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What Are the Critical Challenges in Increasing Diversity at the Senior Leadership Levels in Organizations?

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Abstract

[Excerpt] Over two decades of empirical research confirms a link between corporate diversity and financial outperformance. Results are magnified at the executive level of organizations.

While the business case for diversity seems apparent, the vast majority of companies have been slow to increase firm diversity, especially in leadership. African Americans and women remain especially underrepresented in contemporary leadership across industries. The enduring disparity is colloquially referred to as a "broken rung" on the corporate ladder.

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Executive Summary

Question
What are the critical challenges in increasing diversity at the senior leadership levels in organizations? Best practices and approaches to overcome?

Overview:
Over two decades of empirical research confirms a link between corporate diversity and financial outperformance.[i] Results are magnified at the executive level of organizations.[ii] (See Appendix A)

While the business case for diversity seems apparent, the vast majority of companies have been slow to increase firm diversity, especially in leadership.[iii] African Americans and women remain especially underrepresented in contemporary leadership across industries.[iv] The enduring disparity is colloquially referred to as a "broken rung" on the corporate ladder. (See Appendix B)

Critical Challenges:
Diverse candidates face three main challenges when advancing to management roles:

Workplace inclusivity
- In a non-inclusive work environment employee differences and cultures are not valued by peers or managers.[v] A non-inclusive culture may lead diverse candidates to feel like an outsider within their organization and to question their future success at their own firm[vi]. The constant feeling of discrimination might lead employees to feel an "emotional tax," making them less happy, and more likely to leave an employer before reaching top ranks of the company.[vii] Further, majority groups, tend to under-estimate bias, and the day to day struggles of diverse employees. A 2019 study which surveyed 16,000 employees in 14 different countries found that heterosexual males in leadership, were 13% more likely to say day-to-day experiences and decisions at their company are free of bias.[viii]

Work assignment opportunity
- The opportunity to complete challenging work assignments can be critical to leadership development. Yet, women and people of color are less likely to report having access to desirable assignments and are more likely to complete more administrative "housework tasks".[ix] (See Appendix C for examples of housework tasks.) Prescriptive stereotypes influence how managers and employees believe minorities should act. For example, the gender bias that women are more suited for domestic tasks can lead to women doing more menial tasks – which may need to get done, but don't bring women any closer to the next promotion.[x] Less opportunity for difficult work assignments results in less opportunity for minorities to be promoted to the highest ranks of organizations.

Sponsorship
- Sponsorship has been proven to be influential in employee's success related to salary progression, promotability and career satisfaction.[xi] A recent PayScale study found sponsorship can lead to employees making 11.6% more.[xii] Yet, minorities continue to be under-sponsored. In a Center of Talent Innovation study, only 5-8% of minorities reported sponsorship, while 13% of Caucasian indicated sponsorship.[xiii]

Best Practices:
In order to fully benefit from diverse employees there are a few best practices that businesses should undertake:

Articulate a defined, compelling business strategy for diversity initiatives linked to value creation
- The executives should ensure implementation of the diversity initiative through middle management and embed accountability by requiring data-driven results.

Invest in mechanisms to hard- and soft-wire the diversity initiative into the company culture to capture the intended benefits of the initiative
- To soft-wire, the businesses should establish mentorship and social networks for underrepresented populations.[xiv] The business should implement training about diversity and associated attitudes and behaviors to develop organizational acceptance through a sense of social responsibility and distributive justice.
- As for hard-wire, the employers should increase line experience and assignment visibility for underrepresented populations.[xv] The business should also enhance work-life balance, by providing enhanced protection for family responsibilities, for example.[xvi]

Tailor the diversity initiative to the relevant business area to maximize employee buy-in and organizational impact
- While it is important to implement consistent, company-wide direction for the diversity initiative, it is necessary to tailor the initiative for optimization. Business units, geographical settings, and sociocultural contexts present unique opportunities for customized strategy for maximization. The company-wide team must be careful to ensure ownership by local teams and business units, while providing centralized support.

Company Example: Salesforce
In 2015, Salesforce publicly announced that it was implementing a diversity strategy which aimed to ensure that its workforce reflects the diversity of the communities in which it operates. To do this, Salesforce made alterations to its hiring process to address unconscious bias including awareness training and competencies-based interviewing. The company implemented a policy for executive positions requiring that the committee interview at least one female and minority candidate. Women now constitute a minimum of 1/3 of attendees at executive management meetings. Salesforce also conducted a salary audit of its entire workforce to address the gender pay gap, resulting in salary adjustments for 6% of employees (a $3M overhaul).

Considerations:
Companies have different ways of measuring diversity. Some do this by counting the number of diverse leaders within their organizations. Others believe it is more impactful to evaluate the content and value of their D&I initiatives.[xvii]. No matter the measure, the business case for diversity is clear. The more the upper ranks begin to resemble minority populations, the more minority candidates will be able to visualize themselves in positions of power and hopefully be there one day.[xviii]

Endnotes

[i] See e.g., Holger, D. (2019, October 26). The Business Case for More Diversity. *Wall Street Journal*. Retrieved from https://www.wsj.com/articles/the-business-case-for-more-diversity-11572091200

The 20 most diverse firms in the ranking have an average operating profit margin of 12% compared with 8% for the lowest-ranking companies. Their shares, meanwhile, had an average annual total return of 10% in the five years through June 2019 and 14% over the 10 years through June 2019 versus 4.2% and 12% for the 20 least-diverse companies.

[ii] According to a recent McKinsey study of more than 1,000 large companies, firms in the top-quartile for gender diversity on executive teams were 21% more likely to outperform on profitability and 27% more likely to have superior value creation than less-diverse peer companies.

[iii] Newkirk, P. (2019, October 10). Diversity Has Become a Booming Business. So Where Are the Results? *Time Magazine*. Retrieved November 2, 2019, from Time website: https://time.com/5696943/diversity-business/
The large-scale McKinsey study found a measly 1 to 2 percentage point increase in executive team diversity over the past five years.[iii]

There are also notable examples of company's implementing ineffectual diversity initiatives. For example, Google reportedly spent $114M on its diversity program in 2014. Yet its 2019 diversity report indicated that African Americans comprised just 3.3% of the company's workforce and represented 2.6% of company leadership roles.

[iv] Newkirk, P. (2019, October 10). Diversity Has Become a Booming Business. So Where Are the Results? *Time Magazine*. Retrieved November 2, 2019, from Time website: https://time.com/5696943/diversity-business/
African Americans are acutely underrepresented in corporate leadership. For example, from 1985 to 2016, the proportion of African Americans in management at U.S. companies with 100 or more employees grew from 3% to 3.2%. And, in 2018, African Americans held about 16% of Fortune 500 board seats.

[v] Pless, N. M., & Maak, Thomas. (2004). Building an Inclusive Diversity Culture: Principles, Processes and Practice. *Journal of Business Ethics*, *54*, 129–147.

[vi] Hewlett, S., Jackson, M., Cose, E., & Emerson, C. (2012). *Vaulting the Color Bar: How Sponsorship Levers Multicultural Professionals into Leadership*. Retrieved from Center for Talent Innovation website: https://www.talentinnovation.org/_private/assets/VaultingTheColorBar-KeyFindings-CTI.pdf

[vii] Travis (PHD), D., & Thorpe-Moscon (PHD), J. (2018). *Report: Day-to-Day Experiences of Emotional Tax Among Women and Men of Color in the Workplace*. Retrieved from Catalyst website: https://www.catalyst.org/research/day-to-day-experiences-of-emotional-tax-among-women-and-men-of-color-in-the-workplace/

viii Krentz, M. (2019). Survey: What Diversity and Inclusion Policies Do Employees Actually Want? *Harvard Business Review*. Retrieved from https://hbr.org/2019/02/survey-what-diversity-and-inclusion-policies-do-employees-actually-want

ix Willimas, J. C., & Multhaup, M. (2018). For Women and Minorities to Get Ahead, Managers Must Assign Work Fairly. *Harvard Business Review*. Retrieved from http://web.a.ebscohost.com.proxy.library.cornell.edu/ehost/pdfviewer/pdfviewer?vid=4&sid=daef3000-511c-469a-b5c1-e2592b652dbf%40sessionmgr4006

x Willimas, J. C., & Multhaup, M. (2018). For Women and Minorities to Get Ahead, Managers Must Assign Work Fairly. *Harvard Business Review*. Retrieved from http://web.a.ebscohost.com.proxy.library.cornell.edu/ehost/pdfviewer/pdfviewer?vid=4&sid=daef3000-511c-469a-b5c1-e2592b652dbf%40sessionmgr4006

xi Wayne, S., Linden, R., Kraimer, M., & Graf, I. (1999). The role of human capital, motivation and supervisor sponsorship in predicting career success. Journal of Organizational Behavior, J. Organiz. Behav. 20, 577-595.

xii How to make your firm more diverse and inclusive. (2019). *The Economist*. Retrieved from https://www.economist.com/business/2019/11/07/how-to-make-your-firm-more-diverse-and-inclusive

xiii Pace, C. (2018). How Women of Color Get to Senior Management. *Harvard Business Review*. Retrieved from https://hbr.org/2018/08/how-women-of-color-get-to-senior-management

xiv A joint study by Korn/Ferry and Columbia University found that 48% of minority executives said a mentor was important in their career development, with 22% reporting a formal relationship and 71% reporting informal mentors. Moreover, having multiple mentors is highly correlated with high promotion rates.
Kilian, C. et al. 2005. Building Diversity in the Pipeline to Corporate Leadership, *The Journal of Management Development*, 24 (1/2) 155-168.

xv Kandola, B. 2004. Skills Development: The Missing Link in Increasing Diversity in Leadership, *Industrial and Commercial Training*, Vol. 36. No.4 143-147.

xvi Kilian, C. et al. 2005. Building Diversity in the Pipeline to Corporate Leadership, *The Journal of Management Development*, 24 (1/2) 155-168.
The relationship between diversity in leadership and the presence of work-family programs is dramatic. In companies where women held half or more of the leadership roles, 82% provided flextime and 19% provided child care, versus 56% and 3%, respectively, in companies where there were no female executives.

xvii Leader-Chivée, L. (2014). The Right Way to Measure Executive Diversity. *Harvard Business Review*. Retrieved from https://hbr.org/2014/04/the-right-way-to-measure-executive-diversity

[xviii] Willimas, J. C., & Multhaup, M. (2018). For Women and Minorities to Get Ahead, Managers Must Assign Work Fairly. *Harvard Business Review*. Retrieved from http://web.a.ebscohost.com.proxy.library.cornell.edu/ehost/pdfviewer/pdfviewer?vid=4&sid=daef3000-511c-469a-b5c1-e2592b652dbf%40sessionmgr4006

Appendices:

Appendix A: 2018 McKinsey Study

Companies in the top-quartile for ethnic and cultural diversity on executive teams were 33% more likely to have industry-leading profitability. Contrarily, companies in the bottom-quartile for both gender and ethnic and cultural diversity were 29% less likely to achieve above-average profitability than were all other companies.
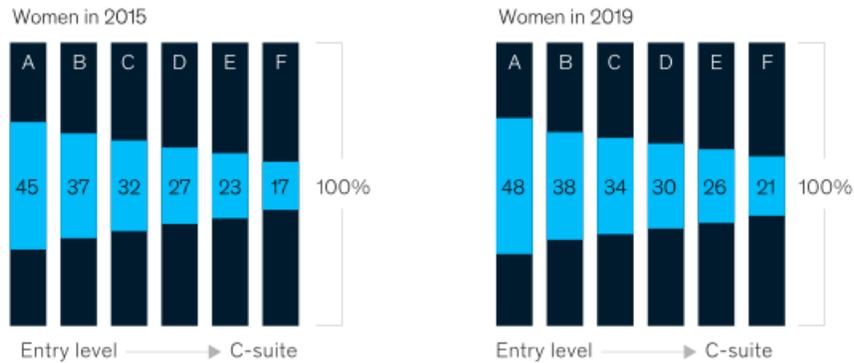
Appendix B: McKinsey Women in the Workplace 2019 Study

Exhibit 1

Representation of women in senior leadership has increased, but women continue to be underrepresented at every level.

Representation of women by level, % of employees

A = Entry-level   B = Manager   C = Senior Manager/Director   D = Vice President   E = Senior Vice President   F = C-suite

Women in 2015

A	B	C	D	E	F
45	37	32	27	23	17	100%

Entry level ———▶ C-suite

Women in 2019

A	B	C	D	E	F
48	38	34	30	26	21	100%

Entry level ———▶ C-suite

Source: 2019 McKinsey & Company and LeanIn.Org Women in the Workplace study

McKinsey & Company

Exhibit 3

The biggest obstacle women face is the first step up to management.

Ratio of promotions to first-level manager by gender and race

For every **100 men** who were promoted to management...

...only **72 women** were promoted

...only **58 black women** were promoted

...only **68 Latina women** were promoted

If women are promoted and hired to first-level manager at the same rates as men, we will add

1 million more women

to management in corporate America over the next five years.

Source: 2019 McKinsey & Company and LeanIn.Org Women in the Workplace study

McKinsey & Company

Source: Huang, J., Krivkovich, A., Irina, S., & Yee, L. (2019). *Women in the Workplace 2019*. Retrieved from Mckinsey & Company website: https://www.mckinsey.com/featured-insights/gender-equality/women-in-the-workplace-2019#

Appendix C: "15 Housework Tasks to Watch Out For"[xviii]
1. Taking the notes
2. Procuring the conference room
3. Getting everyone on the conference line
4. Planning parties
5. Buying the gifts for birthdays/retirements/baby showers, etc
6. Ordering lunch
7. Organizing lower level employees
8. Mentoring activities
9. Serving on committees that are not linked to revenue or core business goals
10. Handling less-valued clients
11. Handling HR tasks
12. Handling routine work vs. work that is central to business strategy
13. Organizing off-site events
14. Keeping the task list
15. Keeping the trains running vs. strategy and big-picture thinking

Source: Willimas, J. C., & Multhaup, M. (2018). For Women and Minorities to Get Ahead, Managers Must Assign Work Fairly. *Harvard Business Review*. Retrieved from http://web.a.ebscohost.com.proxy.library.cornell.edu/ehost/pdfviewer/pdfviewer?vid=4&sid=daef3000-511c-469a-b5c1-e2592b652dbf%40sessionmgr4006

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