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Diversity 2013

Making diversity a core corporate strategy

An executive summary produced in partnership with Mercer Consulting, Ernst & Young, AkzoNobel, Pfizer, Cummins, AIG, Bank of America, British American Tobacco, NCWIT, Goldman Sachs, Avon and Northern Trust

Executive summary

Diversity is fast becoming the new imperative for the adaptive, competitive enterprise. Once seen largely as an issue of social responsibility and community relations, creating a more diverse and inclusive workplace is now a key step in companies' quest to harness a global workforce that is itself changing faster than ever—culturally, ethnically, geographically, and by gender, lifestyle, and age group. These changes reflect shifts in the global economy itself, where emerging markets are major sources of future growth, and consumer populations even in developed markets are increasingly heterogeneous.

Companies today are confronted not only with the reality of a more diverse labor market, but the necessity of harnessing cognitive diversity in order to remain adaptive and innovative.

Companies are confronted with the reality of a labor market that comes from different sources and makes different demands on employers: Not only are life spans increasing, but greater access to education and training are boosting the supply of well-trained personnel from previously obscure sources, and important segments of the workforce are demanding more flexible schedules that accommodate their lifestyles. Avoiding the choices inherent in these shifts is no longer an option, as rapid advances in technology make it imperative for companies to attract and accommodate workers with new skills if they want to achieve the cognitive diversity that will enable them to remain adaptive and innovative.

Companies are focusing on four dynamic and fast-growing workforce segments, all covered in our study:

- **Women** will make up a larger component of most segments of the educated, highly skilled workforce in coming years. They supplied 57% of all college graduates worldwide in 2012, rising to 72% for those with degrees in health and welfare.
- Workers at the age extremes—**under 25 and over 65**—represent a significant share of the labor force in some of the world's fastest-growing economies. Tapping the growing supply of older workers, in particular, helps companies to counterbalance pressures from declining birthrates in the developed markets.
- **Foreign-born workers** help to offset falling birthrates in the developed world, while skilled, innovative, and dynamic foreign-born workers help to address high-end skills shortages as well.
- Meanwhile, **a new, flexible workforce** has become a crucial driver of cognitive diversity, playing a growing role in recruiting and retention of some of businesses' most creative and highly skilled workers. "We call it agile working," says Leena Nair, Vice President of Human Resources at Unilever. "You work out of home, work out of wherever is convenient to you. As long as you get the work done, it doesn't matter." Women, older workers, and those with different abilities want jobs tailored to their specific needs, which range from caregiving to "portfolio careers" in which individuals may combine multiple jobs, or a salaried job with freelance work.

Many companies today have adopted a diversity statement and instituted programs explicitly supportive of diversity and inclusion. Key advantages companies cite from such efforts include greater access to talent at a time when businesses are concerned about skills shortages; better market intelligence from a workforce that more closely mirrors the profile of the company's clients and customers; and enhanced innovation, which some studies have found is nurtured by "collective difference."

Advantages of a more diverse workforce include greater access to talent, better market intelligence, and enhanced innovation nurtured by "collective difference."

Says Ney Silva, People Management Director at Natura, the Brazil-based cosmetics direct seller: "We believe in the power of cultural integration and in the interchange of perceptions, behavior, and knowledge. As we strive to extend our geographic reach, we are aware that this factor will be decisive to our future success."

About this report

This report draws upon Oxford Economics' Global Diversity Databank, which provides human resources service providers and diversity executives with data to measure diversity performance, make the case for investment, and understand how future trends may affect long-term HR strategy. The Global Diversity Databank draws upon government and other data sources, including the International Labour Organization, United Nations, labor-force survey results from national statistics organizations, and national census results.

This report looks specifically at four key facets of diversity: gender, age, nationality, and workplace flexibility. It also reviews industries' approach to part-time employment. The regions and countries covered in this report are Advanced Asia-Pacific (Australia, Hong Kong, Japan, Singapore, and South Korea); Advanced Europe (Austria, Belgium, France, Germany, Italy, the Netherlands, Norway, Spain, Sweden, Switzerland, and the UK); Central and Latin America (Argentina, Brazil, and Mexico); Emerging Asia (China, India, Indonesia, Malaysia, and the Philippines); Emerging Europe (the Czech Republic, Poland, and Russia); Middle East and Africa (Egypt, South Africa, Turkey, and the UAE); and North America (Canada and the US).

Industries included in the Global Diversity Databank were integrated into Oxford Economics' Global Economic Model to provide industry forecasts to 2020, calculated for diversity metrics driven by historic trends over a 10-year period. The 10 industry groups covered in this report are banking; energy/chemicals; heavy, primary, and technology manufacturing; insurance; pharmaceuticals; professional and business services; retail; and technology, along with a range of subsectors.

Diversity across industries and regions

Five of the seven industries (see Fig. 1, below) that have progressed the farthest at encouraging diversity—retail, insurance, professional and business services, IT services, and banking—also have the largest service component and thus the greatest exposure to a large, diverse client and customer base.

Fig. 1: Diversity across industries

	Share of female employees	Rank	Share of females in senior management	Rank	Share of employees under 25	Rank	Share of employees over 65	Rank	Share of non-national employees	Rank	Share of part-time employees	Rank	Average rank
Banking	53%	2	21%	10	12%	6	1.4%	8	3.3%	6	7%	6	6.3
Professional and business services	45%	4	30%	6	9%	11	5.1%	1	5.8%	2	14%	2	4.3
Energy/chemicals	26%	11	26%	7	10%	10	0.9%	10	1.6%	12	2%	12	10.3
Heavy manufacturing	23%	12	21%	11	14%	4	1.6%	7	2.8%	7	4%	9	8.3
Insurance	58%	1	30%	5	10%	9	2.4%	4	6.6%	1	11%	3	3.8
Pharmaceuticals	41%	6	32%	4	9%	12	0.2%	12	1.7%	11	3%	10	9.2
Primary manufacturing	45%	5	36%	2	14%	2	1.9%	5	1.8%	10	5%	7	5.2
Retail	52%	3	34%	3	25%	1	3.9%	3	3.9%	5	19%	1	2.7
IT services	30%	8	37%	1	11%	8	0.8%	11	4.6%	4	8%	5	6.2
Technology manufacturing	30%	9	26%	8	13%	5	1.1%	9	2.3%	9	3%	11	8.5
Total manufacturing	28%	10	24%	9	14%	3	1.6%	6	2.4%	8	4%	8	7.3
Wholesale	35%	7	20%	12	11%	7	4.0%	2	4.7%	3	10%	4	5.8

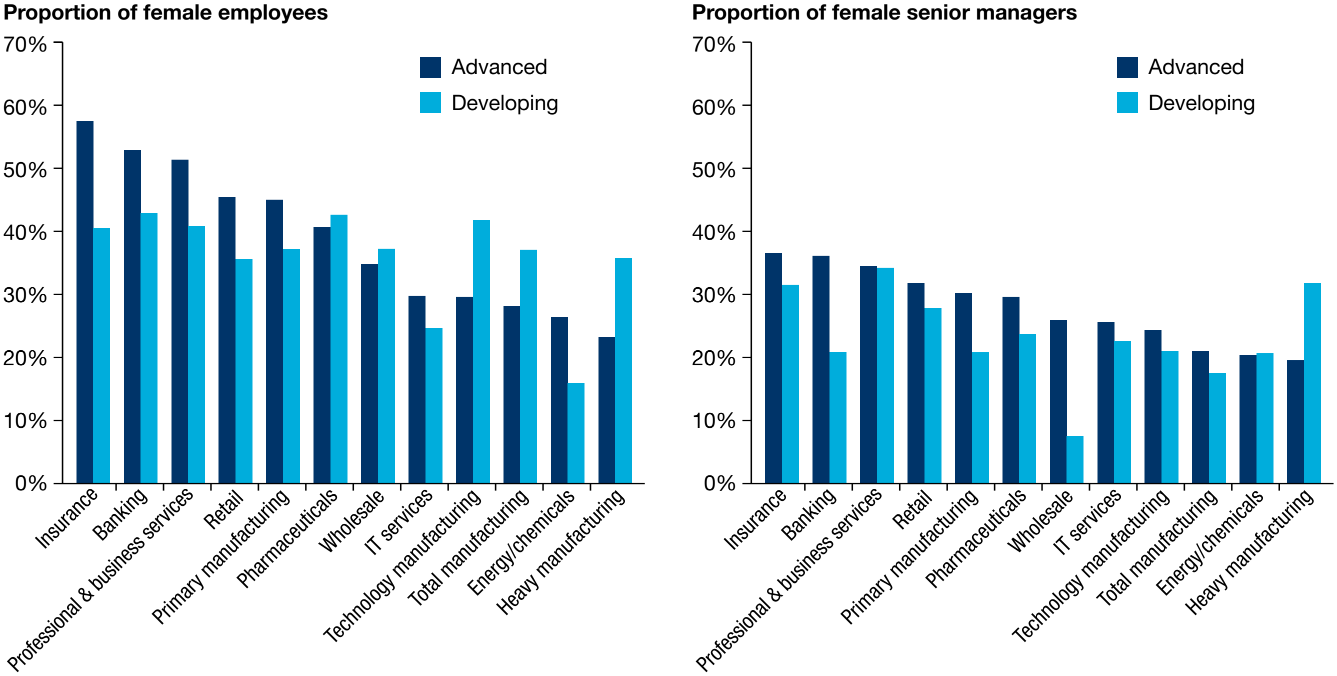
Source: Oxford Economics

Note: Global performance is based on an aggregation of the 33 countries included in the Global Diversity study. The rank proportion of female employees is based on the deviation of each sector from a 50–50 ratio.

However, specific industries and countries will progress at vastly different rates over the next five years, our study projects.

Women. Advancing women in the workforce is probably the longest-standing and most widely endorsed diversity objective. The US and western Europe will continue to rank among the top economies for women's share of the workforce, according to our projections, as will Singapore and Hong Kong—smaller economies with tight labor markets. Global companies are often hiring and promoting women in these markets more rapidly than in the developed nations, according to executives we interviewed, due to the appetite for talent in these fast-growing economies. However, retaining women later in their careers can be difficult, and they continue to struggle to break into the ranks of top management and the board (see Fig. 2, opposite), occupying well under 40% of seats in all industries globally.

Fig. 2: Substantial employment for women does not translate into higher proportions of women in management positions



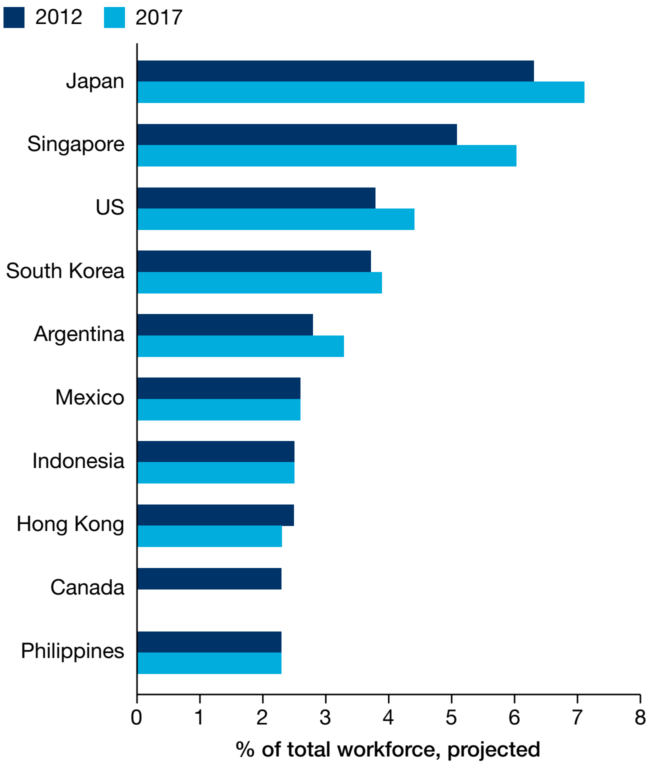
Source: Oxford Economics

The multigenerational workforce. "We're beginning to pay attention to the generational makeup of our workforce," says Ron Glover, Vice President of Diversity and Workforce Policy at IBM, "and beginning to create opportunities for dialogue between the generations as a way to share best practices, break down communication barriers, and help all our people become more adaptable and collaborative."

Developed and emerging markets diverge strongly regarding employment at the age extremes (see Fig. 3, page 6), however. In almost every industry, over-65 workers are far more likely to be employed in the former than the latter; for under-25 workers, it is the opposite. We also identified a split between industrialized economies in age-specific employment. Slower-growing industrialized economies with relatively generous pension systems, such as Spain, France, and Belgium, are the least likely to employ over-65 workers; many of the same economies, including Italy and Spain, employ lower shares of under-25 workers, possibly reflecting rigid labor laws and regulations.

By contrast, other advanced industrial economies such as Japan, the US, and South Korea, are relatively high employers of older workers, and rank in the middle of the group of markets we studied for employment of younger workers—who are most heavily employed in emerging markets with young populations. These trends are expected to continue over the next five years. There is less evidence of direct competition for jobs between older and younger workers, however. In only two industries—retail and primary manufacturing—do both groups have a relatively strong presence in most markets.

Fig. 3: Top 10 employers of over-65 (left) and under-25 workers (right)

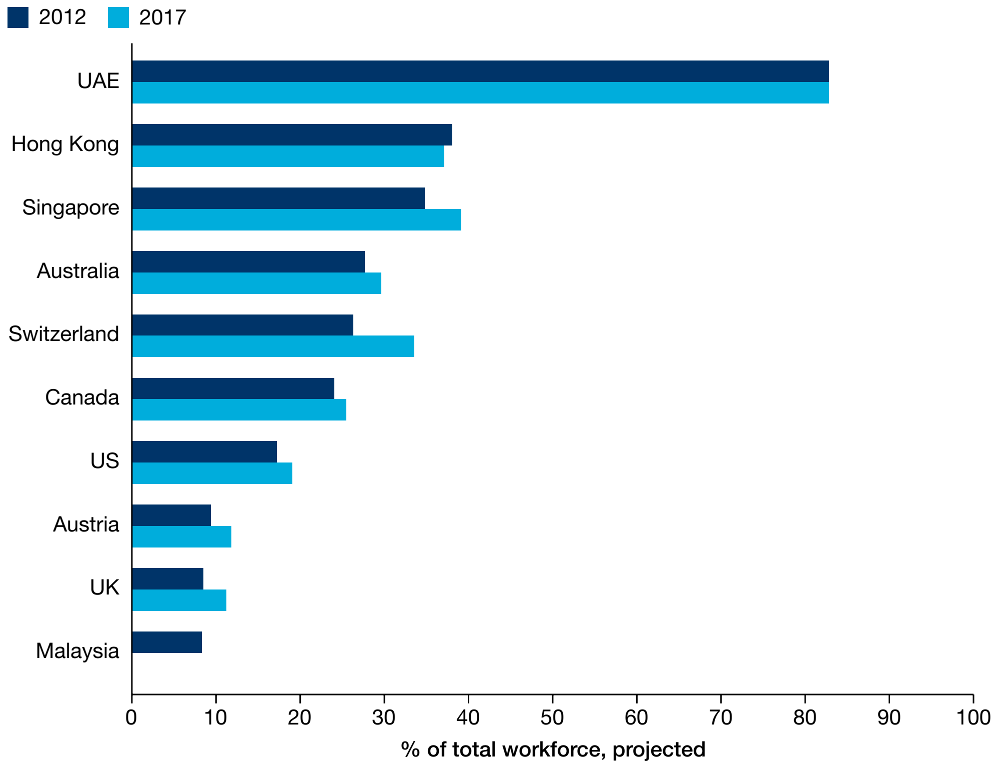


Note: 2017 data for Canada outside the top-10 range. **Source:** Oxford Economics

Foreign-born workers. Migrant workers will have the largest presence over the next five years in North America and other advanced countries with aging populations and low birthrates—even in countries undergoing economic stress. Those with the lowest demand are fast-growing emerging markets that have benefited from offshoring, including Poland, China, India, and the Philippines.

The flexible workforce. While the largest users of part-time workers are—and will continue to be—large, developed markets (see Fig. 4, opposite), the trend is spreading to other regions as well. In 27 of the 33 markets we studied, companies plan to increase their use of these workers in the next five years. Companies in emerging Asia are among the heaviest employers of part-time workers over-65. Part-time workers are most common across the majority of regions in retail, insurance, and professional and business services. Industries that use part-timers the least are pharmaceuticals, heavy manufacturing, energy and chemicals—which either require special skills or greater amounts of supervised manual work.

Fig. 4: Top 10 employers of part-time workers



Note: 2017 data for Malaysia outside the top-10 range. **Source:** Oxford Economics

Diversity puts companies in sync with a global economy that integrates a far wider variety of markets, workforces, and talent pools than ever before. The odds of succeeding in this environment will be far greater for companies that position themselves to take advantage of the resources it offers. This includes, crucially, creating an inclusive culture that welcomes difference and the insights it can make available. The many benefits to taking a more strategic approach to diversity include:

- **Access to talent.** Rapid reinvention of business models, accelerated adoption of new technologies, and market volatility are forcing companies to expect new kinds of skills from their staff, across all levels of employment.
- **Better customer intelligence.** Global companies know their workforce must not only match the diversity of their customers but share elements of customers' cognitive framework if they are to penetrate markets around the world.
- **Enhanced innovation.** As Scott Page, Professor of Complex Systems at the University of Michigan at Ann Arbor says: "Innovation provides the seeds for economic growth, and for that innovation to happen depends as much on collective difference as on aggregate ability."

The Three Cs of diversity and inclusion

Achieving the level of cognitive diversity that comes only with a truly inclusive corporate culture is a multistage process we identify as the "three Cs" of diversity.

Level one: Compliance. Companies at this level primarily aim to comply with the law as it pertains to diversity. They typically have a corporate diversity statement but no formal diversity strategy.

Level two: Commitment. Top management has set various diversity goals, and the company is committed—at least in principle—to developing a diversity strategy through, for instance, mentoring programs, diversity councils, and employee groups.

Level three: Core. Diversity is integrated into the company's product development, innovation, and marketing, often through employee teams that draw on members' cultural and cognitive differences in ways that promote more expansive, innovative thinking.

In moving to the third "C," executives we interviewed stressed the importance of listening to new diverse employees and making sure their opinions, impressions, and experience inform the company's diversity strategy. Employee resource groups (ERGs), which provide a common space for workers with particular affinities to meet, share, and form support networks, were cited repeatedly as an effective tool for moving from diversity to inclusiveness.

But while our research and interviews indicate that many companies have made significant progress, very few have progressed through all three "Cs." Getting to the second and third "Cs" must be a company-wide process, incorporating inclusive teaming skills and training against unconscious bias, in order for diversity to contribute to growth and innovation. Otherwise, says Sari Brody, Global Diversity and Leadership Manager at IKEA, attention to diversity can promote a perception that someone's gain will be someone else's loss.

Case study: Ernst & Young on the importance of leadership and listening

A strategy to improve corporate diversity and inclusiveness can yield important benefits—greater innovation, faster growth, and closer connections with an increasingly diverse customer base. But encouraging greater D&I is also an exercise in cultural transformation—one that is less a matter of numbers than of creating a more inclusive environment where diverse viewpoints and insights are welcome.

To get there, the company must make sure its D&I strategy is informed by the viewpoints of its diverse people—women, foreign-born workers, those representing different generations, professionals with differing abilities, and other groups. Karyn Twaronite, Americas Inclusiveness Officer for the global Ernst & Young organization, has participated in "listening tours" in the firm's offices throughout the Americas to interact with a diverse range of employees, elicit their opinions, impressions, and experiences, and make sure these inform the organization's D&I policy.

The challenge to embedding D&I throughout the organization is that much greater when the company operates in multiple, diverse markets. At Ernst & Young, for instance, women comprised 40% of those promoted to partner in Asia-Pacific in 2012—the highest share ever.

To address this challenge, Ernst & Young LLP offers "inclusive teaming skills" to combat unconscious bias as part of its core training curriculum, says Ms. Twaronite. One example is feedback training. "All of our new counselors—those who have responsibility for coaching and counseling more junior staff—must go through training on their role," she says. "This training includes content on frames of reference and how these can impact how we evaluate performance. Counselors are guided

Key drivers of diversity

The importance of diversity is swiftly gaining acceptance among CEOs, many of whom see it as a key to maintaining competitiveness. But even where this is less well accepted, five drivers of diversity are likely to compel companies to make it a corporate goal:

- **Legislation and regulation:** Governments, especially in the advanced economies, continue to expand their laws and regulations mandating equal treatment of women and other disadvantaged groups.
- **Female economic activity:** Economically inactive women are often seen as a burden on public finances, while integrating them into the workforce is regarded as an alternative to increased immigration.
- **Longer careers:** Governments are also encouraging hiring of older workers, in order to ease pressure on national pension systems in coming decades.
- **Flexible working schedules:** Making the best use of women, older workers, and those with different abilities will often require accommodating their need for non-traditional working arrangements such as flexible or part-time schedules.
- **Customer behavior:** Making best use of workers' cognitive diversity will become increasingly vital to understanding and responding effectively to the demands of a more heterogeneous marketplace. At Bank of America, says Geri Thomas, Chief Diversity Officer, "We have teams who specialize and personally understand the needs of our customers, and then we develop products to cater to those needs."

For companies facing talent shortages, competitive pressures, and government mandates, workforce diversity is not an instant solution. But to discover its potential impact, companies need to begin quantifying their diversity and creating the conditions for a more inclusive culture.

to focus on results versus style, and this learning is reinforced through practice scenarios."Companies committed to D&I also need to create opportunities, such as employee affinity groups, for their diverse employees to communicate and make themselves heard. Ernst & Young LLP refers to these groups as Professional Networks and has created Today's Families, made up of "new, expectant, and veteran parents who meet regularly to provide support, resources, networking, and mentoring opportunities," says Ms. Twaronite. Along with offering flexible work arrangements throughout the Americas, these resources include a national backup child-care contract that gives US employees access to quality care centers and credentialed home care professionals.

Affinity groups also make it easier for companies to work through challenges within and across diverse employee populations. "If you want to develop talent and advance women, including men is crucial," says Ms. Twaronite. "Many of our leadership development efforts include men and women."

The insights gleaned from a consistent effort to listen to diverse groups of employees also inform the company's approach to recruitment. Ernst & Young LLP created EY Insight, a suite of online tools—also available over social media—that introduce prospects to the firm and its people. Says Ms. Twaronite, "Flexibility is important to Gen Y, and these real-world glimpses into the lives of actual Ernst & Young people provide tangible examples of how our flexible culture is embedded in our service lines."

While all of these efforts make a huge difference in developing and implementing an organization's D&I strategy, top management support is essential, says Ms. Twaronite. "Our D&I leaders have a seat at the table, which is incredibly important to placing D&I at the core of the company's strategy and culture."

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