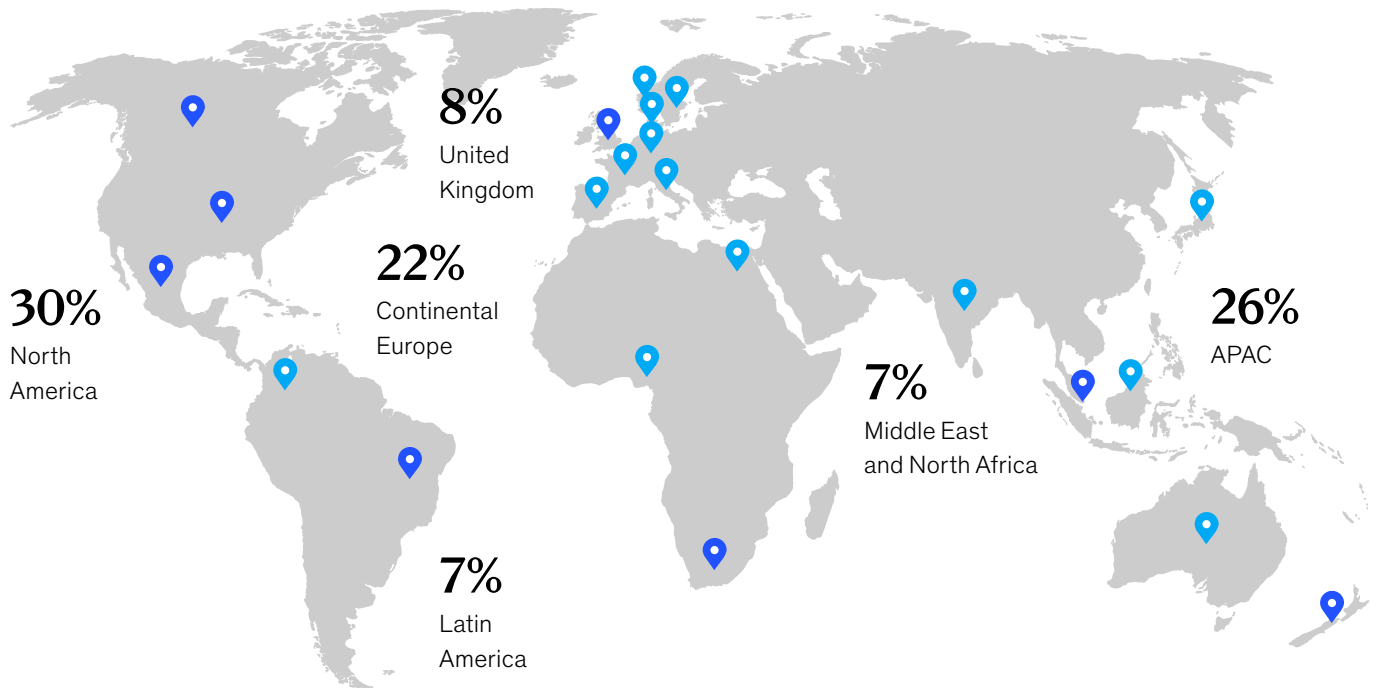
Exhibit 1

**The dataset this year includes 1,200+ companies across 23 countries.<sup>1</sup>**
























Distribution of sample by country and industry group (n = 1,265), %

-  Gender data being analyzed
-  Gender and ethnicity data being analyzed

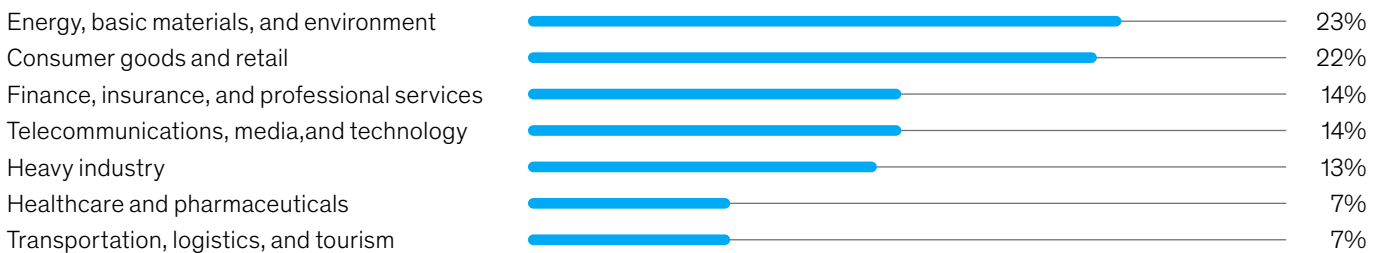
**Global footprint, % company representation**



**Countries**

2014	2017	2019	New in 2022
 Brazil	 Australia	 Denmark	 Canada
 Mexico	 France	 Norway	 Colombia
 United Kingdom	 Germany	 Sweden	 Egypt
 United States	 Japan		 Israel
	 India		 Italy
	 Nigeria		 Malaysia
	 Singapore		 New Zealand
	 South Africa		 Spain

**Industries, %**



1. When looking at ethnic diversity, we only compare data from countries with a consistent definition of ethnic and cultural diversity, and where our data is reliable. Therefore, we have a much more limited dataset for ethnic diversity. Our analysis of ethnic diversity includes Brazil, Canada, Mexico, New Zealand, Singapore, South Africa, United Kingdom, United States. Equitable ethnic representation is calculated based on diverse representation in each country's population.

Note: The boundaries and names shown on maps do not imply official endorsement or acceptance by McKinsey & Company.

Source: *Diversity Matters* Even More dataset – for more information on the collection and/or analysis of data in this report, see our Methodology on page 47-49



## Chapter 1

# An expanding business case stands

**In the past few years, companies have had to respond and even transform rapidly in the face of disruptive events such as the COVID-19 pandemic, accelerating digitization, the growth of AI, and rising inflation. It may have been thought possible for these challenges to shift the business case for diversity—instead we find it to be even stronger, as businesses with diverse executive teams and boards continue to show a competitive edge. Such companies are significantly more likely to outperform financially, while the impacts of lagging in this area grow.**

As we expand our global dataset, a nuanced view of leadership diversity benefits across economies and industries surfaces. Emerging economies typically have lower levels of corporate gender representation in corporate leadership than advanced ones, but also face unique competitive dynamics.<sup>9</sup> And industries which are traditionally male dominated and predominately White still have a long way to go to achieve parity. But even here, more diverse leadership teams remain positively correlated with outperformance.

### Diverse teams are thriving

Our McKinsey *Diversity Matters* reports span nearly a decade (2015, 2018, 2020 and now 2023); in this time, the business case for gender diversity on executive teams, as measured by an increased likelihood of financial outperformance, has more than doubled.<sup>10</sup>

Across our widened dataset, companies in the top quartile for gender diversity are 39 percent more likely to outperform peers, continuing an upwards trend from 15 percent in 2015. This coincides with a steady increase in representation of women in leadership teams. Some top-quartile companies have now reached gender parity, while many bottom-quartile companies have not made progress since our last report.

When it comes to ethnic diversity, too, a consistently strong business case is apparent over time.<sup>11</sup>

Our analysis indicates a 39 percent increased likelihood of outperformance for the top quartile in ethnic representation versus the bottom quartile (Exhibit 2).<sup>12</sup>

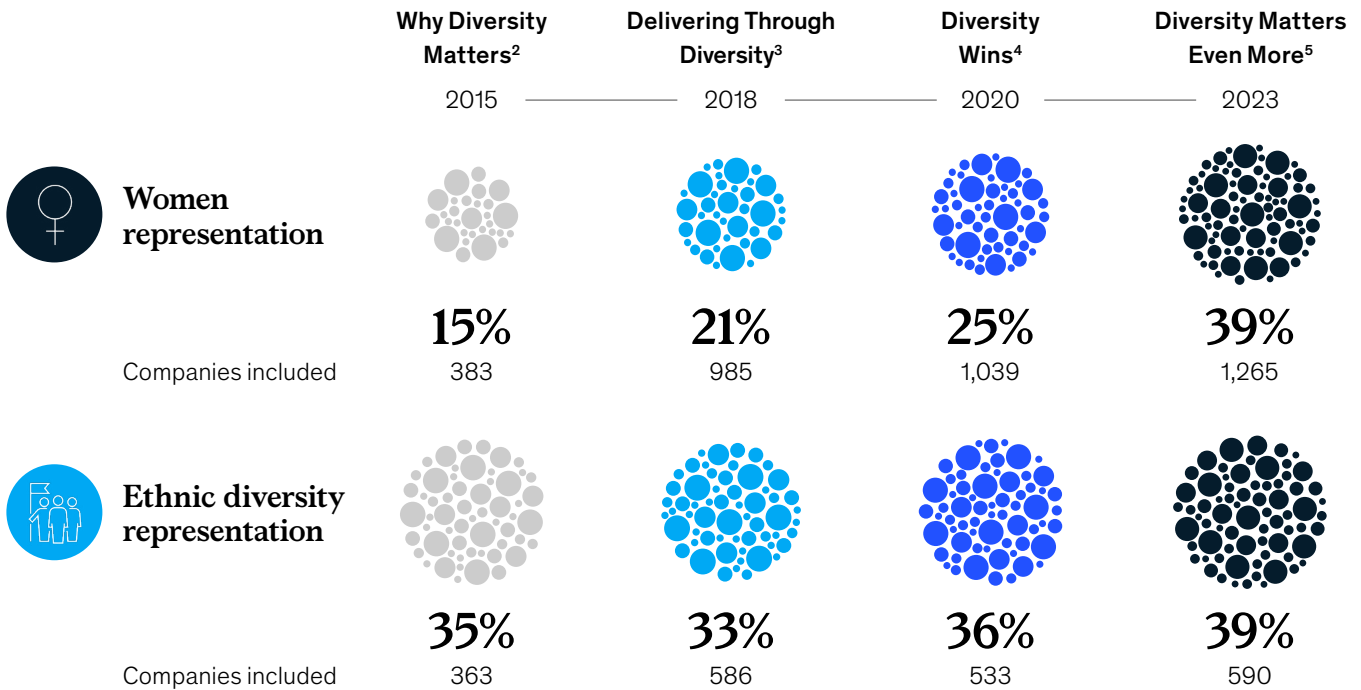


9. Advanced and emerging economies were determined using the World Bank economic classification. See box.  
10. The business case is the percent difference in likelihood of outperformance between companies in the top and bottom quartile for a characteristic. Outperformance is calculated as the likelihood to place above the median profitability of other companies in the same industry and region. For more information on our calculation of the likelihood of outperformance analysis, see "Methodology for financial performance."  
11. When looking at ethnic diversity, we only compare data from countries with a consistent definition of ethnic and cultural diversity, and where our data is reliable. Therefore, we have a much more limited dataset for ethnic diversity. Our analysis of ethnic diversity includes Brazil, Canada, Mexico, New Zealand, Singapore, South Africa, United Kingdom, United States. Equitable ethnic representation is calculated based on diverse representation in each country's population.  
12. Our 2023 report draws on diversity data that was collected in 2022 and financial data from 2021. For more detail, see "Data analysis strengthens the business case for diversity."



## The business case for diversity on executive teams and financial outperformance.

Difference in likelihood of outperformance of 1st vs 4th quartile<sup>1</sup>



**In 2023, 8 new countries were incorporated in gender analyses and 2 new countries for ethnicity analyses**

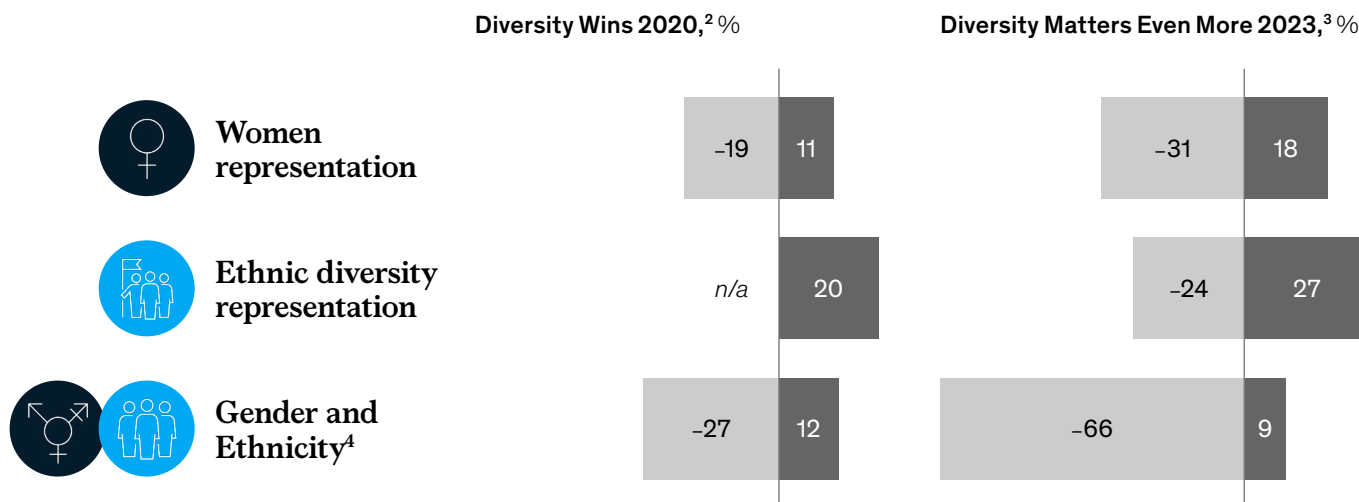
1. Likelihood of financial outperformance vs the regional industry median. p-value for regression analysis <0,01.  
 2. Gender: n = 383; ethnicity: n = 363; US, UK and Latin America. Average EBIT margin 2010–13.  
 3. Gender: n = 985; Australia, Brazil, France, Germany, India, Japan, Mexico, Nigeria, Singapore, South Africa, UK, and US; ethnicity: n = 586; Brazil, Mexico, Singapore, South Africa, UK, and US; average EBIT margin 2011–15.  
 4. Gender: n = 1,039; 2017 companies for which gender data available in 2019 plus Denmark, Norway, and Sweden; ethnicity: n = 533; 2017 companies for which ethnicity data available in 2019; average EBIT margin 2014–18.  
 5. Gender: n = 1,265; 2019 companies for which gender data available in 2022 plus Canada, Colombia, Egypt, Israel, Italy, Malaysia, New Zealand, and Spain; ethnicity: n = 590; 2019 companies for which ethnicity data available in 2022 plus Canada and New Zealand; average EBIT margin 2017–21.  
 Source: *Diversity Matters Even More* dataset – for more information on the collection and/or analysis of data in this report, see our Methodology on page 47-49



## The difference in likelihood of financial outperformance.

Likelihood of financial outperformance for...

■ Bottom quartile<sup>1</sup> ■ Top quartile<sup>1</sup>



1. Top quartile company likelihood of financial outperformance over average from bottom 3 quartiles; Bottom quartile company likelihood of financial outperformance below average from top 3 quartiles. For more information on the collection and/or analysis of data in this report, see our Methodology on page 47-49
2. Gender: n = 1,039; 2017 companies for which gender data available in 2019 plus Denmark, Norway, and Sweden; ethnicity: n = 533; 2017 companies for which ethnicity data available in 2019; average EBIT margin 2014–18.
3. Gender: n = 1,265; 2019 companies for which gender data available in 2022 plus Canada, Colombia, Egypt, Israel, Italy, Malaysia, New Zealand, and Spain; ethnicity: n = 590; 2019 companies for which ethnicity data available in 2022 plus Canada and New Zealand; average EBIT margin 2018–22.
4. Advantage/penalty for companies that are in the top quartile/bottom quartile of both gender and ethnicity.

Source: *Diversity Matters Even More* dataset

The penalties<sup>13</sup> for low diversity on executive teams are also intensifying. Companies with representation of women exceeding 30 percent (and thus in the top quartile) are significantly more likely to financially outperform those with 30 percent or fewer. Similarly, companies in our top quartile for ethnic diversity show an average 27 percent financial advantage over others (Exhibit 3).

Both forms of diversity in executive teams appear to show an increased likelihood of above-average profitability. Companies in the top quartile for both gender and ethnic diversity in executive teams are on average 9 percent more likely to outperform their peers. (This gap has closed slightly since our previous report.) Meanwhile, those in the

bottom quartile for both are 66 percent less likely to outperform financially on average, up from 27 percent in 2020, indicating that lack of diversity may be getting more expensive.

### The impact of board diversity is increasing

With boards of directors, our analysis indicates a similar pattern of financial outperformance with greater diversity—and for the first time since we began to track this data, these results are statistically significant with respect to ethnicity as well as gender (Exhibit 4).<sup>14</sup>

13. Rewards and penalties refer to the likelihood of outperformance, or underperformance, on profitability compared to companies in the other three quartiles.

14. When looking at ethnic diversity, we only compare data from countries with a consistent definition of ethnic and cultural diversity, and where our data is reliable. Therefore, we have a much more limited dataset for ethnic diversity. Our analysis of ethnic diversity includes Brazil, Canada, Mexico, New Zealand, Singapore, South Africa, United Kingdom, United States. Equitable ethnic representation is calculated based on diverse representation in each country's population.







Companies in the top quartile of board-gender diversity are 27 percent more likely than those in the bottom quartile to outperform financially. We also see that companies with boards in the last quartile for gender diversity are an average of 17 percent less likely to outperform than those with boards in the top quartiles.

In *Diversity Wins (2020)*, we reported a statistical association between financial outperformance and board diversity in gender, but not ethnicity. Three years later, companies in the top quartile for ethnically diverse boards are 13 percent more likely to outperform than those in the bottom quartile.

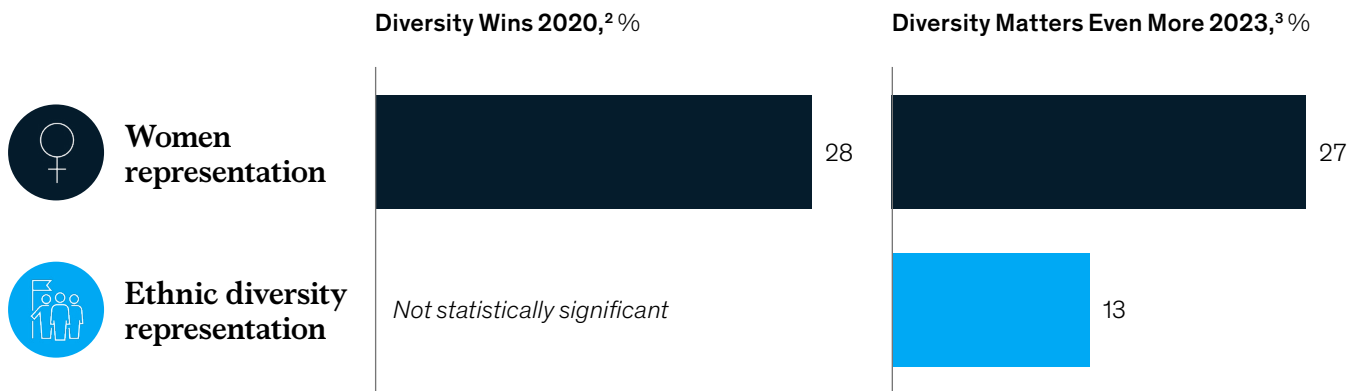
One possible explanation for this statistical significance is that our dataset has expanded. Our company sample size has increased by 18 percent, from 468 in 2019 to 572 currently. Additionally, there has been an overall rise in ethnic diversity representation on boards, from 16 percent in 2020 to 19 percent (20 percent if we look only at those companies in both our 2020 and 2023 datasets).

These findings support our hypothesis that diversity benefits extend across top corporate leadership to boards, where as our interviews show, DEI policy decisions for the whole organization are often made in board meetings. Boards with higher diversity may spark more DEI initiatives, more diversity of thought and innovation, and better organizational outcomes.<sup>15</sup>

15. Molly Stutzman, Yusuf George, Kayva Vaghul, Janet Tran, "A growing number of companies are recognizing the benefits of racially diverse boards," Just Capital, 2022.

Exhibit 4

**The relationship between ethnic diversity and financial outperformance on boards is now statistically significant for both gender and ethnicity.<sup>1</sup>**



1. We considered any correlations with a p-value of <0.05 as statistically significant. We also noted p-values <0.1 given past social science research suggests this is low enough to suggest potential relationships between variables.  
 2. Gender: n = 1,025; 2017 companies for which gender data available in 2019 plus Denmark, Norway, and Sweden.  
 3. Gender: n = 1,246; 2019 companies for which gender data available in 2022 plus Canada, Colombia, Egypt, Israel, Italy, Malaysia, New Zealand, and Spain; ethnicity: n = 572; 2019 companies for which ethnicity data available in 2022 plus Canada and New Zealand; average EBIT margin 2017–21.

Source: *Diversity Matters Even More* dataset

## Analysis of synchronous data reinforces the business case for diversity

The analysis in this report is based on 2022 data on diversity in leadership teams and 2017–21 data on financial performance. This is consistent with our previous *Diversity Matters* approach, which due to the timing of availability of audited financial data, used historical financial data averaged over five years up to a year prior to the point of collection of the diversity data. With a dataset that now spans nearly ten years of financial data, for over 1,200 large, publicly-traded companies across 23 countries, we are uniquely positioned to examine the business case for diversity using synchronous diversity and financial data. We ran four synchronous analyses: simultaneous, midpoint, level, and forward-looking analysis, alongside our baseline scenario which forms the basis of our report.

In the first of these synchronous analyses (“simultaneous”), we used as the dependent variable financial data averaged over the period 2017 to 2022, as the independent variable leadership team representation data averaged over 2017, 2019, and 2022. In the “midpoint” analysis, we used an average of the 2017 and 2019 representation data. In a third, “level” analysis, we tested our most recent 2022 representation data against financial data averaged over 2018 to 2022. Finally, we conducted a “forward-looking” analysis of financial data from 2017 to 2022 with 2017 diversity data as the independent variable. We conducted all these analyses for gender representation, however for ethnicity, we limited them to analyses with years that had shown a statistical significance in our baseline scenario.<sup>16</sup> In each instance we continue to average out financial data over five years, given its significantly higher year-on-year variability versus the representation data.

In each of these four additional analyses we have continued to find a strong correlation between diverse leadership teams and financial outperformance, a further confirmation of our baseline business case for diversity across both executive and board teams. As with all our analyses, we do not attempt to imply causation, for example, determining whether diverse leadership teams cause financial outperformance or financial outperformance causes diverse leadership teams. However, not only did we see a positive correlation for executive teams and gender diversity on boards across all permutations of these synchronous analysis, each remained statistically significant.

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16. As our analysis of the business case for ethnicity on boards became statistically significant starting in 2023 (with a p-value of 0.005), any analyses involving years prior to 2023 for boards ethnicity data were excluded.

## Emerging economies projected to benefit the most from increased diversity

To better understand contextual nuances, we examined diversity in emerging and advanced economies (see box). Even at this basic level of segmentation, we can expect companies to face local business and cultural contexts resulting in differing extents to which diverse representation in leadership and DEI in general are a priority.

Most emerging economies in our sample have a high degree of [gender imbalance in the workforce](#).<sup>17</sup> However, emerging economies have shown meaningful progress in recent years. While gender representation in advanced economies rose five percentage points from 2020 to 2023, with women’s executive representation now standing at 21 percent, emerging economies saw an almost equivalent increase —with representation rising four percentage points within the same timespan (Exhibit 5).

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17. McKinsey Global Institute’s gender parity score reflects on the link between gender inequality at work, in society, and in attitudes around the world.



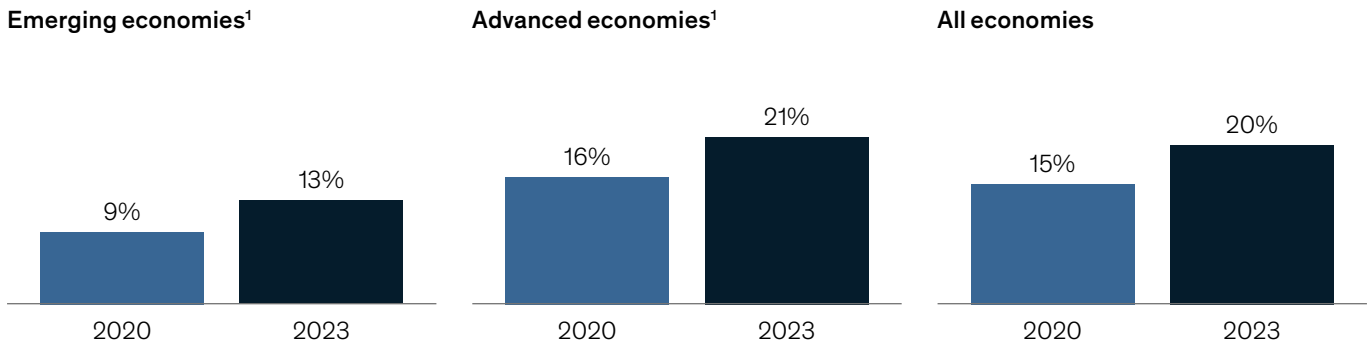
### **Considerations for analysis of the business case in emerging economies**

For this analysis, we've used World Bank economic classifications. "Advanced" economies include Australia, Canada, Denmark, France, Germany, Israel, Italy, Japan, New Zealand, Norway, Singapore, Spain, Sweden, United Kingdom, and United States. "Emerging" economies include Brazil, Colombia, Egypt, India, Malaysia, Mexico, Nigeria, and South Africa. However, we recognize that this is only one system, and that there are multiple local, nuanced cultural norms within each economy that likely impact gender and ethnic representation.

Because we can only compare data from economies with a consistent definition of ethnic diversity, our dataset for this is greatly limited in comparison to our gender data. Data reliability is also relevant: in some emerging economies, Brazil and South Africa, there is sufficient data for our analysis, but in others the available data is limited, including Colombia, Egypt, India, Malaysia, Mexico, and Nigeria.



## Women representation in executive teams by economy type.



1. Advanced economies include Australia, Canada, Denmark, France, Germany, Israel, Japan, Norway, Singapore, Sweden, United Kingdom, United States; emerging economies include Brazil, Columbia, India, Mexico, Nigeria, South Africa. All economies include companies with available gender data in both 2019 and 2022.

Source: *Diversity Matters Even More* dataset

At present, and consistent with our findings in *Diversity Wins*, advanced economies in our dataset see a much higher likelihood of outperformance for executive gender diversity (at 51 percent) than do emerging economies (11 percent). This difference is even starker at board level, where the business case is more than sevenfold.

Transformational change in emerging economies require large scale interventions: long-term, skill-based interventions, sustained investments in

education, and cross-industry collaborations. At the same time, these emerging economies may have the most to gain, with more opportunity to strengthen their business case as representation grows. The best-performing companies in emerging economies often face fierce domestic competition, and [struggle to maintain their position](#) at the top.<sup>18</sup> In this context, creating differentiation through increasingly diverse representation, with its associated better returns, may be especially impactful.

The business case for gender and ethnic diversity on executive teams grows ever stronger, reinforced by the significant impact of board diversity. Our findings show that companies in all economies and industries (especially emerging economies) with more diverse teams are positively correlated to financial outperformance. To ensure diverse leaders are well supported, companies can pursue intentional, purposeful diversity strategies backed by an inclusive culture. In Chapter 2, we see how this is much more than an idealistic vision: equitable representation is a realizable goal that is already in our reach.

18. Pre-COVID-19 McKinsey research shows only 45 percent of emerging-economy companies reaching the top quintile of profit generation hold their place there for a decade, compared to 62 percent in advanced economies.

## Case Study 1

# IHG Hotels & Resorts: Centering inclusion, from local to global

**Hit hard by the COVID-19 pandemic, the hospitality industry has endured a challenging few years. But even through tough times, forward-looking companies such as IHG Hotels & Resorts have maintained their commitment to DEI. Their global-local approach respects regional conditions, fosters independent innovation, and encourages information flow.**

IHG gives maximum flexibility and support to local and regional leadership to pilot appropriate DEI strategies. As Global DEI Director Georgina Warren puts it, the strategy is “locally owned and driven, because the local nuances are so critical.”

There’s a firm-wide circulation of ideas, ensuring that the best concepts permeate the organization. If local pilots show promise, they can be adapted and implemented more broadly, with resources provided by leadership. Open, two-way conversations are key to connecting local leaders with overall DEI strategy.

IHG convenes regular DEI councils where hotel managers around the world can give feedback to global executives, including CEO Elie Maalouf, about what works and what doesn’t. The approach is designed to allow input from managers with local knowledge: “It’s not just global saying, ‘Here’s what you need to do,’” Warren explains. “It’s sharing better practices and insights, researching what we can be doing better.”

“Local leaders want to tap into the energy of the top executives,” adds Louise Byrne, vice president of Global Talent. “They’re really connected with the

DEI agenda and want to translate it to business outcomes. There’s always that nice tension and pushback, with local leaders free to say, ‘This doesn’t make that much sense within our market, let’s modify this.’”

IHG tracks diversity and inclusion throughout the organization, always keeping local contexts in mind. Byrne says, “We have a global approach with a huge focus on gender and ethnicity, but that looks different across the world and includes some stretching targets that we’re on a journey toward achieving.” To this end, the company has developed an inclusion index which allows it to identify “hotspots” that may need extra assistance. “Hotspots are where we need to overinvest,” explains Byrne. “That’s when we decide where to double down—making sure not to spread the jam too thin.”

With these interlinked strategies, IHG empowers employees at every level—corporate, regional, and individual hotel structures—to pursue DEI initiatives that create positive change. This connectivity and openness, Byrne says, allows the company to “keep inclusion at the heart while driving diversity,” even amid economic shifts and challenges.



## Chapter 2

# Equitable representation at the top is within reach

The world of diverse representation in leadership is changing. Top performing companies in our research have delivered on groundbreaking diversity at a rapid pace, setting new aspirational standards. Some that have prioritized executive and board diversity are on the brink of reaching parity in gender and ethnicity, while even companies with average representation have shown progress over time. Growth in women's representation on executive teams has sped up significantly over the past decade, particularly in advanced economies, although ethnic diversity has increased at a slower pace.



## Gender diversity picks up steam, but ethnic diversity lags

Since McKinsey first started tracking data on representation in 2015, women have made substantial gains in the workplace and in leadership. The current global dataset shows that one-fifth of executive team members are women, a third higher than reported in 2020. Eight in ten surveyed companies now have at least one woman on their executive team (up from fewer than two-thirds), while seven in ten have more than 10 percent. Since 2020's *Diversity Wins* (and with an expanded dataset), we have now seen the highest increase in diversity in a decade and more representation at the highest levels than ever before (Exhibit 6,7).

In contrast, ethnic diversity representation has made slower gains in recent years. For companies in both our 2020 and 2023 reports, only 16 percent of executive-team members belong to a historically underrepresented ethnic group.<sup>19</sup> While this is a 14 percent improvement since 2020, larger gains were observed in previous years. There has also been a small shift upwards (to 68 percent) since *Diversity Wins* in the number of companies with at least one person in executive leadership from a historically underrepresented ethnic group.

When considering ethnic diversity in leadership versus the general population, US companies are currently the closest to representing the population at 20 percent ethnic representation on leadership teams in our dataset. However, this still falls behind the equitable ethnic demographic representation at 41 percent. Other countries in our dataset have higher

rates of traditionally underrepresented populations in their executive leadership teams, but also have further to go to reach equitable representation. Across our sample, the weighted average rate of ethnic diversity representation for historically underrepresented groups is 35 percent<sup>20</sup>; however, the equivalent weighted rate of representation is 15 percent on executive teams and 18 percent on boards.

## Women still face higher barriers to representation

Despite strong progress, women are still underrepresented on executive teams in all regions analyzed. Reasons for this are familiar, though in recent years further issues have come to the fore, including increasing indications that women leaders are not satisfied in their roles at work. Our [2023 Women in the Workplace](#) report found that women continue to face more headwinds in the workplace than men, and this is especially true for women of color. As nearly half of women continue to experience microaggressions at work that call their competence and abilities into question, these women are most likely to think about quitting their jobs and struggle with burnout.

Achieving gender parity is a complex aspiration that requires societal, economic, and policy dynamics to be addressed. Companies that have been tackling this issue purposefully and strategically, aligning their internal efforts with government policies where applicable and wider societal interventions, are starting to reap the rewards of a more diverse workforce.

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19. As locally defined, recognizing that each region's ethnic makeup and cultural norms impact progress towards greater representation.

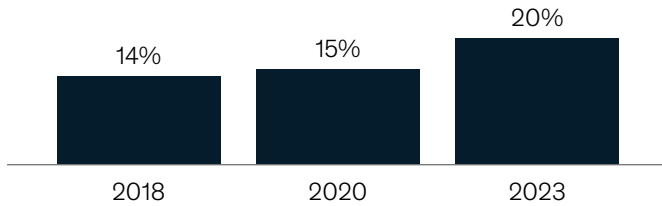
20. We calculate weighted average representation by the number of companies in our sample across each country where there is data on ethnic representation.

Exhibit 6

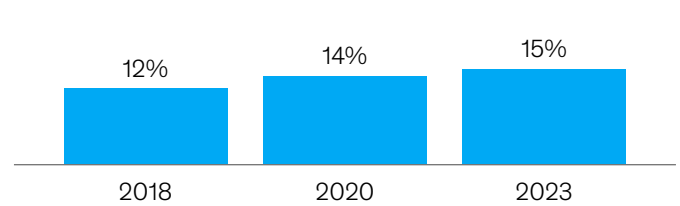
Average women and ethnic diversity representation on executive teams.



Women representation<sup>1</sup>



Ethnic diversity representation<sup>2</sup>



1. Companies with gender data available for 2017 (n = 985), 2019 (n = 1,039), and 2022 (n = 1,265).  
 2. Companies with ethnicity data available for 2017 (n = 586), 2019 (n = 533), and 2022 (n = 590).  
 Source: *Diversity Matters Even More* dataset

Exhibit 7

Rate of change for executive team representation.

Executive team representation, %

xx Average annual change, % points

+xx% Cumulative change 2015–23, %



Women representation

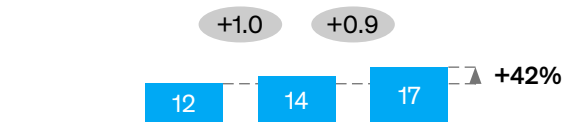
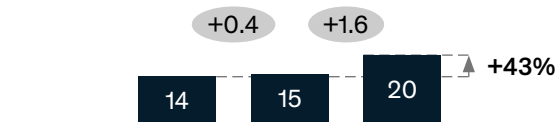


Ethnic diversity representation

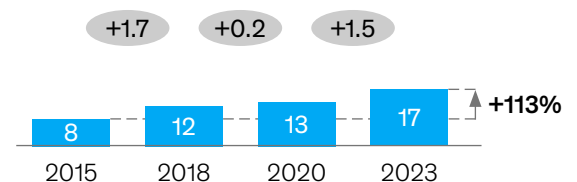
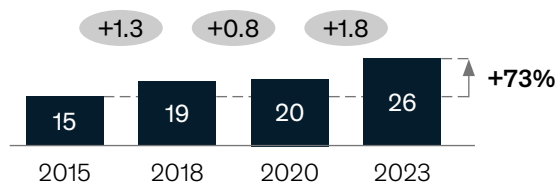
Executive teams from 2020 dataset<sup>1</sup>



Executive teams from 2018 dataset<sup>2</sup>



Executive teams from 2015 dataset<sup>3</sup>



1. Gender: n = 1,265 (executive team); ethnicity: n = 590 (executive team); subset of companies from *Diversity Matters* 2020 dataset for which gender/ethnicity data available for 2019 and 2022.  
 2. Gender: n = 867 (executive team); ethnicity: n = 957 (executive team); subset of companies from *Diversity Matters* 2018 dataset for which gender/ethnicity data available for 2017, 2019, and 2022.  
 3. Gender: n = 365 (executive team); ethnicity: n = 241 (executive team); subset of companies from *Diversity Matters* 2015 dataset for which gender/ethnicity data available for 2014, 2017, 2019, and 2022.

Source: *Diversity Matters Even More* dataset

## Good news as leading cohorts show rapid progress

Over the past eight years, we have tracked over 330 companies' progress on representation and diversity in leadership, and segmented these companies into 5 cohorts based on both 2015 levels of executive-team diversity and progress since then: Diversity Leaders, Fast Movers, Moderate Movers, Resting on Laurels, and Laggards (Exhibit 8).

It has been particularly inspiring to find that **Diversity Leaders** have attained gender parity

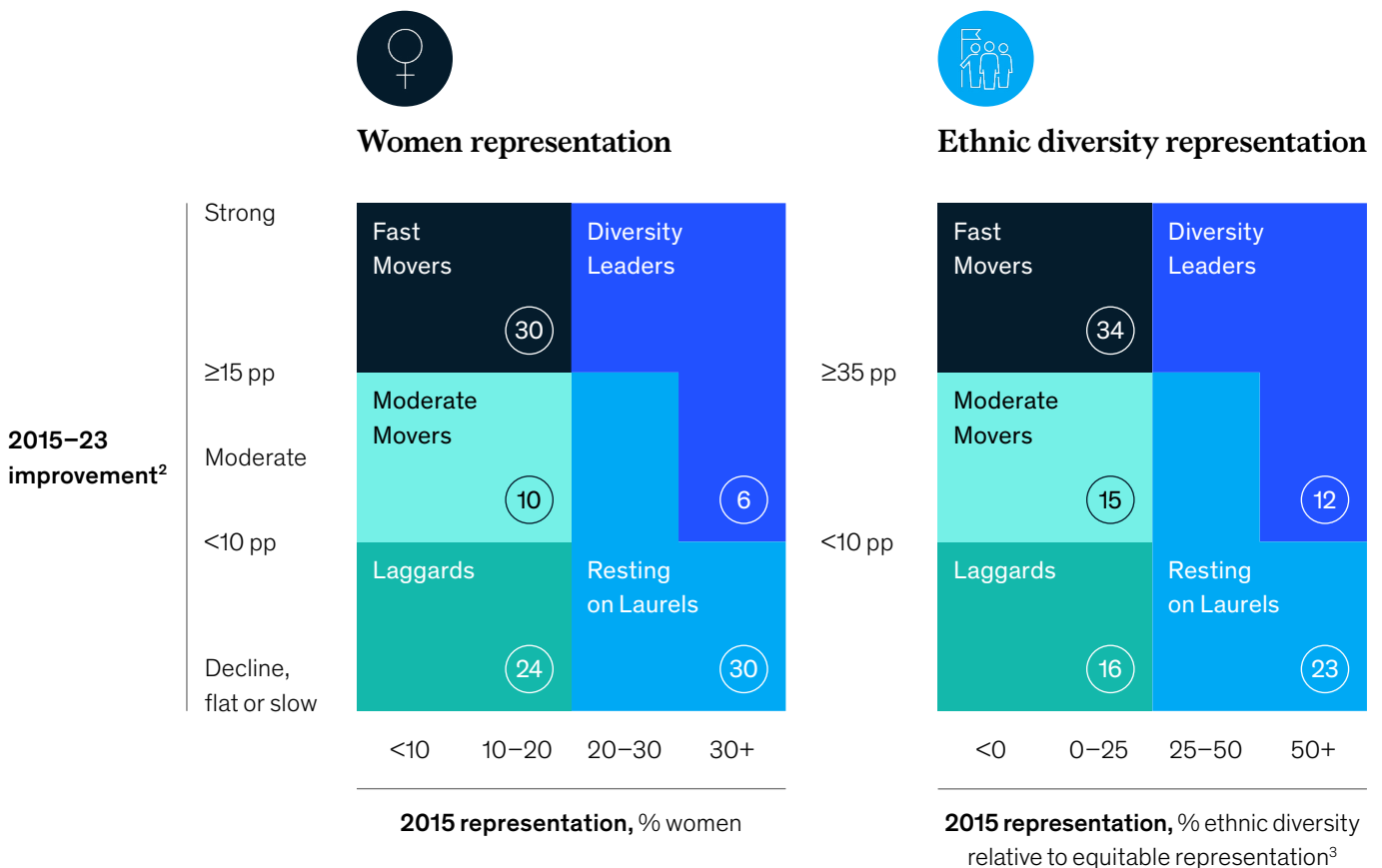
and equitable ethnic representation, showing that equitable representation at the top is not just a lofty dream but a realistic goal. Further, our **Fast Movers** demonstrate that change can happen at speed and scale, with gender representation reaching 32 percent—the first time we've seen such a promising outcome in this cohort. These companies have raised the bar to keep pace with the changing landscape of diversity representation in leadership (Exhibit 9). Their strong performance prompted us to raise the improvement thresholds for companies from our 2020 *Diversity Wins* report to reflect

Exhibit 8

### Cohort matrix and threshold values for 2015–23 comparison.

Given higher diversity on executive teams, we raised the threshold for 2023 cohorts<sup>1</sup>

xx % of total number of companies



1. For this analysis, we used subsets of UK and US companies with available data for 2014 and 2022 (gender = 331 companies; ethnicity = 227 companies).  
 2. Thresholds for improvement were updated from *Diversity Wins* (DM3) to reflect increases seen in top-performing quartiles; gender thresholds were increased by 5 percentage points and ethnicity thresholds were increased by 10 percentage points.  
 3. Equitable representation refers to the level at which a leadership team's diverse representation matches the level of representation of historically under represented ethnicities within a given region's population.

Source: *Diversity Matters* Even More dataset



Executive team representation by cohort using 2015–23 dataset.<sup>1</sup>

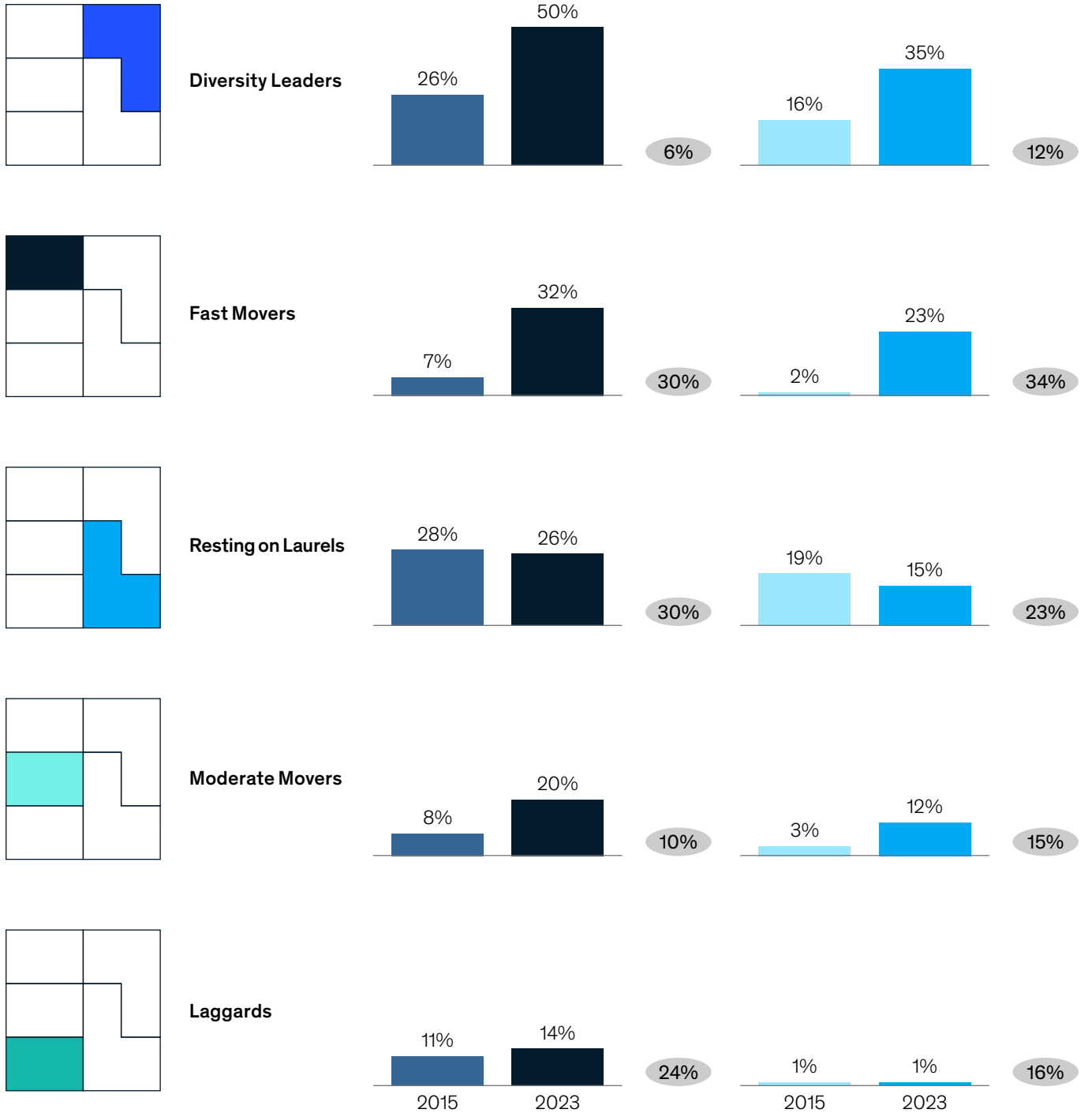
xx % of total number of companies



Women representation



Ethnic diversity representation<sup>2</sup>



1. For this analysis, we used subsets of UK and US companies with available data for 2014 and 2022 (gender = 331 companies; ethnicity = 227 companies).

2. Absolute representation, not relative to country-levels of equitable representation.

Source: Diversity Matters Even More dataset

the gains seen in top-performing quartiles (five percentage points for gender and ten percentage points for ethnicity). While there is still much work to be done in other cohorts, our Diversity Leaders and Fast Movers point to what is possible.

**Diversity Leaders**

In the span of eight years, our Diversity Leaders have moved from representation levels similar to current global average, to gender parity in their leadership teams—a ground-breaking achievement.

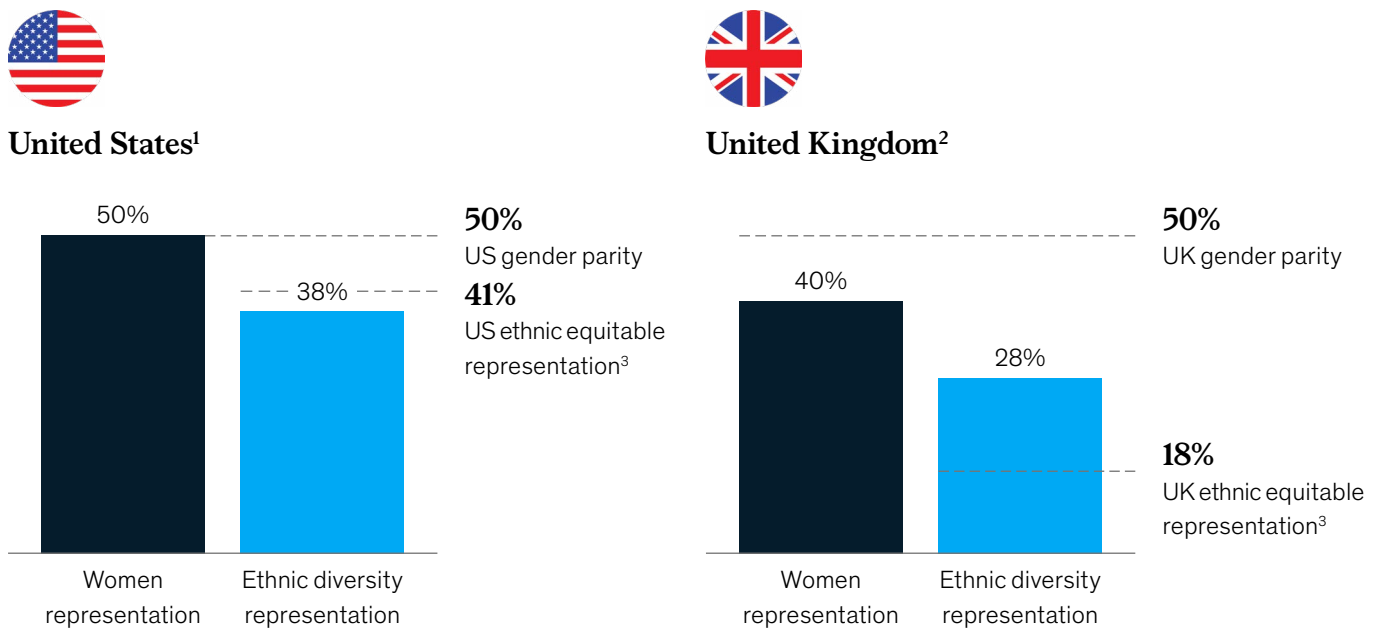
This is a relatively small cohort, as it represents 6 percent of the gender-cohort dataset and 12 percent of the ethnicity-cohort dataset. Of the Diversity Leaders in our last report *Diversity Wins*, slightly under half have remained as gender Diversity Leaders, and similarly, just over half of ethnicity Diversity Leaders have held their status. These shifts highlight that maintaining status as a Diversity Leader requires sustained commitments and actions towards gender and ethnic parity.

In our 2015 report, the Diversity Leaders cohort were at 26 percent gender representation and 16 percent ethnicity representation, only slightly better than current average global representation numbers. Fast forward to the present day, Diversity Leaders in the United Kingdom have reached an ethnic-representation average that in fact exceeds the respective equitable ethnic representation rates. Diversity-leading companies in the United States are also nearing equitable ethnic representation. They have on average 39 percent of executives from historically underrepresented ethnicities.

Moreover, as we mention above, Diversity Leaders in these two markets are also rapidly approaching gender parity, a profound change in representation (Exhibit 10). US Diversity Leaders have now reached 50 percent representation of women on executive teams, while the United Kingdom stands at 40 percent.

Exhibit 10

**Diversity Leaders average women/ethnic representation on executive teams in the US and UK.**



1. Gender: n = 245, ethnicity, n = 156.

2. Gender: n = 86, ethnicity, n = 64.

3. Equitable representation refers to the level at which a leadership team's diverse representation matches the level of representation of historically under represented ethnicities within a given region's population.

Source: *Diversity Matters* Even More dataset; Office of National Statistics (UK) and the United States Census



### **Fast Movers**

A third of both our gender and ethnicity cohorts across all industries are Fast Movers, the largest proportion of companies. They testify that when prioritized, rapid increases in diverse representation are possible and sustainable—and not just for a small subset of firms.

The gender Fast Movers cohort has seen women’s representation grow at an average three percentage points a year, reaching 32 percent off 2014’s low base of 7 percent. Similarly, ethnic representation jumped to 24 percent in 2022 from 2 percent in 2014.<sup>21</sup> In the United Kingdom, we also see the Fast Movers cohort approaching equitable representation for ethnicity at around 16 percent.

Considering the Fast Movers and Diversity Leaders cohort together, we observe that nearly half of the

UK companies in our dataset have either crossed or are approaching ethnic equitable representation, which feels like promising progress. However, for gender, slightly over a third of our cohort companies are up to 20 percentage points off from gender parity on executive teams—showing that there is still a long way to go.

### **Resting on Laurels**

Representing a third of the gender cohort and a fifth of the ethnic cohort, Resting on Laurels is the second-largest cohort in our dataset. These companies are often located in industries with high representation of women, such as retail and healthcare, and many had better initial gender representation at the start than they have now. Once considered front-runners, these now have current average representation similar to that displayed by Diversity Leaders in 2014.

While there is some good news on progress in the area of equitable representation, across most geographies, significantly more work is needed. Diversity Leaders are beacons for other companies, demonstrating that scaling and institutionalizing policies that promote multiple forms of diversity can move the needle on representation. And what of the growing expectation of companies to take a wider perspective, positively impacting their community and environment?—we explore this dynamic in more detail in Chapter 3.

21. While *Diversity Matters* was published in 2015, the report used data collected in 2014.



## Case Study 2

# DHL Group: Cultivating belonging and embracing broad diversity

**DHL Group goes above and beyond DEI statistics, aiming to be a great company to work for, where employee belonging is prioritized in the spirit of “All different, together successful.”**

Diversity is multifaceted, especially for global companies. DHL Group wanted to ensure its strategy embraced all forms of diversity—not just age, gender, sexual orientation, and ethnicity, but also harder-to-quantify aspects like gender identity, cultural heritage, abilities, and religion.

But taking a broad approach to diversity could result in rigidity rather than inclusivity, says Thomas Ogilvie, CHRO of DHL Group. “We cannot structure every facet, as that feels more rigid than inclusive,” he says.

DHL Group goes beyond DEI to encourage a culture rooted in DEIB, where the B stands for belonging. Do employees feel they can bring their whole selves to work? Or as Ogilvie puts it, “If I am the person that I am, will I belong?” And so, while still tracking static diversity metrics, the company now focuses on these experience-based aspects.

This kind of transition requires alignment across the organization. DHL Group deliberately links DEIB principles and actions to its broader strategic approach to be an employer of choice and a great company to work for, for all. And while company-wide values must be set, they recognize the importance of space for regional and cultural particularities to flourish, especially at such a large company with a presence across the world.

A focus on belonging is key to having a workforce that feels truly included. When this is aligned with the company's values and mission, it in turn strengthens that sense of belonging—a virtuous cycle. As Thomas Ogilvie says, “If a person can agree with the statement: *No matter who I am, no matter what experiences I have, I belong to this company*—in other words, if there's an emotional bond—then we have achieved the correct state.”



# Special feature on boards

## Opening the aperture

**Boards play a critical role in steering and overseeing executive teams, and diversity at board level can shape a company’s trajectory. While we continue to see a relationship between board diversity and financial performance, historically underrepresented leaders, both in terms of gender and ethnicity, are still underrepresented in our sample.<sup>22</sup> When they are present, they typically have shorter tenures. However, trends towards a broader range of age and experience, and a more inclusive candidate pipeline, hold promise for improved diversity.**

### Boards are much more diverse than before

Since our last report, gender representation has accelerated, and about 15 percent of women on boards are still in their first year of serving. As in previous analyses, boards tend to be more diverse than executive teams (29 percent women and 19 percent underrepresented ethnic groups versus 20 and 15 percent respectively) (Exhibits 7, 11).<sup>23</sup> Just 5 percent of companies have no women on their boards—a substantial improvement since 2019. However, there are significant regional differences. Women are least likely to hold board positions in Latin America, followed by Asia-Pacific, whilst in continental Europe, 98 percent of companies have at least one woman on the board.

While ethnic diversity had a slow start, significant progress has also been made here in recent years. Globally, a fifth of board positions belong to historically underrepresented groups or ethnicities, a small rise since 2019. Of these, nearly a third are within their first two years of tenure. Just under a quarter of companies have no historically underrepresented ethnic representation, down from 37 percent in 2019.

### Opening the aperture of candidates

In recent years, a series of events and global trends have heightened awareness in North America and select regions in Europe; for example, the Me Too movement, Black Lives Matter movement, an increased focus on social impact goals, and more. As one company executive we interviewed noted, “After [the murder of] George Floyd, there was a ‘meet the moment’ feeling, and the sense of urgency and drive to action increased. We all want to make a positive corporate contribution to society.” We continue to see executives globally prioritizing representation as a business imperative.

Despite this enthusiasm, there is often a perception of a lack of sufficiently qualified candidates from diverse backgrounds. While it is factually true that there are sufficient candidates, this myth does plague many efforts. Further, a candidate may also [hesitate to join boards](#) where they would be the only diverse member, leading them to question the company’s commitment. Truly advocating for diverse representation requires companies to be creative and forward-thinking, not only in how they identify board talent but also in how they increase diversity in the boardroom and convey their core beliefs. It is probable that there are sufficient diverse candidates—but identifying and cultivating them likely takes purposeful and creative effort.

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22. Our dataset for boards analysis spans 1,200+ companies across 23 countries in Africa and the Middle East, APAC, Continental Europe, Latin America, North America, and the United Kingdom.

23. When we stress-test this result by removing countries not included in the 2019 dataset, we see the same jump.

## Rate of change for board representation.

Board representation, %

xx Average annual change, % points

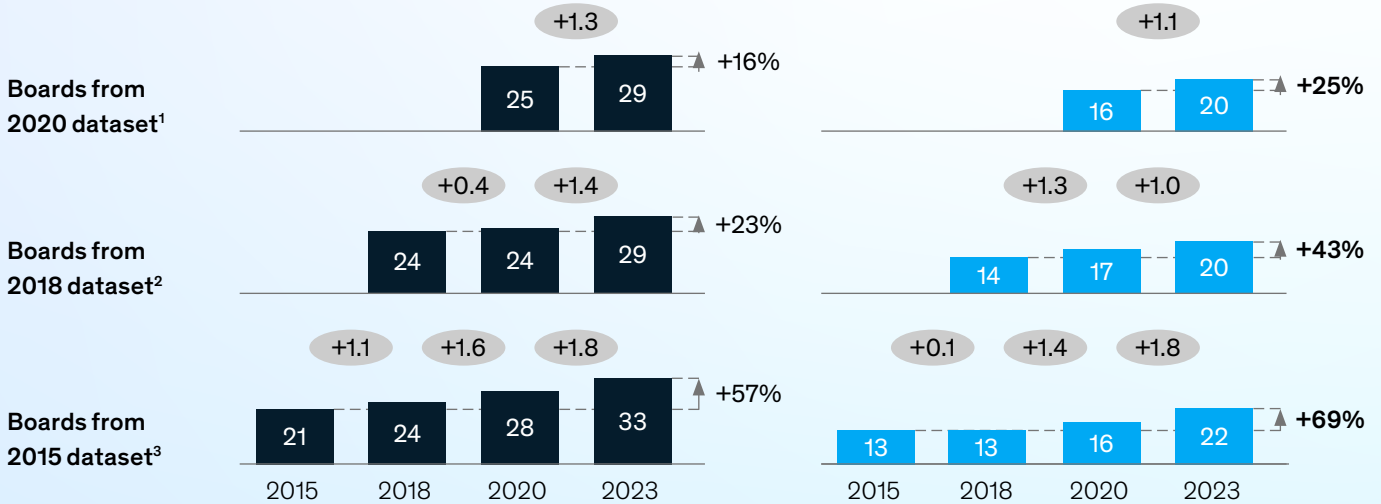
+xx% Cumulative change 2015–23, %



### Women representation



### Ethnic diversity representation



1. Gender: n = 1,265 (board); ethnicity: n = 590 (board); subset of companies from *Diversity Matters* 2020 dataset for which gender/ethnicity data available for 2019 and 2022.
2. Gender: n = 872 (board); ethnicity: n = 957 (board); subset of companies from *Diversity Matters* 2018 dataset for which gender/ethnicity data available for 2017, 2019, and 2022.
3. Gender: n = 115 (board); ethnicity: n = 241 (board); subset of companies from *Diversity Matters* 2015 dataset for which gender/ethnicity data available for 2014, 2017, 2019, and 2022.

Source: *Diversity Matters* Even More dataset

## Considering diverse skillsets and professional backgrounds

Diversity of background has risen in importance throughout organizations, and boards are no exception. In some geographies, the roles of board members have also shifted in recent years, with an increasing number of active executives (such as large business unit leaders, CFOs, CIOs, and CTOs) joining boards.<sup>24</sup> This is a positive shift toward more holistic diversity (see Chapter 3 for additional detail) and diversity of thought, with the perspectives of experienced, working executives enriching conversations and strengthening decision making across the company.

Most companies' board members have previous C-suite experience. However, one of our interviews revealed that intentionally nominating directors who had instead excelled in non-business careers (for example, government, research) brought an unprecedented level of decision-making prowess, benefitting the board as a whole. As a leader in the natural-resources industry noted, "We had to say we're not looking for a senior executive—we actually wanted people who think differently. For example, we had people from government, and they understood where we were going structurally; we also had a lot of social science people, not just people who ran companies." These directors brought unique

24. Board Monitor US, Heidrick & Struggles, 2021.





perspectives on social change, a core value of the organization. Approaches such as these continue to open the aperture for diverse board leadership.

### **Cultivating diverse candidate pipelines over time**

As we mention above, company leaders often express concerns about sourcing diverse board talent. Relying on existing networks to develop candidate pipelines can limit representation and diversity of background, especially if the established leadership has similar profiles. What's needed instead is a broadening of the candidate pipeline, and this requires innovative solutions. Our interviews with companies in the top quartile for gender and/

or ethnic diversity found that effective organizations started reaching out to talent pipelines and networks early on to identify top candidates, and actively maintained these relationships to fill upcoming board seats.

Companies can feed this process [by preparing their own diverse talent for future board participation](#) at other organizations. This includes placing high-potential, diverse individuals in roles with profit-and-loss responsibility, ensuring they have committed mentors and sponsors, and equipping them with the knowledge and skills needed to confront the governance and strategy issues that boards typically face.

## Case Study 3

# Air New Zealand: Doing more, hand in hand with the community

**Air New Zealand (Air NZ) has many DEI initiatives in place, including gender- and ethnicity-based employee networks.**

“It is important that our employees have opportunities to connect across the organization, and that our leadership is representative of the population of Air New Zealand, our customers, and Aotearoa,” says Nikki Dines, Chief People Officer. Even so, the company continues to challenge itself: “Is this really making an impact on the ground?” asks Dines. “Are we doing the right things to make a positive difference to our staff? Achieving accreditations can help, but it’s the actions we take—or don’t take—that matter most.”

To this end, Air NZ has committed to engaging the community in their DEI efforts. The airline has partnered with key stakeholders, from schools to nonprofits to educational institutes, to broaden its talent pipeline and increase employee DEI awareness, and enhance their social impact.

For example, a mission-critical resource for Air NZ is its pilots, yet this profession remains heavily male dominated. In their search for creative solutions, Air NZ pilots visit local schools, educating students, teachers, and careers advisors about careers in aviation and breaking down gendered stereotypes. “For example, female students are sometimes told that if they became pilots they’d never see their

kids,” says Dines. “And that is a misconception: our pilots probably get to see their kids more than many office-based roles!”

Beyond gender, ethnic inclusion remains a challenge, particularly in upper and middle management. “What we’ve found is that our Māori and Pasifika employees less frequently put their hands up for promotions,” says Dines. Conventional emerging-leader programs did not seem to draw the best out of candidates from all cultural contexts. To counteract this, Air NZ chose to partner with a community organization on a program designed to build leadership capability, stressing cultural confidence and providing space to discuss identity. In addition, it changed how employees are selected for leadership roles. “We rewrote the promotion process and added a list of different criteria and asked candidates’ peers to score them. As soon as we put this into place, we had employees from much more diverse backgrounds being selected into leadership roles.”

“Programs like this are growing empathy and understanding, and are helping to shift our culture,” said Dines.





## Chapter 3

# Diversity and inclusive growth

While year over year financial performance remains critical, businesses are increasingly aspiring to have positive, long-term impact on all stakeholders—the core tenet of stakeholder capitalism. This emphasizes the interests and needs of a wider set of stakeholders, including employees, customers, and investors, prioritizes social and environmental goals, and drives towards sustainable, inclusive growth—in short, what we refer to as holistic impact.



In many parts of the world there is a growing call for organizations to consider their holistic impact, not only within their own business environment, but on a wider scale, both locally and globally. Our research points to five main areas of holistic impact: financial and operational, capabilities, health and workforce, and environmental and social. In this report, we broaden the lens of our research, placing particular focus on environmental and social-impact elements. (See box “Finding the link between diversity and holistic impact measures”).

Our findings are striking. Across all industries surveyed, more diversity in boards and executive teams is correlated to higher social and environmental impact scores. Social and environmental impacts are also closely linked. For example, over 80 percent of companies that perform well on social-impact metrics do similarly well for environmental metrics. These relationships are robust and statistically significant across executive teams and boards, for both gender and ethnic diversity.

## Companies are responding to calls for positive impact

Stakeholders across companies’ impact landscape—investors, customers, employees, regulators—continue to expect them to embrace DEI and [deliver on holistic impact commitments](#). In recent years, nine in ten CEOs indicated that caring about sustainability is increasingly important to the future success of their business, and that they are personally committed to a sustainable agenda.<sup>25</sup> Furthermore, 77 percent of consumers said they are motivated to purchase from companies committed to making the world a better place.<sup>26</sup> This is not to say that there is unanimous support for a holistic approach, as it is not universally a priority. However, it is important to note that many stakeholders are interested in an aspiration for companies to create wins for shareholders, employees, and a wider society. Our research aims to provide a fact base for this discussion.

Previous McKinsey research shows that [progress on these holistic goals](#) tends to be linked to strong financial performance, higher equity returns, and reduced downside risk. Companies that pursue sustainable, inclusive growth while continuing to perform on the fundamentals [have stronger financial performance](#) than peers who only excel on financial metrics, as measured by total shareholder returns.

## A clear connection between leadership diversity and social and environmental impact

Over half of the companies in our sample are performing well in reported community involvement metrics, defined as scoring above 75 on the community measure.<sup>27</sup> Diverse leadership teams could go a long way toward closing this gap though, for companies who are not yet performing well in this dimension, leading to a positive impact on the ethical disposition, community orientation, and general image of a company.

We examined how leadership diversity could be linked to three components of holistic impact—community, workforce, and environment—which all have particularly close connections with employee and community well-being. The results were pronounced: across all three components, we found positive correlations with gender and ethnic leadership diversity (Exhibit 12).

Higher levels of ethnic representation in leadership teams are clearly correlated with higher metrics across the board. For instance, at the executive-team level, ethnic diversity is particularly strongly correlated with environmental and workforce scores and metrics: a 10 percent increase in ethnic representation is associated with a rise of nearly 4 points in climate-strategy scores. When we look at what could be the driver of this relationship, one answer might be that diverse leadership helps widen and broaden the perspectives and experiences of a team and in an inclusive environment that creates more innovative solutions to environmental challenges. Or, put more simply, companies that value diversity and inclusive growth are also more likely to prioritize combatting inequity in their strategic decisions.

25. The Decade to Deliver: A call to business action, UN Global Compact and Accenture Strategy, CEO Study, 2019.

26. “Consumers, investors hold corporations’ feet to the fire,” Aflac CSR Survey Report Results and Analysis, Aflac, July 2019.

27. A company is considered to be underperforming if it scores below 75 on the Community measure.

## Finding the link between diversity and holistic impact measures

For each of the more than 1,250 major companies that were included in this study, we took the ethnic and gender diversity of their executive teams and boards and ran a regression analysis against other holistic-impact metrics.

Assessing holistic impact is complicated by the need for measures that are objective, consistent, and for which data can be gathered at scale. For this analysis, we have chosen to use environmental, social, and governance (ESG) scores as a lens for observing the link between leadership diversity and broader impact. We focus on the social (S) and environmental (E) pillars, using subscores which do not overlap with diverse leadership metrics. The governance (G) pillar already involved measures of executive and board diversity, and as such was excluded from our direct analyses.

E scores measure how a company performs as a steward of the physical environment. This considers a company's utilization of natural resources and the effect of its operations on the environment, including across supply chains.<sup>28</sup> Here we chose to look at operational ecoefficiency and climate-strategy metrics. S scores measure how a company manages its relationships with its workforce, the societies in which it operates, and the political environment.<sup>29</sup> These included talent attraction and retention, labor-practice indicators, corporate citizenship and philanthropy, and business ethics.

We also recognize that companies can make a positive impact in ways not measured by ESG scores. Deciding on appropriate actions is not always easy: these must be weighed against operating constraints. Nevertheless, our research aims to inspire change by providing a factual base for debate on these issues.

We calculated correlations between diversity and holistic-impact metrics for gender and ethnicity at both board and executive level. In selecting holistic-impact metrics, we avoided choosing metrics inherent to corporate diversity—such as the number of women on an executive team—to avoid circular logic.

This revealed positive relationships. For every ten-percentage-point increase in women's representation on executive teams, E and S holistic-impact metrics collectively went up by one point.<sup>30</sup> For boards, this relationship was also strong: for every woman added to a company board with ten directors, there was a two-point increase in holistic impact scores. These associations were independent of holistic-impact metrics in the general workforce, ensuring the conclusions were not circular.<sup>31</sup>

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28. "Understanding the 'E' in ESG," S&P Global, October 23, 2019.

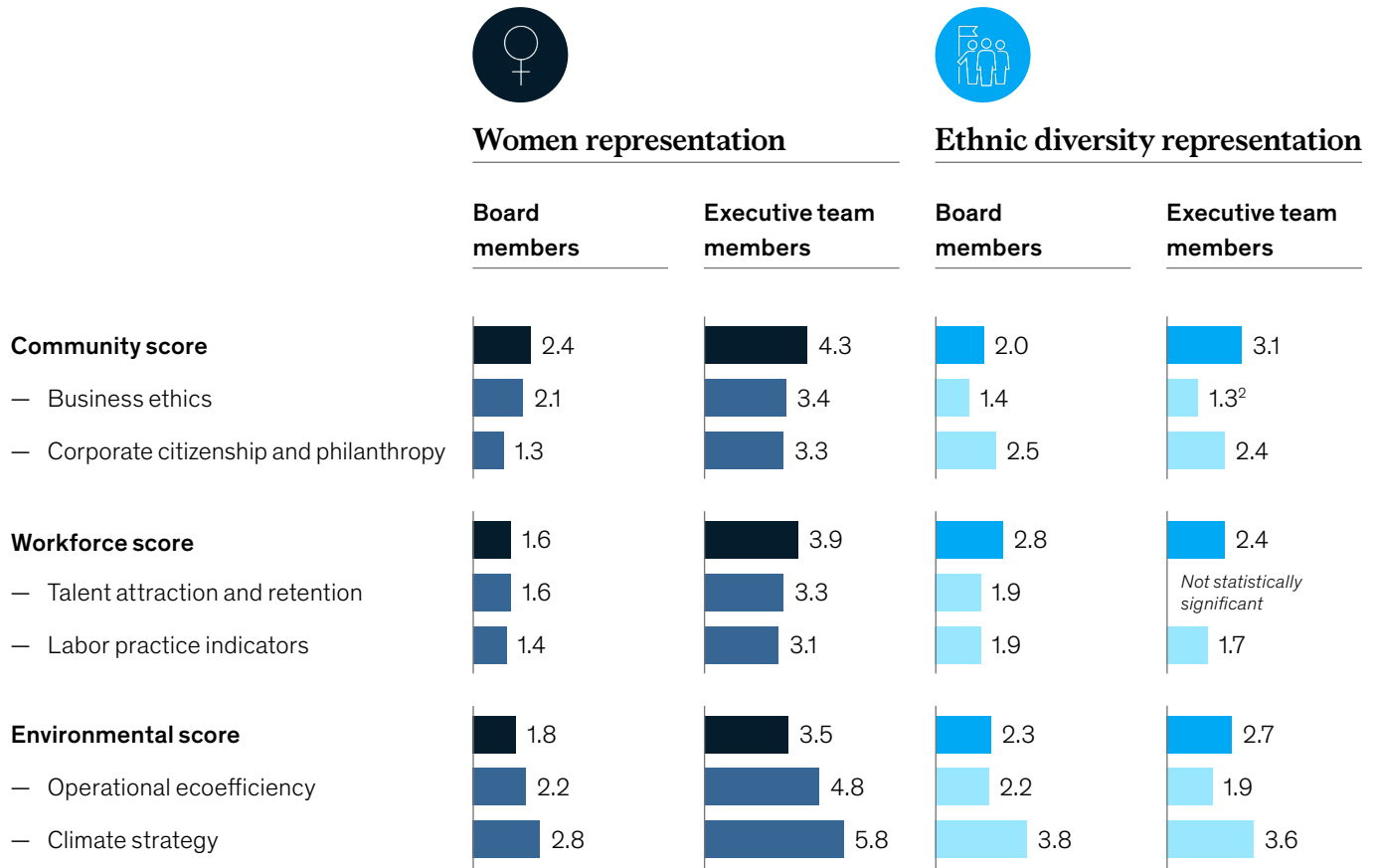
29. "What is the 'S' in ESG," S&P Global, February 24, 2020.

30. The S&P holistic impact score is calculated out of a total of 100.

31. Given the potential relationship between leadership diversity and employee diversity, we tested for multicollinearity between leadership diversity and any holistic-impact metrics relating to the workforce—including employee gender diversity—and found none. Multicollinearity occurs when independent variables in a regression model are highly correlated. Independent variables that are highly correlated may suggest that they are measuring the same thing. Thus, multicollinearity can cause misleading interpretations of regression outputs.

## Correlation of representation on leadership teams with sample of holistic impact metrics.<sup>1</sup>

A 10% increase in diverse representation on leadership teams is positively correlated to additional score point(s), detailed below:



1. To explore further, we tested a selected set of metrics related to each component: within community, we tested business ethics, corporate citizenship and philanthropy; within workforce, we tested talent attraction, retention, and labor-practice indicators; and within environment, we tested operational ecoefficiency and climate strategy.  
 2. Significant only at 10% confidence interval.

Source: BoardEx and Equilar 2022; *Diversity Matters* Even More dataset; ESG Rating 2021; Refinitiv ESG Rating 2021; S&P Global ESG Rating 2021

Gender diversity, too, is strongly correlated with impact across all components, especially at board level. Considering the “talent attraction and retention” and “labor practice” indicators, a 10 percent increase in women on an executive team is correlated with an around 2.1 point increase in each score. These figures more than double when the same increase is applied to boards.

Given the current business environment, the link between leadership diversity and a motivated workforce is particularly notable. Recent workforce well-being challenges, particularly around burnout

and emotional well-being, have been compounded by external forces following the COVID-19 pandemic and many return-to-office trends across the globe. While resignations have since slowed, higher workforce scores do relate to higher rates of both recruitment and workforce retention, helping to limit future turnover.

These findings also highlight the role of inclusion, which is as important as representation when it comes to building a diverse workforce. As we showed in *Diversity Wins*, even relatively diverse companies can struggle to create work environments with





inclusive leadership, managerial accountability, equality and fairness of opportunity, and freedom from bias and discrimination. Companies with more diverse leadership at the top and a commitment to inclusive practices have the potential to be a driving force in developing more inclusive work environments and fostering a happier workforce.

Finally, we also found a link between greater diversity in leadership roles and diversity across the organization.<sup>32</sup> For a 10 percent rise in women's executive representation in our 2019 dataset, we see on average a 2.1% increase in the percentage of both women employees and women managers in 2021.

A similar, if somewhat smaller, effect holds with ethnic representation.<sup>33</sup> When there is a path for women and underrepresented leaders to step into the highest roles, it suggests that there are inclusive practices at play, making it possible for all to succeed.

Overall, there is a strong correlation between diversity in influential company leadership roles and multiple indicators of holistic impact across workforce, community, and environmental components. These relationships hold across sectors.

The case for DEI is clear when it comes to the bottom line. But now we see the benefits extend even further as stakeholders' interest in an organization's holistic impact has expanded. But how do companies tackle this vital and complex task? In Chapter 4, we lay out some suggestions to turn diversity and inclusion goals into a practical action plan.

32. Organization-wide and management diversity is a workforce submetric score within the social pillar. These data points were then compared against our dataset for executive teams.

33. We recognize that there is, naturally, a degree of overlap in these scores.

## Case Study 4

# Edison International: Advancing DEI in and beyond the organization

**A major energy company's commitment to societal impact extends beyond the organization: Upstream to their supply chain, and downstream to the wider community.**

Edison International's leadership asked: "What does it mean for us to be good citizens?" The answer had to include all stakeholders, from the local community to employees to investors. This clarity allowed the company to navigate a goal-oriented path forward, focused on creating wider positive impact. DEI measures are pursued internally among employees as well as in the California community, where the company provides electricity to over 15 million customers.

Internally, the company strives to create trust with bold transparency around representation. Edison International tracks and analyzes pay data, role diversity, and employee sentiments—and shares this data freely to instill accountability and pride throughout the organization. This is paying off: the organization is approaching gender parity and is close to reaching ethnic fair share at the executive level. As of 2022, women comprised 37 percent of Edison executives, up more than 10 percent in five years. The Edison International Board has achieved gender parity amongst its independent directors, and the company's racial and ethnic representation are above national market availability.

Investment in DEI extends to the supply chain. The company recognizes support for women-, minority-, disabled veteran-, and LGBT-owned enterprises as an economic imperative. To make this a reality, the company has held over 100 workshops focused on attracting diverse suppliers, and in 2022 spent over 35 percent of total procurement with such businesses.

Edison International also engages with industry associations and community groups, expanding recruitment efforts to bring diverse talent on board. For example, it joined the American Association of Blacks in Energy (AABE) Energy Equity campaign to increase representation in the industry, and has committed \$1 million in incremental shareholder funding to pilot a scholarship program to expand diversity in the line-worker pipeline.

The company has striven to create an inclusive culture that uplifts all partners in its ecosystem. And with 87 percent of its workforce saying they're proud to work at Edison (exceeding United States, Fortune 500, and Utilities benchmarks), this commitment is paying off.



## Chapter 4

# From commitment to action: 5 levers for change

The last decade has been a period of notable progress on equitable representation in leadership. Yet representation alone is an insufficient and unsustainable outcome. Since *Why Diversity Matters* in 2015, our thinking has evolved with continued engagement in this field. From our initial focus on diverse representation in leadership, we added a perspective on the practical steps companies can take to increase leadership diversity. From there, we broadened our focus to highlight the importance of inclusion and equity.



Now, we are beginning to distill the essence of holistic impact, and the role that leaders play in cultivating visionary workplaces. By building inclusive and supportive workplace cultures where diverse leaders and allies are truly heard, companies can chart a path towards impact beyond financial performance.

Diverse leadership teams know the importance of articulating a clear DEI strategy and values. In our research, the more diverse the leadership team, the more likely it is to have made public, mature aspirations to DEI that flow through company decision making and strategy. The natural but challenging next step is transforming commitment into bold action.

### **Doubling down on diversity commitments**

The past few years have seen a surge of interest in racial and ethnic diversity in corporate environments, with increasing numbers of companies pledging action. Since 2020, Fortune 1000 companies have publicly pledged over \$340 billion to support racial equity, while the proportion of S&P 500 firms discussing DEI in their annual reports has leapt from 14 to 80 percent.<sup>34</sup>

But at the same time, critiques of “DEI-washing”—companies using DEI rhetoric to fashion a positive public image—are on the rise: in a 2020 Edelman Trust Barometer survey, almost two-thirds of American respondents warned that brands proclaiming support for racial equity may come across as “exploitative” or “opportunists” if such statements aren’t followed through with appropriate action.<sup>35</sup> Employees, and even leaders, are growing increasingly disillusioned with the pace of action. Our *Women in the Workplace 2022* report revealed that women leaders were 1.5 times more likely than

their male peers to report having left a previous job in search of a company that was more committed to DEI.<sup>36</sup> In certain geographies, particularly in some parts of the United States, there is now even rising criticism against some DEI initiatives as themselves discriminatory. Despite this, our data tells a clear story: diversity, equity, and inclusion are even more important, and top performers are remaining committed. If companies do not acknowledge the strategic impact and correlation between financial performance outcomes and DEI, they may risk falling behind.

Moving beyond lip service to action can be more difficult than anticipated—a learning journey that diversity leaders reflected on in our interviews. One leader recounted that their firm promoted flexibility to improve representation. However, when women were still hesitant to pursue primarily male-dominated roles, which were perceived to be less flexible, further action was clearly required. Ultimately, the company realized it needed to make flexibility a whole company way of working. The company responded by encouraging greater flexibility in day-to-day operations, regardless of role. Another leader in Asia–Pacific was proud of their LGBTQ+ certification as a public commitment to diversity. But their LGBTQ+ employees did not perceive their workplace culture as sufficiently inclusive. The organization ultimately undertook further initiatives to expand beyond certification, including education on appropriate usage of gender pronouns and initiatives designed to increase both visibility and accountability throughout the organization.

Further insights from our interviews surfaced five strategies that top diversity leaders can pursue to turn words into action:

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34. Megan Armstrong, Eathyn Edwards, and Duwain Pinder, “Corporate commitments to racial justice: An update,” McKinsey, February 21, 2023; Andrew Ramonas, S&P 500 Opens up on diversity after Floyd as investors seek more, Bloomberg Law, February 11, 2023.

35. Edelman Trust Barometer Special Report: Brand trust in 2020, Edelman, June 2020.

36. *Women in the Workplace 2022*, McKinsey and LeanIn.Org, October 18, 2022.

## 1. Commit to a systematic, purpose-led approach to benefit all stakeholders

While a strong social corporate culture used to be thought of as a “nice to have,” our research suggests it is now a “must-have”, central to any corporation’s mission and values. Embracing purpose-led capitalism and a mission-driven culture is now a core part of a compelling business strategy.

Our research shows that a focus on societal good is firmly tied to both workplace satisfaction and community health. Progress on inclusive and sustainable growth goals, as indicated by ESG scores, are correlated to positive financial performance, and investors, customers, employees, and regulators increasingly expect companies to set strong DEI commitments.

For example, we interviewed a nonexecutive chairman of a large conglomerate who observed that the growing presence of women on the board created a more holistic approach to workforce wellness. This has led to better workforce relationships and more satisfied and productive employees overall.

Another company we interviewed has showcased this correlation through their support of the local community beyond their workforce through several initiatives. They partner with universities to reduce stereotypes for women entering STEM fields by providing scholarships and mentorship programs. They also have programs to finance women entrepreneurs and new mothers.

In both of these examples, these diversity leaders use their DEI advantage as a strategic unlock, both to tangibly articulate the value of DEI to the organization and to extend their strategic performance to positively impact their broader community.







## 2. Embed your strategy in company-wide business initiatives while tailoring to local context

DEI aspiration is a company-wide goal, owned and led by top leadership. The critical “and” here is that local teams across the organization also get the needed support and license to tailor this strategy to local contexts. This builds ownership and local impact, and it ensures that the strategy and initiatives used resonate within their unique market and geographic context. As one leader we interview highlighted, “The conversation that Black leaders need to have in the US are different than in the UK.”

To accomplish real DEI action with a “global-local” approach, effective leaders should build open lines of communication to develop a deep understanding of their workforce, community, and customers. These clearly articulated values ensure DEI moves from abstract ideals to concrete actions, and help to avoid “one-size-fits-all” approaches, grey areas, misconceptions, and a lack of follow-through.<sup>37</sup>

A global insurance company, like many other companies, established five global employee networks dedicated to championing DEI from the ground up. Reflecting the dimensions of gender, disability status, nationality and ethnicity, age group, and LGBTQ+ identity, these networks represent the global workforce and expresses employees’ needs and preferences. From there, local DEI groups are responsible for implementing global strategies.

Other companies first agilely test DEI initiatives in specific localities before enacting them as part of a corporate-wide strategy. These firms understand that local managers often understand the nuances of local DEI best and should be given freedom, agency, and support to foster a culture of diversity and inclusion.

37. Ella Washington, “The five stages of DEI maturity,” Harvard Business Review, November 1, 2022.

### 3. Prioritize belonging and inclusive practices to unlock performance

While representation is important, it is insufficient for achieving the performance outcomes we believe serve as the drivers of the DEI business case.

Our previous report highlighted the importance of inclusion in an organization. We found that sentiments surrounding diversity and inclusion differed, with employees reporting more negative experiences with inclusion than with diversity in the workplace. A recent US study found that 94 percent of employees see belonging as very or somewhat important in a workplace—but one in five workers reported that they do not feel they belong at work. For Black and Hispanic employees, the rates of belonging are even lower.<sup>38</sup>

Belonging at work comes from being seen, supported, connected, and aligned to the company's purpose and values.<sup>39</sup> This is true for all forms of diversity, visible and measurable or not, and key for several reasons: the impact of diverse representation is muted if individuals, regardless of identity, do not feel emboldened to [bring their full selves to work](#);<sup>40</sup> some forms of diversity are difficult to quantify and can only be fostered if individuals feel empowered to be authentic; and without inclusion, retaining talent is more challenging.

Companies can create spaces where diverse experiences are celebrated. One multinational organization we interviewed has taken action to increase inclusion and openness. They work with a nonprofit to host facilitated team meetings which encourage discussion and sharing of backgrounds. This exercise has helped bring to light forms of diversity that are not easily segmented. Employees felt empowered to share experiences with physical ability, religion, socioeconomic class, caretaking

for elderly relatives, financial obligations, and past abuse. These experiences brought unique perspectives, and feeling empowered to share them increased feelings of belonging and job satisfaction—and ultimately aided retention levels.

In another example, one company we interviewed wanted to push toward a more holistic view of diversity. To ensure they were recruiting and retaining talent from a variety of backgrounds, they implemented a system that aimed for proportional representation of diverse profiles. However, they soon realized that elements of diversity such as neurodiversity and disability are difficult to quantify and measure; in many parts of the world, employers are not legally allowed to ask people about (and thus track) gender, sexual orientation, religion, and physical ability. Employees found that a stringent quota model led to awkward situations and convoluted hiring procedures.

The organization took this opportunity to rethink its approach, from focusing on specific recruitment metrics to fostering an inclusive culture that encouraged employees to bring their whole selves to work. This ultimately led to more trust and better team results due to how people “showed up” to work.

There may also be a link between belonging and the bottom line. A [recent McKinsey study](#) showed companies that focused on employee belonging, while maintaining a performance-driven outlook, were more likely to outperform their peers and be more resilient.

Further support can include management training that fosters belonging, as well as creating and maintaining affinity and employee resources groups (ERGs). Interviewees said ERGs helped employees feel more satisfied at work.

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38. *2023 Work in America Survey: Workplaces as engines of psychological health and well-being*, American Psychological Association, July 13, 2023.

39. *The Power of Belonging: What it is and why it matters in today's workplace*, Coqual, 2020.

40. <https://www.mckinsey.com/featured-insights/mckinsey-explainers/what-is-psychological-safety>







#### **4. Embolden and activate champions and allies by providing adequate resources and support**

Our research on [Women in the Workplace](#) has shown that while women leaders are as likely as men at their level to want to be promoted and aspire to senior-level roles, they are more likely to experience microaggressions that undermine them and their authority and signal that it will be difficult to advance. This is especially true for women of color. Women leaders also do more to support DEI efforts, effective people management, allyship, and employee well-being. They are leading the transition to more inclusive and supportive workspaces, which is crucial for employee retention and satisfaction, particularly for younger employees.

However, this labor is often invisible and seldom officially rewarded through performance reviews or bonuses, which can make it harder for women to

advance. This also means that women leaders are stretched thinner than their male counterparts—and have higher burnout rates.<sup>41</sup>

To ensure diverse leaders are supported and their efforts are recognized, companies can mentor and sponsor diversity champions, as well as encourage and celebrate allyship. Support can also include debiasing training for leadership, as well as measurable aspirations for leaders on contributions to DEI and employee wellness, bolstered by frequent qualitative feedback sessions. DEI and employee well-being work can also be folded into performance evaluations.

Efforts to increase representation can fall short if diverse perspectives are maligned or ignored, rather than appreciated. Increasing allyship action and embedding support for DEI work into company culture and performance reviews can activate the potential of diverse voices.

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41. *Women in the Workplace 2022*, McKinsey and LeanIn.Org, October 18, 2022.



## 5. Act on feedback, including dissenting voices

There is no single correct approach to creating a diverse and inclusive company, and interviewees emphasized that a DEI strategy is complicated and challenging to get right on the first try. With that in mind, establishing a culture of feedback on DEI strategy from the workforce and wider stakeholders can provide valuable insights, identifying both strengths and opportunities for change. Including dissenting voices and silent majorities can further strengthen the approach and help find connections that are critical to shape an inclusive culture for everyone. Leaders can use routine company pulse surveys to collect feedback internally, and social listening externally.

For instance, an organizational leader of a transportation firm we interviewed received backlash to their DEI practices, such as using inclusive language. Rather than ignoring the criticism, they took the opportunity to better

understand the foundations of the dissent, how to address concerns, and improved education and communication on why DEI initiatives mattered to the company. Educating stakeholders on the business and cultural benefits of DEI, as well as the downsides of bias and groupthink, proved to be an effective way of addressing misconceptions and securing support.<sup>42</sup> In regions and contexts where dissenting views have risen on the benefits of DEI for historically underrepresented ethnic groups, companies may leverage a similar approach. An agile and open mindset may be crucial to shifting strategies in response to feedback. A multinational organization we interviewed proactively shifts strategy to maintain momentum in their pursuit of social good. They provide local teams with the flexibility to test out policies, and hold routine “culture congresses” to share ideas, results, and feedback. For them, the creation of inclusive spaces with psychological safety is key to engendering a robust debate on diverse policies—with both assenters and dissenters.

Our research shows that internal commitments to DEI initiatives have slowed compared to previous years.<sup>43</sup> Yet diversity leaders are doubling down rather than retreating on DEI goals. As we have shown, a focus on diversity delivers benefits in employee retention and satisfaction, consumer sentiment, stakeholder engagement, and license to operate. Now is the time to hold the line and increase investments in DEI initiatives, and commit to the conviction that diversity matters.

42. Ruchika Tulshyan, “Do your employees know why you believe in diversity?,” Harvard Business Review, June 30, 2020.

43. Megan Armstrong, Eathyn Edwards, and Duwain Pinder, “Corporate commitments to racial justice: An update,” McKinsey, February 21, 2023.



# Conclusion

**Over nearly a decade of research, and despite a challenging business environment, we continue to see a compelling and growing case for diversity in the leadership of companies worldwide.**

Our previous years' research showed the importance of building DEI initiatives into company strategy, so that employees of all identities feel included and welcomed in their workplaces. In this report, our findings show an even stronger business case for executive teams, and a statistically significant link between diverse boards and financial outperformance. In addition, companies with greater diversity on their leadership teams are linked to higher holistic-impact scores, including on environmental and social measures.

Companies wishing to achieve lasting impact along these dimensions can move beyond increasing diverse representation to integrating DEI in a purpose-driven approach. This enables diverse leaders to sit in key decision-making roles, builds belonging across the organization, and broadens the company's positive impact across stakeholders, employees, the external community, and the environment.

These findings highlight key imperatives for businesses:

1. Commit to a systematic, purpose-led approach to benefit all stakeholders.
2. Embed your DEI strategy in company-wide business initiatives while tailoring to local context.
3. Prioritize belonging and inclusive practices to unlock performance.
4. Embolden and activate champions and allies by providing adequate resources and support.
5. Act on feedback, including dissenting voices.

These moves are not easy, but our case studies show that they are possible and increasingly worthwhile. In today's ever-changing landscape—with economic turbulence, political uncertainty, and individual company dynamics—diversity matters even more.



# Methodology

Our assessment of gender and ethnic/cultural diversity is based on publicly available data from 1,265 companies across 23 countries. We reviewed corporate and other industry websites to gather statistics on the proportion of women and the split of ethnic/cultural groups for the whole company, the executive team, and the board of directors. Our data was collected in September and October of 2022.

Demographic data was not uniformly available for each company in our dataset. For this reason, the final tally of companies analyzed for a given correlation may be less than the full sample of companies available. The exact sample size for each correlation is provided in the exhibits.

Financial data came from the Corporate Performance Analytics database by McKinsey and S&P Global. We measured profitability using average earnings before interest and taxes (EBIT) margins for non-financial companies and average return on equity (ROE) for financial companies over the five-year period from 2017 to 2021. To ensure fair comparisons for EBIT and ROE measures across financial and non-financial companies, we standardized each metric using its mean and standard deviation.

We limited our dataset to those companies for which we could obtain complete financial data (EBIT or ROE) and gender data for the executive team. For some of these companies, board and/or ethnicity data was also available. For the purposes of this analysis we analyzed companies' proportion of "men" or "women" employees due to data limitations, but recognize that gender is not binary. Our observations on other forms of diversity (such as LGBTQ+ or age) were limited by a lack of access to publicly available data.

## Definition of company levels

"Executive team" is defined according to each company's own definition of its executive management team or committee. Typically, this refers to C-2, which encompasses the CEO and up to two levels below, typically the executives on C-suite level who report directly to the CEO (for example, CFO, COO, and presidents). In some cases, we also include C-3 (for example, vice presidents) where these executives are listed on a company's website or annual report as being part of the executive management team.

"Board of directors" refers to the official directors of the corporate board, including both independent and executive directors, responsible for governance and oversight. The composition of boards varies considerably across the sample, and the degree of regional diversity observed may be influenced by government diversity aspirations.

## Determination of diversity quartiles

Companies in our global dataset were grouped into quartiles based on the diversity of their organizations at each level. For gender diversity, quartiles were based on the percentage of women at a given level, relative to the total ("global" sample) of 23 countries: Australia, Brazil, Canada, Colombia, Denmark, Egypt, France, Germany, India, Israel, Italy, Japan, Malaysia, Mexico, New Zealand, Nigeria, Norway, Singapore, South Africa, Spain, Sweden, the United Kingdom, and the United States.

For ethnic diversity, we reprised a metric used in our original [Why Diversity Matters](#) publication: the normalized Herfindahl-Hirschman Index (NHHI), used by economists to measure market concentration and competition within an industry. We adapted the NHHI to differentiate diversity in companies that had the same number of non-majority executives overall, but where one executive team included a greater range of ethnic backgrounds. Since the publication of the original research, we have inverted the ratio such that an NHHI measure of 0 indicates a team where everyone has the same race or gender. Increases in NHHI indicate an increase in ethnic/cultural diversity.

$$HHI = \sum N_i^2$$

$$NHHI = (HHI - 1/N) / (1 - 1/N)$$

$$NHHI_{new} = 1 - NHHI_{old}$$

where  $N$  is the number of ethnic groups in the specific geography

Ethnic diversity quartiles were also set globally. However, given the limited availability of ethnic/cultural demographic data, the sample was much smaller—only eight countries out of 23: Brazil, Canada, Mexico, New Zealand, Singapore, South Africa, the United Kingdom, and the United States.

While our correlations are based on companies' NHHI ratios, we also aggregated ethnic/cultural representation by industry and by geography. We define ethnic group identity as it is understood in each geography:

- Brazil: Branco/Branca, Black, Asian, multiracial, other
- Canada: Aboriginal peoples, White, Black, Asian, other
- Mexico: White, Mestizo, Indigenous, Black, other
- New Zealand: European, Māori, Pacific (Pasifika), Asian (including South Asian), Middle Eastern/Latin American/African, other
- Singapore: Chinese, Malay, Indian, other
- South Africa: Black, White, Colored, Indian/Asian ancestry, other
- United Kingdom: White, Black, Asian (including South Asian), multiracial, other
- United States: White/European ancestry, Black/African ancestry, Latino of any race, Asian/Asian ancestry (including South Asian), other (including mixed race)

## Methodology for financial performance

We grouped companies into peer groups based on industry and region (headquarters location). Within each industry-region pair, we then determined what the median EBIT was. If a company's EBIT was above their industry-region's median EBIT, then it was classified as "outperforming". This is consistent with previous *Diversity Matters* publications. We fit all the financial data to normal distribution curves and determined that differentiating the bar for financial performance using industry-region pairs was a necessary step to ensure that we were truly capturing those companies that were outperforming.

## Regression analyses

We considered any correlations with a p-value of <0.05 as statistically significant. We also noted p-values <0.1 given past social science research suggests this is low enough to suggest potential relationships between variables.

## Cohort analysis

For gender-cohort analysis, a subset of US and UK companies with available gender data in 2014 and 2022 was used (331 companies). These were segmented into cohorts based on diversity baseline in 2014 and rate of change to the 2022 diversity landscape.

For ethnic-cohort analysis, a subset of US and UK companies with available ethnicity data in 2014 and 2022 was used (227 companies). They were segmented into cohorts based on diversity baseline in 2014 and rate of change to the 2022 diversity landscape relative to the respective equitable representation of ethnic and cultural diversity locally. Equitable representation is defined as how closely leadership mirrors regional demographics.

In both cases, we established matrix cutoffs based on the companies' distribution in each of the baseline and rate-of-change axes.

## Societal business case

For the societal business case, the gender and ethnicity representation data are used alongside environmental and social data sourced from S&P Global and Refinitiv. Companies with available data for holistic-impact metrics from S&P Global (1,153 companies) and community and workforce social scores as calculated by Refinitiv (1,265 companies) were included in the analysis.

We ran multivariable regressions with each of these metrics, considering industry-region pairs to standardize for performance across these pairs. As with financial performance data, these metrics were not available uniformly for each company in our dataset, and the exact sample size for each observed correlation is detailed in the corresponding exhibits.

In the analyses involving ethnic representation, the raw average was used over NHHI measures to capture a clear relationship between an additional historically underrepresented ethnic team member and social impact metrics.

## Deep-dive company profiles

We conducted research on leading companies in our dataset using publicly available information from their websites. We supplemented our findings with senior executive interviews, including the companies profiled. From these deep dives, we selected frontrunners with lessons for other companies and developed case studies which outline four distinct examples of DEI best practices. To learn more about our case studies, or if your company would like to participate in our research in the future, please contact the authors.

## Limitations of this work

This work adds to a growing body of research on the business case for DEI, and sheds light on how companies can use diversity as an enabler of business impact. Several caveats and limitations are worth highlighting.

Correlation is not causation, and we are not asserting causal links. As with many levers of business performance, particularly at such a high level, causation would be challenging to demonstrate, likely requiring detailed longitudinal studies. Yet, while not necessarily causal, the relationship is real. We have found statistically significant correlations between higher levels of diversity and above-industry-average financial performance in our original 2015 report, our 2018 and 2020 updates, and this report. Other research gives us good insight into what might underpin this relationship, and our interviews tell us how companies can make material differences in their DEI outcomes. Taking all this into account, we think companies on the hunt for growth can be much more tactical in how they think about DEI as a lever to pull.

Also, we cannot definitively say what drives the correlations we find. It is theoretically possible that financial outperformance enables companies to achieve greater levels of diversity. For example, companies that perform well financially may choose to deploy more of their resources toward advanced talent strategies, allowing them to attract more diverse talent. However, in practice this seems unlikely. We have observed that most companies only embark on a major transformation when they have a burning platform to do so.

Measures of holistic impact, particularly the ESG data we have utilized in this report, are still nascent. Scores across rating agencies correlate by roughly 55 percent due to variation in metrics and definitions. Currently, available data is also primarily a measure of harm reduction rather than positive societal or environmental impact. We leveraged them for this report as they are currently one of the only globally available standardized indicators of non-financial impact. As these rating systems mature or new measures for rating holistic impact are created, it may be possible to identify a more direct link between diverse leadership and holistic impact. For example, measuring a wider range of societal impact and sustainability, including measures such as equality of opportunity and sense of belonging, as they relate to diverse leadership may be the next logical step of this analysis.



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