

Merrynck & Co

Five-Minute Mentor

This is not a numbers game: Diversity and the CEO

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Merryck mentoring

Merryck & Co is the world's foremost business leader-to-business leader mentoring firm. We provide peer-level, one-to-one, confidential mentoring to top executives. Our select group of clients includes leaders from some of the world's most prestigious organizations.

Because Merryck mentors are all former CEOs, Presidents or Managing Partners, we understand the complexities, issues and hurdles a top executive must navigate in order to succeed. Our focus is on helping leaders, and by extension their organizations, not only exceed performance objectives, but take leadership to its next level.

The Merryck methodology

Merryck mentoring employs a proven, practical and results-oriented methodology. At its heart is the professional and personal respect that develops between mentor and client. Since 1997, Merryck has helped hundreds of business leaders to unleash their potential as leaders and deliver exceptional business results.

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This is not a numbers game: Diversity and the CEO

You can check the diversity compliance box and have absolutely no business impact. The question is: are we increasing the company's ability to innovate by bringing different points of view to the right tables in the organization.

(\$3.5bn, Global Technology, US HQ)

Diversity can be an emotional issue, but it needs rational, actionable solutions.

(\$39bn, Global Banking Organization, US HQ)

The Context

The topic of diversity at all levels of business, from shop floor to boardroom, has held a place on the organizational agenda for more than 40 years. Often it is cited as a core value or strategic imperative. Assessed objectively, more often diversity has been treated as a footnote. If that statement feels strong, consider:

- 33: number of female Chief Executives in the Fortune 1000
- 18: number of Fortune 500 CEOs who are people of color
- 10.4: percentage of minorities on Executive Teams in the Fortune 500
- 9.8%: female representation on FTSE250 Boards
- 56%: proportion of FTSE250 companies whose boards include no women
- 13: percentage of ASX 200 senior executive positions held by women

With significant generational turnover underway in the C-Suite and the Boardroom and building momentum over the next decade, the question of what constitutes meaningful diversity takes on added importance. With the increasing economic significance of markets in Asia, Latin America and Africa to companies' overall performance, the very definition of diversity is changing.

The baseline questions are: why should the CEO care, and what should a CEO do about it?

The Conversation

From late 2011 through early 2012, Merryck & Co. explored this subject with Chief Executives, Chief Diversity Officers, and other key leaders. The exchanges took place across **five** primary formats:

- 1 interviews within two-dozen large, brand-recognized multinationals from an array of sectors and across markets in the US, Europe and Australia
- 2 preparations for and delivery of a Merryck-facilitated panel at the Talent Management Alliance's Conference for Consumer and Retail in Chicago, September 2011
- 3 co-authorship by Merryck Principal Meredith Hellicar on the 2011 Bain & Co Australia study "What Stops Women from Reaching the Top? Confronting the Tough Issues"
- 4 discussions during our annual Business Leaders Forum, in Florida in January of 2012, where a group of 70 CEOs, COOs and senior partners grappled with the challenges of innovating and executing
- 5 conversations with talent and development leaders during The Conference Board's summit on next-generation leadership, co-sponsored by Merryck & Co in March of 2012 in New York City

Our goal was not to conduct an exhaustive field survey and prepare an academic point of view. Rather, we sought out candid, actionable conversations about what the best of the best had learned over 40 years about what works, what doesn't, and what to do about it.

Five headlines emerged for CEOs and leadership teams

“
The CEO has to be very clear about evolutionary versus revolutionary change. How nimble is the company?
(\$7bn, Global Manufacturing, US HQ)
”

“
Our CEOs have consistently invested in diversity through dollars, programs, and staff to support diversity efforts – as have the other Big 4. We see achievements in diversity as key to maintaining a leading position in the market against competitors.
(\$29.2bn, Global Professional Services, US Global HQ)
”

“
Any diversity function needs to report directly to the CEO or have direct access to the CEO.
(\$59bn Global Pharmaceuticals, Swiss HQ)
”

1 It is not enough that the Chief Executive be philosophically committed to diversity – its definition and ownership must start in the corner office.

While defining diversity within a specific organization’s context might sound obvious, every company we spoke with said the definitions had taken years – and sometimes decades – to emerge. In every case, diversity only became a galvanizing business objective once a specific CEO took hold and drove clarity. And the definitions of success, like other metrics of an organization, changed, waxed or waned with new CEOs.

Like every other aspect of a business’s strategic imperatives, if diversity is to have any meaningful impact, the CEO has to personally help shape it, achieve alignment, dedicate resources and drive accountability to ensure execution. Delegation to HR as the “definer” of diversity as well as the sole owner of its implementation effectively takes the topic off-radar and dooms meaningful impact.



“ A basic question focused us on cross-cultural markets and marketing: how could we pick up dollars we were leaving on the table at neighborhood pharmacies and grocers? The CEO understood diversity as a business issue, not an HR matter, and we have seen market returns of up to 8:1 on our diversity investments. (\$59bn Global Pharmaceuticals, Swiss HQ) ”

“ Our watershed moment was the telecom bubble bursting, when our stock dropped below \$2 per share. We had to ask ourselves as an organization – what are we good at? What made us great? The answer was innovation. And a crucial part of innovation is having a culture that allows and fosters a spirit of asking questions, bringing different points of view to the fore. Since that realization, everything we do around diversity has been tied to fostering innovation and challenging internal ideas or complacency in our thinking. (\$6.6bn, Global Manufacturing, US HQ) ”

2 This is not a compliance game: the goal is revenue and profitability.

The most striking theme was the revenue and margin contributions diversity initiatives have been able to generate. For some consumer goods companies, that took the shape of radically improving market share among non-majority demographic groups embedded within traditional markets. For multi-national markets, that meant a sometimes painful realization that simply translating product labels and marketing into the local language is no substitute for local market knowledge and adaptation. More than one company admitted translating core consumer products labels into Spanish and then distributing them, otherwise unmodified, across Latin America. Not surprisingly, those launches failed. Expensively.

Diversity efforts under such conditions have been able to yield readily quantifiable ROI. For example, one consumer business discovered that its dominance of white customers in a US market segment masked the fact that it was missing 80% of minority spend within its niche. The company invested in sales and marketing training to go after that incremental – and substantial – share. ROI ranged from 3:1 to 5:1 for every dollar invested in the initiative. Variations of this theme echoed across numerous sectors.

Equally intriguing were diversity initiatives linked to R&D and even supply chain innovations, where a wider array of perspectives at the table and an expectation of (as opposed to mere tolerance for) creative dissent, led to organizations becoming increasingly agile over time. Here again, the role of the CEO and other senior leaders lent a make-or-break value to such efforts. Leaders who preached diversity of perspectives but punished personal dissent had a greater likelihood to see breakthrough ideas taper off.

Diversity and the CEO

“
A broader focus on diversity that goes beyond gender and ethnicity drives the right type of diversity for the business and ironically often results in diversity of both gender and ethnicity.
(\$17bn, Energy, US HQ)

“
One of the reasons we understand consumers across the globe is because we are such a diverse team of people ourselves.
(\$47bn, Consumer Products, UK HQ)

3 The path for achieving those tangible improvements in revenue, profits and innovation is cognitive diversity. Easy to say, hard to measure.

A recurring theme from respondents, including board members, identified cognitive diversity – the ability of the organization to entertain and learn from differing and potentially conflicting points of view – as the catalyst that makes business improvements possible. The challenge this presents is two-fold. At the most obvious level, cognitive diversity is hard to measure. Thus other substitutes – including demographics – must stand in as credible but partial mile markers. What is critical is that neither the CEO nor the leadership team mistakes those incremental progress measures as the finish line.

The second challenge cognitive diversity faces is that study after study has shown that the appreciation of diverse thinking within the C-suite is undervalued by leaders of an organization. Senior leaders in most organizations are more likely to promote others with similar approaches to the leader’s own style, than to promote those with differences.

In a late 2011 Bain & Co study, co-authored by one of Merryck & Co’s Australian leaders, 90% of senior executive men and women surveyed agreed or strongly agreed that men in senior roles were more likely to appoint or promote someone with a style similar to their own as the top determining factor of the appointment. In such an environment, substance can easily be suborned to style, to the detriment of the organization.

In this definition, the opposite of diversity is not a single gender or a single race in the Boardroom (though such a profile would be a warning signal). Rather, the opposite of diversity is a tolerance for monolithic thinking.

“
So often companies benchmark on initiatives like these, and they benchmark by size and industry, but really this needs to be about the company's culture and values.
(\$6bn, Global Manufacturing, US HQ)
”

“
Affinity groups create insularity. They do not prepare someone to deal with the complexity of the organization
(\$4bn, Global Technology, US HQ)
”

“
Minority caucus groups can be ineffective and confrontational if their charter is not clear.
(\$1.4bn, Consumer Services, US HQ)
”

4 Standard diversity tools such as external benchmarking and affinity groups are questionable uses of time and capital.

CHROs and Chief Diversity Officers representing some of the most successful business outcomes in their diversity initiatives expressed skepticism about the basket of typical tools brought to bear on diversity.

It is worth noting that these opinions are far from universal. Benchmarking, as well as programs such as affinity groups, remain active parts of many organizations.

But if cognitive diversity is a cultural trait the CEO envisions, understanding what is happening inside the organization today may be more important than benchmarking against other, external organizations. To that end, cultural surveys held up well as a valuable tool, as did maintaining a thorough understanding of the recruitment rates of minority and women candidates, as well as clear feedback patterns as to why those employees leave or remain with the organization over time.



Diversity and the CEO

“
We are becoming aware that our future ideal CEO might be working in a call center in Thailand today. Right now, we have no means of identifying that person. But we’re working on it.
(\$126bn, Global Technology, US HQ) ”

“
More and more, the sizeable portion of our workforce who are Millennials aren’t self-identifying as African American or Asian or Latino, but as multi-racial. We’ve had to throw out nearly every approach to diversity that was based on single-race thinking.
(\$1bn, Consumer Goods, US HQ) ”

5 Today’s definition of diversity will change – and quickly – under globalization and generational pressures.

Not so long ago, diversity meant primarily including women in the workforce. Then its focus expanded to include people of color. Increasingly the shift is to focus on creating a company as diverse as its customer or consumer base. That shift, while still linked at a surface level to demographic measures, at a deeper level means that as our understanding of the global marketplace evolves, the complexity of our organizations’ thinking must evolve in stride.

For many leaders, this means breaking our own stereotypical definitions for diversity. For all of us, it demands a constant willingness to challenge our own well-reasoned definitions of what diversity meant to us and to the business yesterday. Tomorrow is a new world. Our thinking and our problem-solving will have to evolve for our organizations to be sustainable. That is one of the most persistent challenges and satisfactions of leadership.



“ You cannot effect change by betting on one prominent person – an officer-level woman or person of color. You have to achieve critical mass.
(\$7bn, Global Manufacturing, US HQ)

“ Our focus is on building a diverse talent pipeline so that we have an appropriately diverse group of leaders ready to make the next move in their career. Accordingly we have developed a comprehensive program which includes mentoring, a "Women in Business" Forum, and executive development for our leaders.
(\$27bn, Global Bank, UK HQ)

In Summary

The role of the CEO is no less critical in diversity than in any other core part of a company's strategic direction. If diversity matters, as it clearly does, the CEO must drive its definition and champion its accountability. Finally, the CEO must have the mindfulness and courage to continuously contest the status quo, ensuring that “the way it's always been” is actively challenged within the C-Suite.

If monolithic thinking is the enemy in this conversation, cognitive diversity is the ally. And the prize is a more agile, higher-share, higher-margin organization that is more innovative, more competitive, and more sustainable over time.

Three questions

- If you are the CEO, are you absolutely clear in your definition of what diversity means within your organization's context? If you are not the CEO, are you clear on the CEO's definition and the priority of diversity?
- Regardless of role, do you have clear, quantifiable milestones in place (other than demographics) for gauging the business impact of diversity initiatives?
- What measures exist in your organization, and within your own sphere of influence, to maximize cognitive diversity in service of the organization's business objectives?

Merryck & Co

100 Park Avenue
Suite 1600
New York, NY 10017
United States

50 California Street
Suite 1500
San Francisco, CA 94111
United States

T: +1-888-MERRYCK
E: abbey.fujiyoshi@merryck.com

www.merryck.com