Build safe
and inclusive
working
cultures

The Impact of *DEI on Business Performance and Profitability

*Diversity, Equity & Inclusion

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THE BUSINES CASE

OF DIVERSITY, EQUITY & INCLUSION

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FOLLOW THE MONEY #1

”When you realize the power of diversity, you’ll keep it as a business secret”

Maurice Levy, CEO, Publicis Groupe

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FOLLOW THE MONEY #2

World Economic Forum, Davos 2020

”We no longer list companies if they don’t have at least two women on the board”

David Solomon, CEO, Goldman Sachs

Why?
Goldman Sachs' decision not to take companies public without diverse board representation was driven by evidence showing that companies with diverse boards outperformed those with homogeneous boards.
Specifically, Goldman Sachs noted that companies with at least one woman on their board performed significantly better in their IPOs compared to those without any women on their boards.
This was based on their observations and analysis of IPOs over the last four years leading up to their policy announcement in 2020 (SHRM) (Marketplace)

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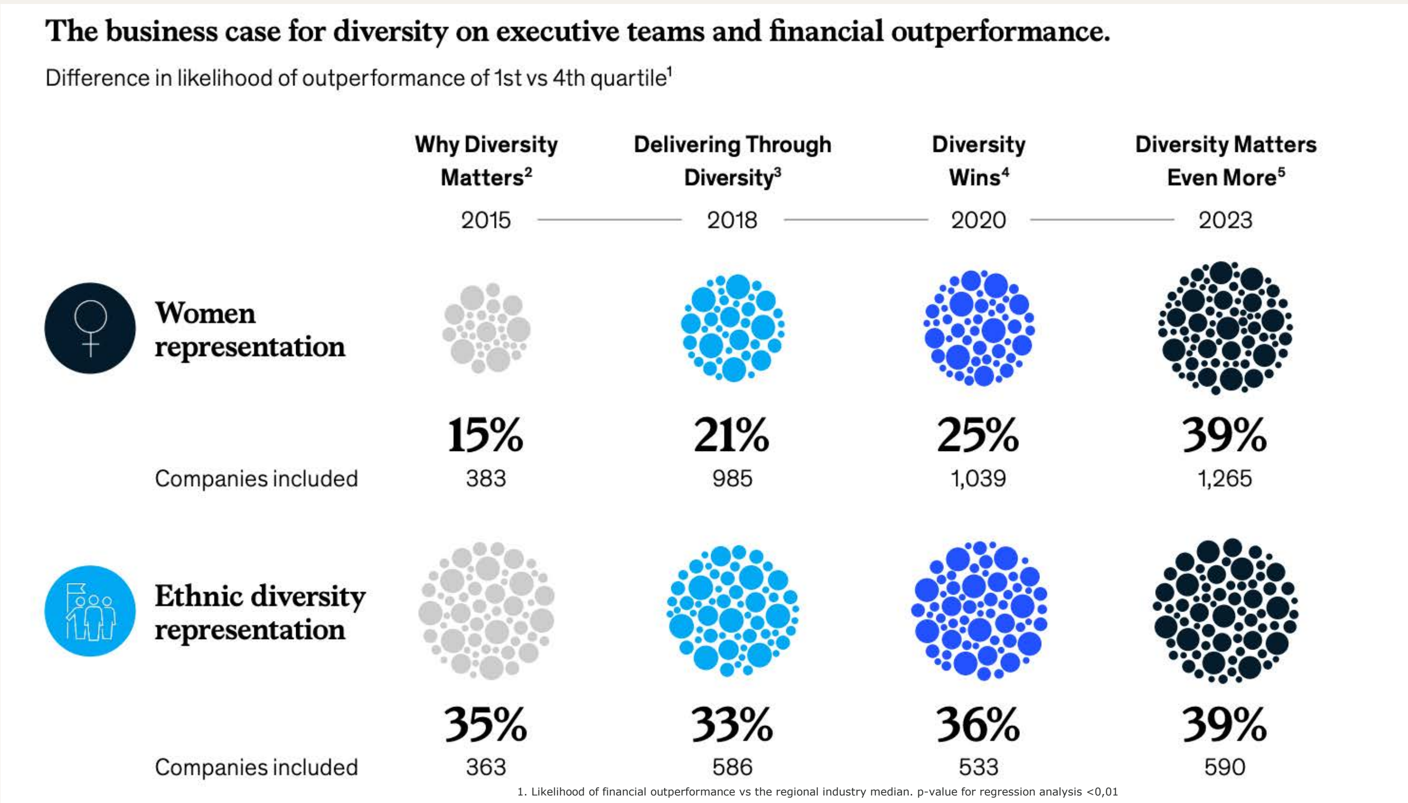
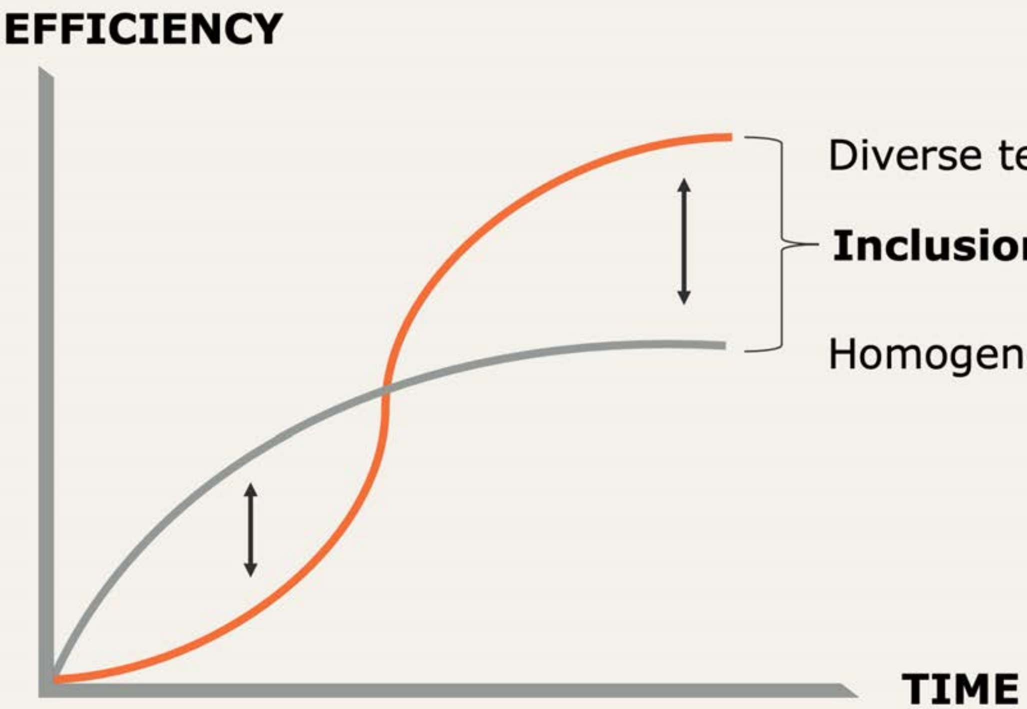
HOW DIVERSE COMPANIES OUTPERFORM THEIR HOMOGENEOUS COMPETITORS



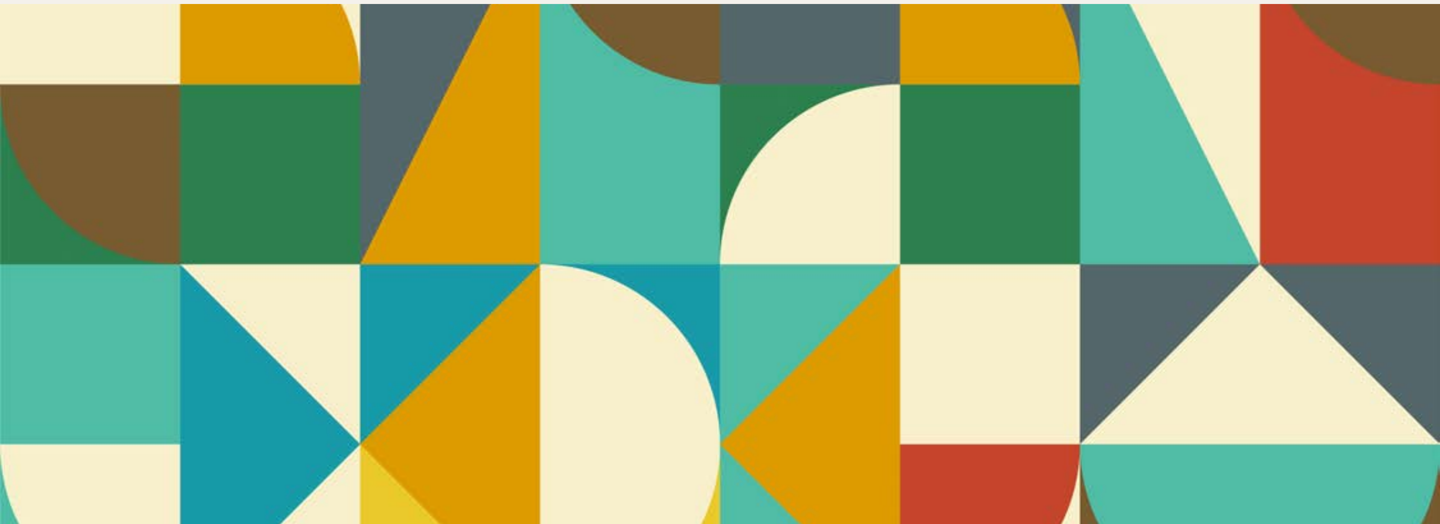
SOURCE: McKinsey, Nov. 2023, Diversity Matters Even More - the case for holistic impact p.12

EFFICIENCY
OVER TIME

WHY DIVERSE COMPANIES OUTPERFORM THEIR HOMOGENEOUS COMPETITORS

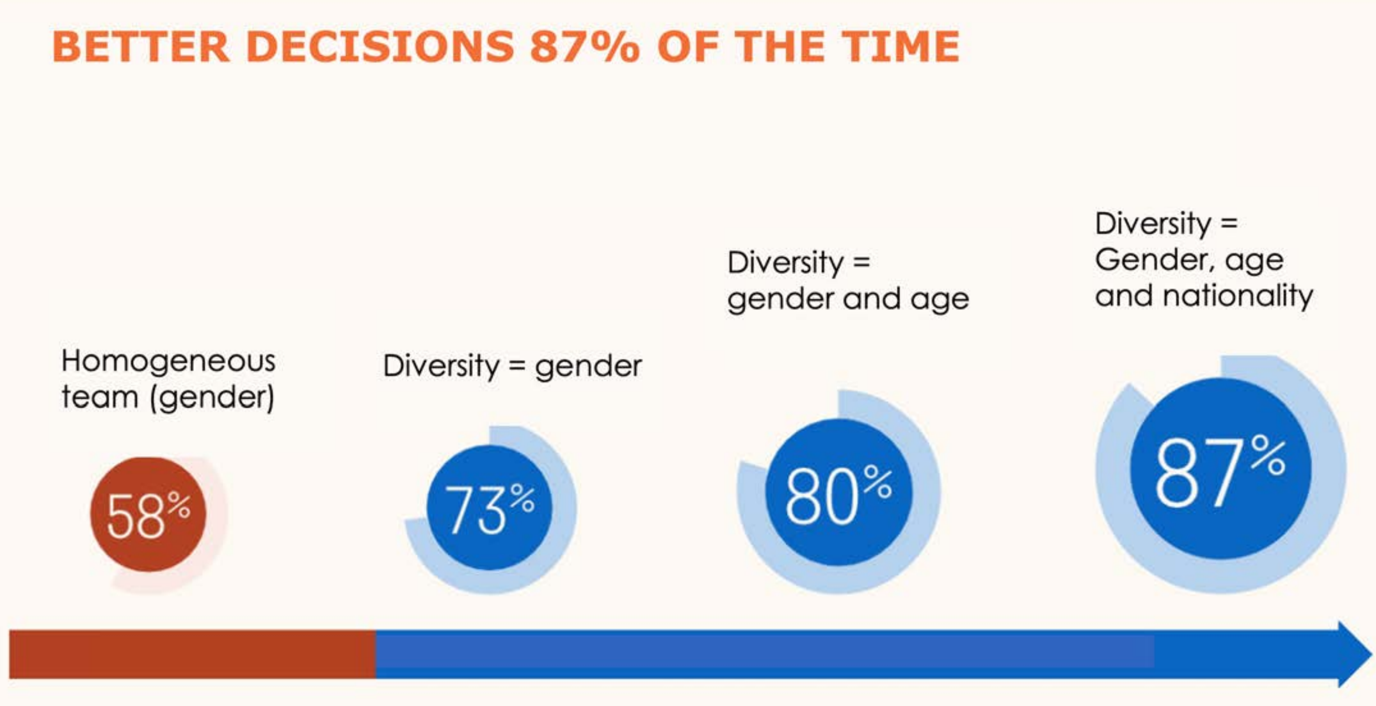


Source: Korn Ferry 2019 ”The Inclusive Leader” & Katherine W. Philips 2014 ”Why Diversity makes us smarter”



BETTER DECISIONS

WHY DIVERSE COMPANIES OUTPERFORM THEIR HOMOGENEUS COMPETITORS



Source: Cloverpop 2017 ”Hacking diversity with inclusive decision-making

ROI OF SUSTAINABLE GOVERNANCE

6 BUSINESS PERSPECTIVES

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SUSTAINABLE GOVERNANCE: 6 GROWTH PERSPECTIVES

The Return on Investment (ROI) of sustainable governance through DEI can be significant, impacting various aspects of a business.
Here's a breakdown of the key areas where DEI efforts can provide measurable benefits:

1. Financial Performance

•**Increased Profitability**: Companies with diverse executive teams are more likely to outperform their peers on profitability. McKinsey found that companies in the top quartile for gender diversity on executive teams were 21% more likely to outperform on profitability and those in the top quartile for ethnic diversity were 33% more likely to have industry-leading profitability (McKinsey & Company) (BCG Global).

•**Market Growth**: BCG's study highlighted that companies with above-average diversity on their leadership teams reported 19% higher innovation revenues. This is attributed to the variety of perspectives that drive creativity innovation (BCG Global).

2. Employee Engagement and Retention

•**Higher Engagement**: Employees who feel included and valued are more engaged. A sense of belonging can increase employee engagement by up to 45% (AIHR).

•**Lower Turnover**: DEI initiatives can significantly reduce turnover. BetterUp found that companies with strong DEI practices experienced a 50% reduction in turnover risk (AIHR).

3. Innovation and Problem-Solving

•**Enhanced Innovation**: Diverse teams are better at solving complex problems and generating innovative solutions. Research from BCG shows that diversity increases the range of ideas and options available, leading to better financial performance (BCG Global).

•**Creative Solutions**: Diverse perspectives prevent "group think" and encourage creative problem-solving, which can be a significant advantage in a competitive market (BCG Global).

4. Customer Insights and Market Reach

Broader Market Reach: Diverse teams can better understand and serve a diverse customer base, leading to improved customer satisfaction and loyalty. This can open up new markets and customer segments (Great Place To Work®).

Improved Customer Relations: Companies with diverse workforces are more likely to empathize with and meet the needs of a diverse clientele, improving customer relationships and brand loyalty (BCG Global).

5. Risk Management and Compliance

Enhanced Governance: Diverse boards are more likely to practice better governance and oversight, which can reduce risks associated with compliance and ethical breaches (Goldman Sachs) (Marketplace).

Regulatory Compliance: Adhering to DEI standards can help companies meet regulatory requirements and avoid potential fines and legal issues (PwC) (European Commission).

6. Reputation and Brand Value

Positive Brand Image: Companies known for their DEI efforts often enjoy a better reputation, which can attract top talent and loyal customers. This positive brand image can translate into higher sales and a competitive edge in the market (Korn Ferry | Organizational Consulting).

Stakeholder Trust: Investors, customers, and employees are increasingly favoring companies with strong DEI commitments, which can enhance stakeholder trust and support long-term success (SHRM).

Sources for detailed insights and additional information :
- Goldman Sachs: "Board Diversity Initiatives”
- McKinsey & Company: "How diversity, equity, and inclusion (DE&I) matter”
- BCG: "The Business Imperative of Diversity”
- AIHR: "Diversity, Equity, Inclusion and Belonging At Work: A 2024 Guide

CLIENT CASE

NUUDAY Telcom company

(4000 employees, 400 leaders)

A major transformation of the company put psychological safety and inclusion at the forefront for the telecom company Nuuday
This creates economic results, explains HR director

Maj Britt Andersen, CHRO, Nuuday
Photo Børsen, Brage Borup

CHRO, Maj Britt Andersen
(December 2022):
"In 10 months we have strengthened our share of women in management (19 – 23%)

Feedback in our quarterly employee pulses show high perceived levels of inclusion (index 80)

Despite a lot of changes in our organization – and the magnitude of our transformation - our big engagement survey end of Q4 2022 showed an improvement in satisfaction, motivation and eNPS.

And just as importantly very high scores – above top in class internally (above index 80) – on all questions related to psychological safety (which again is a prerequisite for leading with inclusion and cognitive diversity)".

'"We have 44 different nationalities and a large age range in Nuuday"

"My advice to other companies: Make inclusion a part of your business agenda"

The CEO's Challenge:
Due to declining customer satisfaction and fewer customers, CEO Jon James decided that a major transformation of the company was necessary, radically changing both the strategy and the composition of the organization.

Cognitive Diversity, mandatory ledership program in Nuuday

In NUUDAY, formerly known as TDC, they implemented a leadership development program focused on cognitive diversity, designed in collaboration with the external partner Living Institute at the end of 2021.

Throughout 2022, all 400 leaders at Nuuday completed the program, which consisted of homework, group training sessions, and one-on-one coaching.

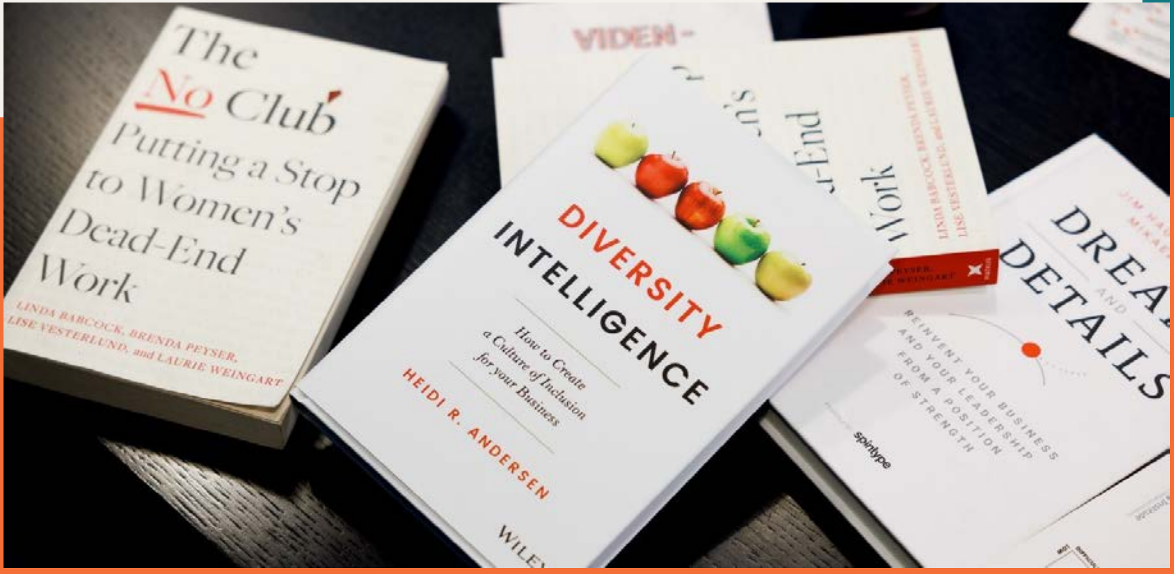
COGNITIVE DIVERSITY refers to the diversity in ways of thinking, thereby making an organization open enough to accept inputs that the management may not have thought of themselves.

Living Institute has been providing in-person DEIB workshops for all leaders at Nuuday since January 2022 and continues to deliver this essential training to support their ongoing commitment to an inclusive culture

THE MATRIX

IMPACTFUL DEI INITIATIVES

Source: "Diversity Intelligence – how to create a culture of inclusive culture for your business" by Heidi R. Andersen (Wiley)



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SUSTAINABLE GOVERNANCE REQUIRMENTS

NEW RULES

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LSE REPORTING REQUIREMENTS

London Stock Exchange (LSE), through the Financial Conduct Authority (FCA), has established diversity and inclusion reporting requirements for listed companies. These rules are designed to increase transparency and encourage diversity in corporate boards and executive management.

The key requirements are as follows:

1. **Board Diversity Targets**: Companies must meet specific diversity targets on a "comply or explain" basis. These targets include having at least 40% of the board being women, at least one senior board position held by a woman, and at least one board member from a minority ethnic background (Linklaters) (Davis Polk).

2. **Annual Reporting**: Listed companies must include in their annual reports a statement on whether they have met these diversity targets and, if not, provide an explanation. They must also publish numerical data on the gender and ethnic diversity of their board, senior board positions, and executive management (Davis Polk) (Home | Baker McKenzie Resource Hub).

3. **Corporate Governance**: Companies with a premium listing are required to comply with the UK Corporate Governance Code, which includes provisions related to board and committee structure, independence of directors, and diversity policies. Companies with a standard listing must include a corporate governance statement detailing their compliance with applicable governance codes (PwC) (Home | Baker McKenzie Resource Hub).

These measures are part of broader efforts to enhance diversity and inclusion in the corporate sector, reflecting a growing recognition of the value that diverse leadership brings to business performance and innovation.

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EU GENDER DIRECTIVE

The Directive (EU) 2022/2381, which came into force on December 27, 2022, aims to improve gender balance on the boards of listed companies across the EU.

Key provisions of this directive include:

1. **Board Composition Targets**: By June 30, 2026, listed companies must ensure that at least 40% of non-executive director positions are held by the underrepresented sex, or 33% of all director positions (executive and non-executive combined) are filled by members of the underrepresented sex.

2. **Transparent Selection Process**: Companies are required to implement fair and transparent selection procedures for board appointments based on clear, gender-neutral, and unambiguous criteria. When two candidates are equally qualified, preference should be given to the candidate of the underrepresented sex.

3. **Reporting Requirements**: Companies that do not meet the targets must explain why they have not been able to do so and what measures they are taking to achieve these targets. This includes reporting the reasons and the steps being taken to address the shortfall.

4. **Penalties for Non-Compliance**: Member States must implement effective, proportionate, and dissuasive penalties for companies that fail to comply with the selection and reporting obligations. These could include fines and annulment of non-compliant director appointments.

5. **Flexibility for Member States**: The directive allows for flexibility for Member States that have already adopted equally effective measures to improve gender balance on company boards. These Member States can suspend the procedural requirements of the directive if their measures deliver concrete results.

These measures are part of a broader effort by the EU to promote gender equality in corporate decision-making positions and ensure more balanced representation on company boards (European Commission) (EUR-Lex) (Ashurst).

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EU GENDER DIRECTIVE: PENALTIES FOR NOT COMPLYING

If companies do not comply with the EU's Gender Balance Directive by June 30, 2026, they will face several consequences as outlined in the directive. Here are the key implications:

1.Mandatory Reporting and Explanations: Companies that fail to meet the gender balance targets must provide an explanation for their non-compliance and outline the measures they are taking to address the imbalance. This reporting must be included in their annual reports (EUR-Lex).

2.Penalties: Member States are required to implement effective, proportionate, and dissuasive penalties for non-compliance. These penalties can include fines and the annulment of contested director appointments. The specific penalties may vary by country but are designed to ensure that companies take the directive seriously and strive to meet the required gender balance (European Commission) (Ashurst).

3.Public Disclosure: Information about companies that fail to comply with the directive will be made public. This could lead to reputational damage, as stakeholders, including investors, customers, and employees, become aware of the company's non-compliance with gender diversity requirements (European Commission).

4.Legal and Regulatory Risks: Non-compliant companies may face increased scrutiny and legal challenges, which could further impact their operations and governance practices.

The aim of these measures is to encourage companies to proactively work towards achieving gender balance on their boards and to ensure that non-compliance is met with significant consequences.

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RISKS OF DOING NOTHING

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Risks of Not Enhancing DEI

1. Declining Financial Performance

•**Missed Profit Opportunities**: Companies with diverse teams are 21% more likely to outperform on profitability (McKinsey & Company).

•**Lower Innovation Revenue**: Firms with more diverse management teams have 19% higher innovation revenues (BCG).

2. Reduced Employee Engagement and Retention

•**Higher Turnover Rates**: Lack of DEI efforts can lead to a 50% higher turnover risk (BetterUp).

•**Lower Employee Satisfaction**: Employees in non-inclusive workplaces are more likely to feel disengaged and undervalued, leading to higher absenteeism and reduced productivity (Great Place to Work).

3. Legal and Compliance Risks

•**Regulatory Fines**: Non-compliance with local DEI regulations, such as the EU Gender Balance Directive, can result in significant fines and legal challenges.

•**Reputational Damage**: Failure to meet DEI expectations can lead to negative publicity and damage to brand reputation (FCA guidelines).

4. Competitive Disadvantage

•**Talent Acquisition**: Top talent increasingly seeks out employers with strong DEI commitments. Companies lagging in DEI may struggle to attract and retain skilled employees (Glassdoor).

•**Market Relevance**: Diverse teams are better at understanding and serving a diverse customer base, which is crucial for staying competitive in a global market (Harvard Business Review).

RISKS OF DOING NOTHING

5. Innovation and Problem-Solving Deficiencies

•**Groupthink**: Homogeneous teams are more prone to groupthink, limiting creativity and effective problem-solving (BCG).

•**Stagnation**: Lack of diverse perspectives can lead to stagnation and inability to adapt to market changes (Deloitte).

6. Customer Dissatisfaction

•**Missed Market Opportunities**: Companies that do not reflect the diversity of their customer base may fail to understand and meet their needs, leading to lost market share (McKinsey & Company).

•**Brand Loyalty**: Customers are increasingly aligning their purchasing decisions with their values, including support for inclusive and diverse businesses (Accenture).

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Sources:

•McKinsey & Company: Diversity Wins: How Inclusion Matters

•BCG: The Mix that Matters: Innovation Through Diversity

•BetterUp: The Value of Belonging at Work

•Great Place to Work: 9 Best Practices to Improve Diversity, Equity, and Inclusion

•Glassdoor: Diversity & Inclusion in the Workplace

•Harvard Business Review: How and Where Diversity Drives Financial Performance

•Deloitte: The Diversity and Inclusion Revolution

•Accenture: Inclusive Future of Work

About Living Institute

EST. 2004

Diversity Intelligence

Creating Cultures of Inclusion by introducing:
Inclusive Leadership*, Inclusion Surveys, Unconscious Bias, Gender Balance, Allyship & Cultural Intelligence

Faculty of 22 Specialists

Anthropologists, psychologists, economists, social scientists & business leaders

Our Mantra

Evidence and research-based knowledge made practically applicable

Global Task Force

Facilitated 6,000+ diversity initiatives for more than 50,000 people in Denmark, Japan, Germany, USA, UK, China, France, Portugal, Belgium, Norway, Sweden, Estonia, Slovenia, Italy, Romania, Switzerland, Poland, India, Finland, Mexico, the Netherlands, Thailand, Pakistan & Zimbabwe

*Since 2021 more than 7000 leaders have completed Living Institute's Inclusive Leadership Programs

See our clients' list here

DEI
Champion
Master Class

Inclusion
Gap
Analysis

Breaking
Unconscious
Bias

Inclusive
Leadership
Programs

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