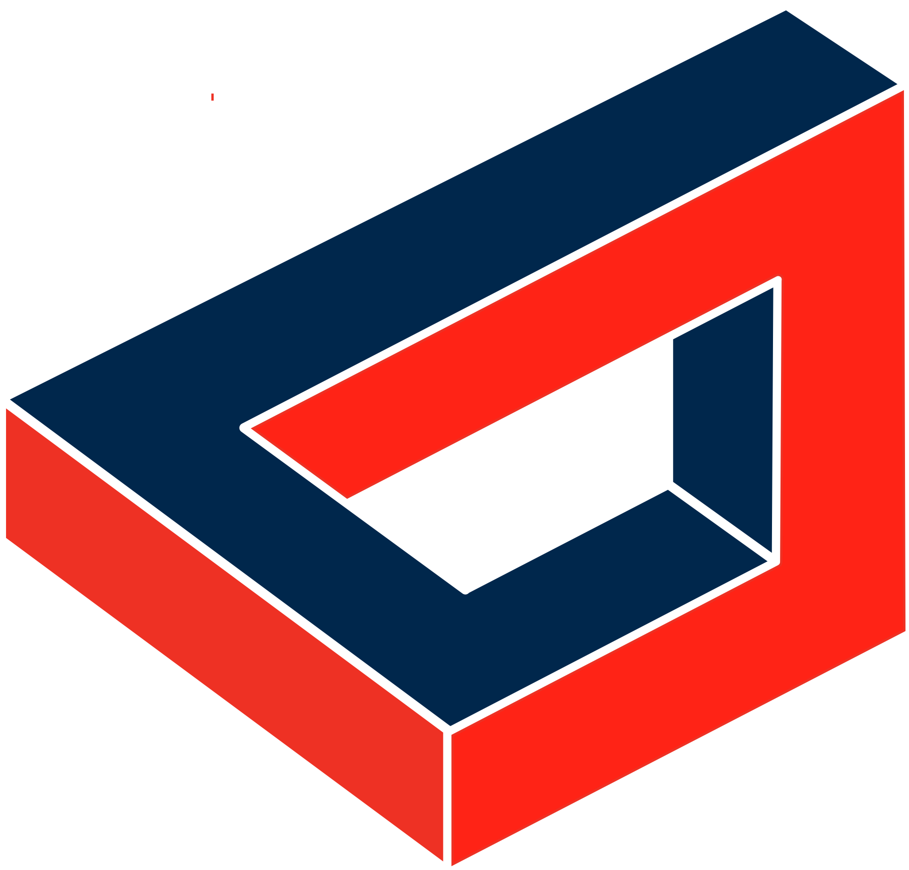
Egon
Zehnder
International

What CEOs Need to Know to Make Diversity and Inclusion Really Work



What CEOs Need to Know to Make Diversity and Inclusion Really Work

In the past decade, diversity management has grown from largely a matter of compliance to an urgent matter of company success. No longer an issue that is confined to the HR function, it has become top-of-mind for CEOs who understand its long-term implications for their businesses. Yet really making diversity work is proving harder than ever. Why? The answer lies in deep-rooted cognitive biases that few people recognize. Here's what you can do about it.

As diversity has moved to the front burner for CEOs, the concept has broadened from familiar categories of gender, geography, race, and the like, to an understanding of difference as 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 diversity problem might be a dearth of people with a genuinely international outlook. In this broader understanding, true diversity is a *diversity of perspective*. It is a range of informed opinions, educated views, and ideas; and it is perhaps the best source of innovation and organizational creativity.

This broader understanding involves considerable nuance. It acknowledges that people from diverse backgrounds and orientations are often more diverse in perspective because of a different set of assumptions and norms. But it also insists that the focus on diversity of ideas, as opposed to background, should not become an excuse for welcoming only those who look like the employer and who, in the worst case, turn out to lack even the diversity of ideas that is the business value of diversity in the first place.

Meanwhile, leading companies now understand that diversity, by itself, is not enough. It must be accompanied by inclusion—a company culture that genuinely welcomes, values, and leverages the advantages of diversity. That does not mean simply assimilating diverse employees into the culture—in effect, making them clones of the dominant group—but enabling their differences to flourish, complement each other, and be put to work. Think, for example, of the way leading orchestras, distinguished theater companies, and top sports organizations put diversity and inclusion to work in high-performance teams capable of greatness.

The Real Roots of the Challenge: False impressions and cumulative inequities

Simply creating a diverse workforce without harnessing its virtues to the business may satisfy compliance mandates, but it fails to satisfy the many business reasons that drive diversity today. Smart companies understand that, and they have embraced the compelling business case for diversity and inclusion—at least in principle.

In principle, because despite the almost universal acceptance of the business case, even the most well-intentioned companies often run into great difficulty when it comes to achieving diversity and inclusion in practice. Why, despite obvious good will and genuine desire to put diversity to work, is it so hard to do? A large part of the answer lies in the cognitive biases that prevent us from accurately interpreting the behavior, character, motives, and worth of people who differ from us.

Despite the almost universal acceptance of the business case, even the most well-intentioned companies often run into great difficulty when it comes to achieving diversity and inclusion in practice.

Social psychologists tell us that in interpreting other people's actions, we human beings almost invariably make the same mistakes of interpretation. We overestimate the importance of fundamental character traits as a cause of a behavior, and we underestimate the context and situation. For example, someone studying diligently for an exam attributes her hard work to the situation, while an observer sees her as "hard-working." The psychologists call such mistakes "fundamental attribution error" or "actor-observer bias."

By any name, this deeply ingrained habit of thought can be highly destructive when it involves people the observer regards as "other." If someone else fails to complete a task, we are likely to attribute it to a character flaw like laziness, rather than to extenuating circumstances. Conversely, if *we* fail to complete a task, we tend to attribute the cause to the situation. When such judgments are generalized to cover all of the members of an outgroup, the result is "ultimate attribution error," or what is commonly called stereotyping.

Insufficient attention to the biases can lead to an organization being permeated by "microinequities": small slights, subtle insensitivities, and little daily acts of often unconscious exclusion that cumulatively demoralize and often derail outgroup employees.

These habitual cognitive biases and errors can wreak havoc with an organization's ability to create a welcoming environment for people whose backgrounds and perspectives differ from the majority. For example, if a member of the minority (defined in terms of the relevant difference from the majority, whatever that difference might be) succeeds in an effort, the majority group might attribute such success to external circumstances—a good economy or a lucky break. If the minority member fails at a task, it is often attributed to some fundamental deficiency of character or ability. From a larger perspective, members of the majority may expect any minority member to have certain characteristics, despite the fact that the majority member has no information about the individual being judged.

These biases lead, in turn, to biased behavior such as ingroup bias—the tendency to give preferential treatment to others perceived to be members of the group—or to the setting up of formal and informal groups that might exclude members that may represent differences. The dangers of this are obvious in areas like recruiting, retention, promotion, and succession planning—that is, on the frontlines of diversity.

More insidiously, insufficient attention to these biases can lead to an organization being permeated by what Mary T. Rowe, who has been studying the phenomenon for 30 years, calls "microinequities." These are the seemingly small slights, subtle insensitivities, and little daily acts of often unconscious exclusion that cumulatively demoralize and often derail outgroup employees. For example, men habitually bantering about sports before meetings begin may subtly exclude the female members of the group. A condescending tone, a name repeatedly mispronounced, implicit signs of low expectations for the other person's performance—any and all of these can send negative signals and create an inhospitable atmosphere. Those on the receiving end may eventually find it intolerable and leave the company.

What all of these inequities, big and small, obvious and not so obvious, add up to is a failure to capitalize on the business promise of diversity. Because they are so deeply rooted in human cognition they are difficult to see and even more difficult to address. They are the proverbial elephants in the room that no one wants to acknowledge. Who, after all, wants to admit to bias of any kind—or is even capable of recognizing it, since it is so deeply ingrained in thought processes we experience as entirely rational and irreproachable?

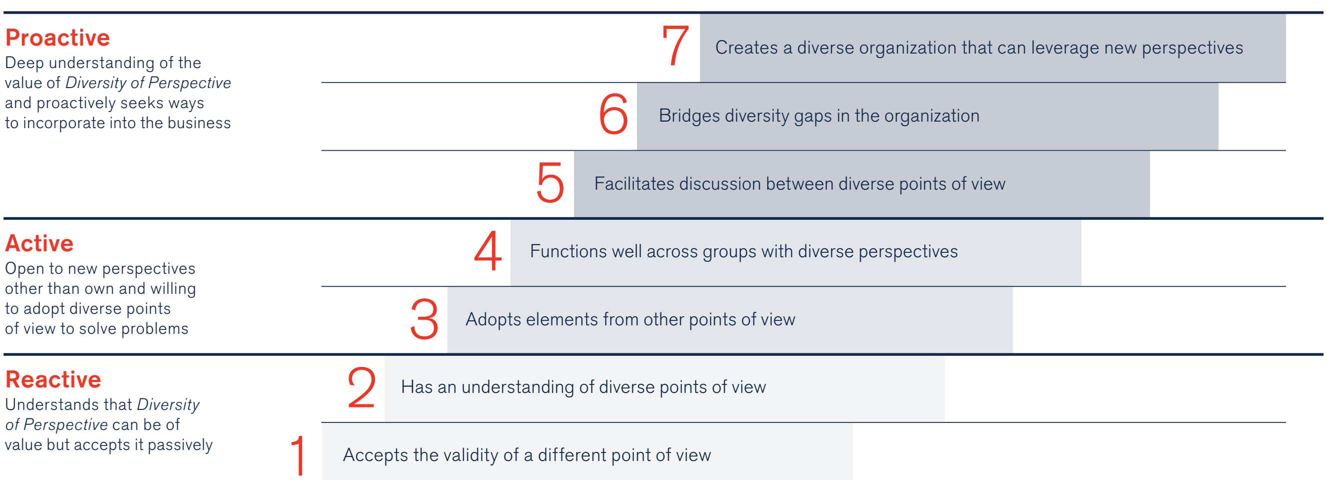
This is the great unspoken in too many approaches to diversity. By passing over in silence the real roots of the challenge, we minimize its difficulty. Not surprisingly, the result is often sub-optimal diversity and inclusion. It demoralizes employees and produces disappointing business results that undermine the organization's commitment to diversity for the future. Until this reality is acknowledged and addressed, the benefits of diversity and inclusion will remain elusive.

Ensuring Diversity as a Leadership Competency at the Top

It starts with the understanding that the ability to work across differences is a fundamental leadership competency, not just for Chief Diversity Officers, but for all top executives. CEOs should not only insist that it be a well-developed part of the repertoire of the executives on their teams, but also probe for it when hiring top executives, just as they probe for functional expertise or strategic acumen. Only then will diversity truly start at the top, not just because there is a C-level executive responsible for it, but because it is a competency required of everyone in the C-suite and, just as important, everyone who aspires to the C-suite.

The ability to handle diversity is as concrete and measurable as any of the more familiar leadership competencies. 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 conducted during the past five years, Egon Zehnder International has developed a comprehensive model of leadership that encompasses ten core competencies of senior executives. One of those competencies explicitly focuses on diversity. (The others are: results orientation, team leadership, collaboration and influencing, strategic orientation, commercial orientation, change leadership, developing organizational capability, customer impact, and market knowledge). The model provides a baseline measurement of how leaders evaluated as “outstanding,” “good,” and “average” scored on our scale for measuring each of the competencies. A score at the lower end of the scale indicates purely reactive behaviors with short-term impact. Scores in the middle indicate more proactive behavior. A top score represents highly proactive behaviors focused on broad, long-term impact *(Fig. 1)*.

Figure 1 **Leadership Competency in Diversity**



Red Flag Behaviors Acts inappropriately in settings that are different to own; refuses to hear other points of view

The differences in scores—and what they mean in concrete terms—can be significant:

Executives who score poorly do accept the validity of other cultures and other points of view, but they don’t act on that understanding. They understand that a specific area of the business may have unique requirements both in terms of operations and of people that differ from the mainstream of the larger organization. They understand cultural differences between regions or organizations and realize that sociopolitical factors in other countries or organizations influence business opportunities. But they do not view tackling diversity as an imperative, and their response to it is largely passive.

Executives who score in the middle reaches of the scale go beyond understanding to action. They demonstrate their acceptance of other points of view by changing their own and by advocating "other" business approaches because of the perceived superiority of those approaches. Further, they get results working with diverse colleagues (again, defined in terms of the relevant difference from the majority, whatever the difference might be). They seek out differing views and try to anticipate how diverse colleagues and groups will respond to their views. As managers, they are able to make appropriate decisions tailored to the sociocultural circumstances in which they are operating. These are all laudable and valuable behaviors, and companies who have such executives are fortunate.

Executives who score in the upper reaches of the scale possess a deep understanding of diversity of all kinds; they behave proactively to put diversity to work for the company, and they act as facilitators between differing groups and cultures. They are not only able to leverage diversity but also able to educate others in the organization about how to do so. Where there is friction they are able to guide those with differences to work together to produce results more smoothly. They understand the power of diversity both internally and in markets, and their competency in diversity is integrated with their competencies in strategic orientation and commercial orientation. As leaders they consciously use appropriate influencing approaches to negotiate across differences and agendas in order to create and maintain momentum for a common purpose.

It's particularly important that, when considering new members for their team, CEOs engage candidates on diversity, both to signal how seriously the company takes it and to make sure first-hand that the candidate has the degree of competency required.

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

It's particularly important that, when considering new members for their team, CEOs engage candidates on diversity, both to signal how seriously the company takes it and to make sure first-hand that the candidate has the degree of competency required. That includes new members who might be promoted from within as well as external candidates. If the candidate is internal, of course, the CEO might have knowledge of specific situations in the company and can ask even more probing and pointed questions. Similarly, with an external candidate found through the assistance of external advisors, the CEO should be well supplied with interview fodder, assuming the advisors have done their homework.

Diversity is an essential leadership competency on which every top executive should be expected to perform well.

The key to interviewing is not simply to ask candidates how they feel about diversity. It is far more revealing to ask interviewees to tell stories about their experiences. For example: "Tell me about a time that you felt yourself in conflict with a clearly definable group or someone you regarded as fundamentally different from you in your company. What was the nature of the conflict, and what was your part in it? How was it resolved?" Ask them to describe instances in which they saw diversity contribute to business value. What, specifically, was the nature of the contribution—an idea, a way of working, a perspective that would otherwise have gone unconsidered? Conversely, ask for instances in which problems of diversity hindered the realization of business value, and what role the interviewee played. The goal is to talk about behavior, which is far more revealing than abstract talk about attitudes. And no one is likely to have a better view of the big picture—the entire fabric of diversity throughout the company the world over—than the CEO, who is ultimately responsible for making it work.

Many companies realize that they have to address diversity processes and infrastructure. Fewer, however, understand that diversity is an essential leadership competency on which every top executive should be expected to perform well. And fewer still are fully aware that the real root of the problem lies in our cognitive biases—the fundamental errors of attribution, the unjustified assumptions, and the reflexive stereotyping that add up to a kind of blindness when it comes to those who differ from us.

Onboarding: The first step toward inclusion

Inclusion — the full integration of an employee into the life of the organization — begins with onboarding. Studies show that a new leader's first 90 days are critical in the onboarding of a newly hired executive. This is especially true when the executive does not fit the dominant profile of the organization and is subject to all of the cognitive biases that diversity evokes.

The organization should therefore be prepared with rigorous national and local induction processes designed to bring diverse employees into the company culture over that crucial 90-day period and to enable feedback and "course corrections" thereafter. This onboarding shouldn't simply be designed to accommodate transition generally for diverse employees, but to accommodate them according to the specifics of the transition — the induction, for example, of a Scandinavian executive into a German corporate culture, a middle-aged employee into a culture dominated by younger people, an academic into a commercial culture, and so on.

During the recruiting process, let candidates know that a careful onboarding process has been designed to set them up for success in their new surroundings. Throughout onboarding, the CEO and head of HR should be on the alert for cognitive biases among colleagues that lead to the microinequities that cumulatively demoralize new hires who differ from the dominant group of the organization. Begin the process by explaining honestly what they can expect in terms of hierarchy, decision-making, openness, and collegiality. Introduce them to key decision-makers as well as members of the team with which they will be working. 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.

Assign them a mentor, someone who can not only help them through the obvious challenges of connecting successfully with superiors, peers, and subordinates but also guide them through the organization's folkways and culture. Those who serve as mentors should be widely respected in the organization, with high visibility, a real commitment to diversity, and a nuanced understanding of the dynamics of fundamental attribution errors. You might also consider assigning an "induction partner" who has successfully made the same transition to the organization that the new hire is expected to make.

In the absence of a proven, comprehensive onboarding process, the new hire may perform ineffectively during the first months or year on the job. New hires who feel themselves adrift, or facing a wall of bias, may grow frustrated and depart. The company not only loses its considerable investment in the executive and must redo the search, 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 a reputation as a place where inclusion is more illusion than reality.

We need to constantly remind ourselves, as individuals and as organizations, that cognitive biases are hard to see and therefore even harder to eradicate. Those who are not convinced can try this quick thought experiment: *In the discussion above about probing for diversity, did you unconsciously assume that the interviewees reflected the company mainstream?* Why couldn't they just as well be diversity candidates? Why shouldn't they be put to the same test? It's a relatively benign error—the assumption that diversity candidates don't need to be examined for their competency in diversity—but it's indicative of why it is essential to approach diversity with great care.

The organization becomes open to infusions of fresh ideas and new perspectives that can lead to previously unrecognized opportunities in products, services, and markets. Operations across borders and cultures benefit from greater understanding and cooperation, boosting productivity and effectiveness.

CEOs who understand the nuances of cognitive bias, nip microinequities in the bud, and hire for competency in diversity will find it is well worth the effort. With the commitment to diversity—and leadership competence in addressing it—flowing from the top, such CEOs create the potential for a wealth of business benefits. The organization becomes open to infusions of fresh ideas and new perspectives that can lead to previously unrecognized opportunities in products, services, and markets. Operations across borders and cultures benefit from greater understanding and cooperation, boosting productivity and effectiveness. The company earns an enviable reputation that strengthens the brand, appeals to increasingly diverse customers, attracts top talent from whatever source, and energizes all employees. And the CEO, because he or she has started by grasping the real roots of the challenge, succeeds where many others have struggled—making diversity and inclusion really work.

Michel Deschapelles, Laurence Monnery, Edwin Smelt, and Catherine Zhu are members of Egon Zehnder International's Global Diversity Council. If you would like to discuss any of the issues raised in this whitepaper, please contact Michel in our Miami office at +1 305 569 1020 or michel.deschapelles@ezi.net; Laurence in our London office at +44 20 7943 1916 or laurence.monnery@ezi.net; Edwin in our Amsterdam office at +31 20 301 11 18 or edwin.smelt@ezi.net; or Catherine in our Hong Kong office at +852 29187678 or catherine.zhu@ezi.net.

Amsterdam
Athens
Atlanta
Bangalore
Barcelona
Beijing
Berlin
Bogotá
Boston
Brussels
Budapest
Buenos Aires
Calgary
Chicago
Copenhagen
Dallas
Dubai
Düsseldorf
Frankfurt
Geneva
Hamburg
Helsinki
Hong Kong
Houston
Istanbul
Jakarta
Jeddah
Kuala Lumpur
Lisbon
London
Los Angeles
Luxembourg
Lyon
Madrid
Melbourne
Mexico
Miami
Milan
Montreal
Moscow
Mumbai
Munich
New Delhi
New York
Palo Alto
Paris
Prague
Rio de Janeiro
Rome
San Francisco
Santiago
São Paulo
Seoul
Shanghai
Singapore
Stuttgart
Sydney
Tel Aviv
Tokyo
Toronto
Vienna
Warsaw
Zurich

Egon Zehnder International is the world's leading privately owned search firm with over 380 consultants working in 63 offices in 37 countries. The firm specializes in senior level executive search, board consulting and director search, management and team appraisals, and leadership development.