Great expectations

How the cultural shift toward deeper diversity can succeed




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In today's broader understanding, true diversity is a diversity of perspective, and inclusion is what puts diverse perspectives to work in everything from making better decisions to tapping into diverse markets to fostering innovation. Yet despite the almost universal acceptance of the business case, even extremely well-intentioned companies often run into great difficulty when it comes to walking the talk. In what follows, the authors explore the obstacles that stand in the way of progress and they offer some proven principles and practices that can help make genuine diversity and inclusion not just a professed value but an operational reality.

IN THE famous Oak School experiment conducted in the 1960s, psychologists led a group of teachers to believe that certain students were likely to be showing signs of a spurt in intellectual growth and development. In fact, the students had been selected at random, but at the end of the school year they showed greater gains in IQ than did those in the control group. The experiment is the classic demonstration of the self-fulfilling prophecy – that what we expect of other people is what we will get.

Also known as the "Pygmalion Effect," after the George Bernard Shaw play in which a poor flower girl is transformed into a lady through the expectations of Professor Henry Higgins, it cuts both ways. People of whom less is expected perform worse than they might have otherwise. The phenomenon was later documented in management by Dov Eden in *Pygmalion in Management,* and a variant of it, called "priming," was given wide currency by Malcolm Gladwell's *Blink*.

But under whatever name, the phenomenon suggests the potentially disastrous effects of prejudgments, which are often the main obstacles to diversity. And, in a wider sense, it certainly applies to the concept of diversity itself: expect little from diversity and that is what you are likely to get – a numbers game aimed largely at compliance, not high performance.

Leading companies now have much higher expectations. They understand that diversity, by itself, is not enough. It must be accompanied by inclusion – integrating diverse colleagues not only into formal organizational processes but also informal processes and social relationships at work. That doesn't mean turning them into clones of members of the predominant group. In fact, somewhat paradoxically, it means including the person's difference and putting it to work, not erasing it. It means respecting difference and expecting it to count.

"Difference" can encompass not only the familiar demographic categories but any characteristic that the dominant group in a particular context might consider "other." That dominant group could be the usual suspects – white males seemingly partial to people who look just like them – or it could be an engineering culture that was uncomfortable with the ideas and business orientation of people from customer-centric backgrounds. In yet another organization, the issue might be a dearth of people with a genuinely international outlook. In this broader understanding, true diversity is a diversity of perspective, and inclusion is what puts these diverse perspectives to work.

As Paul Bulcke, CEO of Nestlé, said in an interview (p. 4), "Our primary concern is not ensuring that the largest possible number of nationalities is represented in the Nestlé Group, but that different ways of thinking and/or ethnic perspectives are integrated and respected in all our decision-making processes."

From making better decisions to tapping into diverse markets to fostering innovation, diversity and inclusion is not only a value, it is also valuable. In a study of 180 publicly traded companies in France, Germany, the United Kingdom, and the United States over the period 2008 to 2010, McKinsey & Company found that companies with more diverse top teams were also top financial performers. Companies ranking in the top quartile of executive-board diversity achieved returns on equity that were 53 percent higher, on average, than those of companies in the bottom quartile. And the more diverse companies enjoyed margins on earnings before interest and taxes that were 14 percent higher than those of the least diverse companies.

Yet despite the almost universal acceptance of the business case today, even extremely well-intentioned companies often run into great difficulty when it comes to achieving diversity and inclusion in practice. They are finding that no matter how much they talk the talk, walking the talk is much harder.

The cost of failing to walk the talk can be high. Externally, the company can get a reputation as inhospitable to diversity, damaging the employer brand and making it more difficult to attract top talent. Internally, a lack of inclusiveness can lower morale and lead to high turnover, with all of its human and operational costs.

The less diverse the organization, the more likely it is to succumb to groupthink, where everyone shares the same assumptions and the cohesiveness and unanimity of the group override the will to consider other courses of action. Groupthink thus not only stifles innovation but increases the risk of poor decision-making generally.

Consider the decision of the British East India Company in 1856 to introduce the new Enfield rifle for use by the company's Indian troops. To load it, the soldiers had to bite off the ends of cartridges lubricated with grease derived from the lard of pigs and cows, an insult both to the Muslim troops, who regarded pigs as unclean, and to the Hindus, who regarded cows as sacred. This was the final indignity that sparked the Indian Rebellion in 1857, which, in addition to the carnage on both sides, resulted in the dissolution of the company in the following year.

But even organizations that are diverse can fall short if they fail to achieve inclusiveness. Diversity without inclusion, without openness to the difference of others, without realizing the power of other people's point of view and a genuine willingness to reconsider one's own viewpoint, can lead to significant misunderstanding, conflicts and poor decision-making. Diversity and inclusion must go hand in hand.

Lack of inclusiveness not only threatens the viability of companies, it impoverishes nations. In *Why Nations Fail: The Origins of Power, Prosperity, and Poverty,* economists Daron Acemoglu and James Robinson conclude that nations succeed economically when their institutions are inclusive and pluralistic, creating incentives for everyone, not just an elite, to work for a better future.

Making diversity and inclusion an operational reality

Despite the strong incentives to succeed at building diverse and inclusive organizations and the clear dangers of failing to do so, walking the talk can be hard. Whether in hiring, appraisal, succession planning, individual development, high-potential programs, onboarding, or the many other critical inflection points involving talent, the risk of reverting to a mere numbers game remains.

In our work assisting companies with all of those inflection points, we have found that there are some proven principles and practices that can help make genuine inclusion not just a professed value but an operational reality:

Ensure commitment from the top. Any initiative that doesn't come with the full commitment of the top leadership is likely to wither on the vine. Diversity and inclusion is no exception. One of the early adopters of the broader understanding of diversity and inclusion was Lou Gerstner, the legendary former CEO of IBM, whose approach to diversity was documented in *Harvard Business Review* by Harvard Business School Professor David A. Thomas. Back in 1995, Gerstner made diversity a market-based issue, incorporated inclusiveness in the initiative, and had the executive sponsors of each of the initiative's eight task forces report directly to him. And by all accounts, Gerstner and his successor, Sam

Palmisano, modeled the behavior they were insisting on throughout the company.

By 2004, wrote Thomas, IBM had increased its number of female executives worldwide by 37 percent and its number of U.S.-born ethnic minority executives by 23 percent. Further, more than half of the council of the top 52 executives who determine corporate strategy were women, U.S.-born ethnic minorities, or non-U.S. citizens. The number of executives with disabilities had tripled and the number of self-identified LBGT employees had increased by 733 percent. But the real story was the initiative's effect on the company's business: $300 million in revenue by 2001 from partnering with vendors to supply largely minority- and female-owned small businesses, a recommendation from the disabilities task force that was designed to generate a billion dollars in revenue over the course of a decade, and hundreds of millions of dollars in revenue from other diversity-based market initiatives. As a result, IBM today, now led by CEO Virginia Rometty, looks dramatically different than it did in 1995.

The ability to handle diversity is measurable

Assess executives specifically for their competency in inclusiveness. Based on experience working with senior management teams across industries and on more than 25,000 management appraisals – including appraisals of CEOs, CFOs, COOs and CIOs – that Egon Zehnder International has conducted during the past five years, we have found that the ability to handle diversity and inclusiveness is as concrete and measurable as any of the more familiar leadership competencies like strategic orientation, change leadership, developing organizational capability, and market knowledge. Beyond demonstrating a superior level of team leadership and collaboration, which should be systematically measured in these traditional competencies, leadership also requires, we believe, a specific competency of inclusiveness.

The model for inclusiveness provides a baseline measurement of how leaders evaluated as "outstanding," "good," and "average" score on the scale.

- Executives who score poorly on inclusiveness accept the validity of other cultures and other points of view, but they do not act on that understanding.
- Executives who score in the middle reaches of the scale go beyond understanding to action. They get results working with diverse colleagues; they seek out differing views and try to anticipate how diverse colleagues and groups will respond to their views, and as managers they are able to make appropriate decisions tailored to the socio-cultural circumstances in which they are operating.
- Executives who score in the upper reaches of the scale understand the power of diversity both internally and in markets. They behave proactively to put diversity to work for the company, and they act as facilitators between different groups and cultures. They are not only able to leverage diversity but they are also able to educate others in the organization about how to do so, and their competency in inclusiveness is integrated with their other competencies.

As with any essential leadership competency, understanding inclusiveness and the typical behaviors for each level of performance is valuable in three essential ways. First, it provides an assessment tool for CEOs and senior leaders who are looking to hire the right executives for their top teams. Second, it provides an additional and increasingly important criterion that divisional and functional heads and other top leaders can use in selecting, promoting and developing team members. And third, it provides a personal development roadmap that executives and managers can use to improve their behavior and performance on diversity and inclusion.

In defining a role and assessing someone for it, take team effectiveness into account. There are two aspects to any executive role – the specifics of the job itself and the individual's role as part of a management team. Too often executives are assessed only in terms of the former. But what they add as a member of a leadership team in terms of diversity may be as important as their individual skills as a leader or as a functional expert.

We recommend starting by having the organization proactively assess the power of its management team's diversity as a part of a more wide-ranging Team Effectiveness Review. We find that evaluating the team's strengths and weaknesses in the context of diversity and inclusion can provide a clear roadmap for existing teams to constantly improve their impact. It can help guide the composition of new or reorganized teams. And in all cases, teams can target dysfunctions and eliminate them, and identify strengths and leverage them.

Don't confuse short-term promotability with potential

Assess for potential. In recruiting, succession planning, inviting young talent to the high potential pool, and many other talent appraisals, organizations too often base their judgments solely on the individual's experience and past performance. Both of those criteria are important, but they don't necessarily predict future behavior; and they confuse short-term promotability with potential. Giving experience and performance undue weight is not only a poor predictor of real potential, but it can also particularly disadvantage individuals who may have had unorthodox or simply different career paths or been denied opportunities to gain specific experience.

On the other hand, a lack of criteria and a framework risks reverting to subjectivity, which highly favors "in-group" members. It can be very difficult to recognize potential in people very different from us. Providing the organization with a robust framework for assessing potential is therefore key. Beyond experience, performance, and competencies, the framework we have developed includes specific drivers of potential like curiosity, engagement, and insight, as well as a thorough understanding of each individual's identity and ambition.

Provide early feedback for new hires

Tailor onboarding. Inclusion depends on successful onboarding. Studies show that in the onboarding of a newly hired executive the first 90 days are critical. This is especially true when the executive does not fit the dominant profile of the organization. During the hiring process, let candidates know that a careful onboarding process has been designed to set them up for success in their new surroundings. Begin with a careful diagnostic of cultural differences new hires should expect between the corporate culture they came from and the one they are joining. Help them map the key stakeholders within the organization and work out how to best build new relationships with them. Arrange non-threatening settings in which they can ask without embarrassment very basic questions about how things are done in the company and about expectations regarding performance. Our experience shows that a trusted advisor outside the organization who knows it well can be a helpful complement to an internal mentor. We have also found that 360-degree 'integration checkpoints,' involving all key stakeholders, and workshops designed to accelerate team integration can provide the rapid and early feedback that is critical for new hires and other members of the organization to understand and appreciate each other.

In the absence of a proven, comprehensive onboarding process, the new hire may perform less than effectively during the first months or year on the job, and we all know how hard it can be to turn around a poor early impression. New hires who feel themselves adrift, or facing an impenetrable culture, may grow frustrated and depart. The company not only loses its considerable investment in the executive, but also the departed executive's area may lack direction until the position is filled. Most importantly, the company misses out on the business benefits that might have been generated by that executive and earns an unwanted reputation as a place where inclusion is more illusion than reality.

Root out unconscious biases. Social psychologists tell us that deep-seated, largely unconscious biases prevent us from accurately interpreting the behavior, character, motives, and worth of people who differ from us. These can lead to poor talent decisions in any of the steps described above. These cognitive biases lead, in turn, to biased behavior such as micro-inequities – the tendency to give preferential treatment to others perceived to be members of one's group – or to the setting up of formal and informal groups that exclude people perceived to be different. Such behaviors undermine inclusion and lead those who are excluded to feel that the organization is merely paying lip-service to diversity.

In sum, when applied systematically and consistently, these principles and practices can go a long way toward creating a culture in which diversity flourishes, inclusion includes everyone, and multiple viewpoints multiply value.

See your leaders in full and in the round. Recognize their obvious strengths but look also for the great potential that lies in their differences. As with the Pygmalion effect, you will get what you expect: expect little and that is what you will get. Expect much more and you will be greatly rewarded.

If diversity has become a well-recognized plus, inclusion has become a must. Instead of suffering from misunderstanding and distrust, the organization becomes an incubator of fresh ideas and new perspectives that can lead to previously unrecognized opportunities in products, services, and markets. And it becomes an environment in which better decisions – and empowered employees – are the norm.

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