

The commercial case for diversity and inclusion

Executives & Entrepreneurs

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We consider why **diverse workforces and inclusive corporations** matter for **entrepreneurs and executives**. We focus on **three key aspects** :

1. The **data** behind the commercial case for diversity and inclusion.
2. The **misconceptions** that block businesses from becoming more diverse and inclusive.
3. The **three practical steps** to becoming a more diverse, more inclusive, and potentially more profitable business.



The world is experiencing a period of profound economic and social change.

The so-called ‘Fourth Industrial Revolution’ represents a period of structural change driven by technologies such as automation and robotics, artificial intelligence, and a proliferation of big data. The outcomes of this revolution—commercial, economic, environmental, and social—hinge on how people use these technologies.

In the Fourth Industrial Revolution, diversity and inclusion are becoming more important.

Firms and society will only flourish by having the right worker, in the right place, at the right time, regardless of personal characteristics beyond job competency. As the world becomes more complex, the value of problem-solving skills and creativity will rise. More diverse workforces correlate with higher levels of innovation in knowledge-based industries. And how companies deploy people will drive success. Inclusivity will matter more for countries and companies seeking to maximize productivity.

The world is also in the midst of a sustainability and impact revolution.

Growing numbers of individuals and institutions care about their environmental and social impacts. Many want to achieve positive outcomes for people and planet in their businesses, portfolios, and lives. Many want to contribute toward sustainability targets like the UN Sustainable Development Goals. Diversity and inclusion are core components of these goals. The fifth goal targets gender equality, while the tenth aims to reduce all types of inequality.

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In this piece:

1. We build the commercial case for companies to become more diverse and inclusive.
2. We consider some of the misconceptions that hinder firms from becoming more diverse, particularly private firms that have fewer resources than large listed multinational companies.
3. We suggest practical steps or principles for firms of all sizes to become more diverse and inclusive, which can help to deliver better financial performance and more positive social outcomes.



Part 1: The commercial case for diversity and inclusion

Making the commercial case, in terms of financial benefits and costs, can complement the moral, political, and philosophical cases for diversity and inclusion. The impacts of diversity—or a lack of it—can be measured and debated using *both* data and human stories. The economic and quantitative evidence may, however, help to accelerate positive economic and social change. Evidence is particularly important in those countries and companies that are least prepared for the Fourth Industrial Revolution. Data can help drive diversity and inclusion in countries whose cultural customs have slowed or hampered greater equality of opportunity to date.

The commercial case considers how diversity and inclusion most affect a company's financial performance. We look at three channels for diversity and inclusion to impact financial outcomes: labor markets, innovation, and market access.

A. Labor markets

Structural changes in the Fourth Industrial Revolution are expected to have major implications for global labor markets.

As in all prior industrial revolutions, new technologies have the potential to replace jobs. Economists estimate that between 10% and 15% of jobs may be lost to automation over the next 20 years.^[1] Job losses may not be spread equally across countries, industries, or sectors. A McKinsey study finds that automation may have varied consequences across the US, including the potential destruction of over 25% of jobs in more than 500 counties.^[2]

However, *net jobs figures* will likely show that the Fourth Industrial Revolution is positive for employment. Historically, industrial revolutions have created new industries and previously unimagined roles. In 1980, 8.5% of Americans worked in jobs that didn't exist 15 years before.^[3] Industrial revolutions spur jobs through indirect means, too. Technologies can lead to changes in consumer behavior that create new areas of economic activity—one example could be the rise of the e-commerce sector. Technologies can also create new demand.

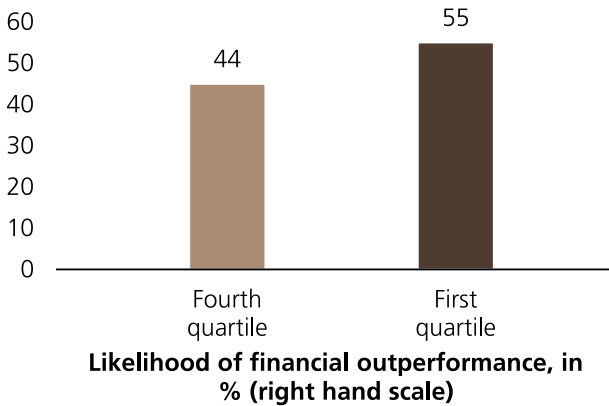
In a world where machines and humans increasingly work together, the benefit of having the right worker in the right place at the right time will likely increase.

Having strategies to attract diverse workers to fill talent gaps—regardless of background—will become more important. The costs of prejudice in the labor market may rise. While the costs will likely differ for each firm, it is possible to provide some quantitative examples. Between 1994 and 2010, the US military fired 14,000 LGBTQ+ staff if they revealed their gender or sexual orientation. If staff that did not share details of their gender or sexual orientation could serve alongside colleagues that did, this implies that gender or sexuality make no difference to job competency in the armed forces. Dismissing qualified staff because the work environment did not value diversity or inclusion cost around USD 53,000 per each employee—roughly USD 750mn in total.^[4]

In contrast, a 2013 Williams Institute meta-analysis of 36 research studies on the impact of LGBT-supportive workplace policies and environments found that inclusive working conditions for LGBT+ employees were correlated with workers displaying greater job commitment, increased job satisfaction, improved health outcomes, better workplace relationships, and greater transparency.^[5]

Companies that encourage gender diversity and inclusion have been shown to benefit commercially compared to peers. A 2020 McKinsey report concluded that firms with first-quartile gender diversity on their management teams had a 55% chance of delivering above-median EBIT margins (Fig. 1, compared to a 44% chance of outperformance for the bottom-quartile firms for gender-diverse executive boards).[6]

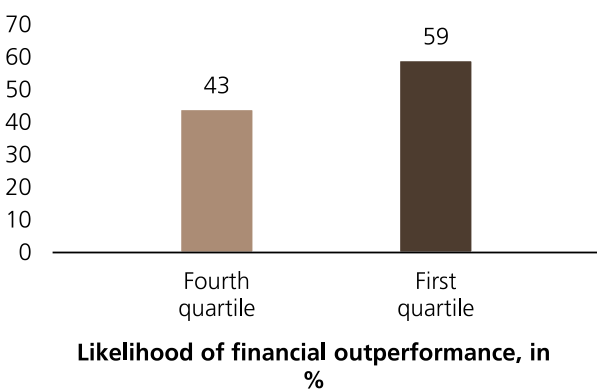
Fig. 1 – Gender diversity can drive higher chance of outperformance



Source: McKinsey and Co, UBS. Data as of May 2020.

The same study also found that firms with ethnically and culturally diverse leadership teams in the first quartile had a 59% chance of delivering above-median EBIT margins, compared to a 43% chance for the bottom-quartile firms (Fig. 2).

Fig. 2 – Ethnic diversity in management can also yield commercial benefits



Source: McKinsey and Co, UBS. Data as of May 2020.

B. Innovation

The Fourth Industrial Revolution is likely to be a period of accelerating economic, social, and technological change. The COVID-19 pandemic has sped up the adoption rates for new technologies—telemedicine and education technology, for example—and new applications of technology such as for working from home.[7]

In a world of rapid change, the benefit of having the right ideas for the right markets at the right time will likely increase. Crucially for business owners, entrepreneurs, and executives, the costs of not being innovative in a period of profound societal change will also likely rise.

New technologies in and of themselves can generate commercial benefits. But it is the applications and use of those technologies that historically have generated the biggest gains to people, planet, and profits. Applying new technologies creatively to existing processes, imagining new technological applications that lower costs, or creating novel products and additional revenues depend on creativity, innovation, and teamwork.

Research concludes that diversity—whether of thinking, gender, demography, or other attributes—can enhance innovation. One study found diversity can boost innovation by 20% and reduce risks (which may be overlooked in “groupthink” or monocultures) by 30%.[8] In periods of structural change like the Fourth Industrial Revolution, new applications of technology can create previously unimagined risks. Diverse teams may bring a richer perspective that can identify such risks and manage them effectively. Less diverse teams may rely on their status quo thinking or be slower to change.

Diversity benefits businesses because it can bring together people to solve complex problems. These problems require different skills or approaches: analyzing evidence, weighing options, predicting and planning for outcomes, accounting for the impact on people; building of processes; and risk management. It is unlikely any person excels in each of these six fields. Collective intelligence of different abilities and a variety of social connections is therefore important. One study found that building demographically diverse teams can spur innovation, racial diversity can stimulate curiosity within the team (although the research did not distinguish between ethnicity and race), and gender balance can support greater turn-taking in conversing and sharing ideas.[9]

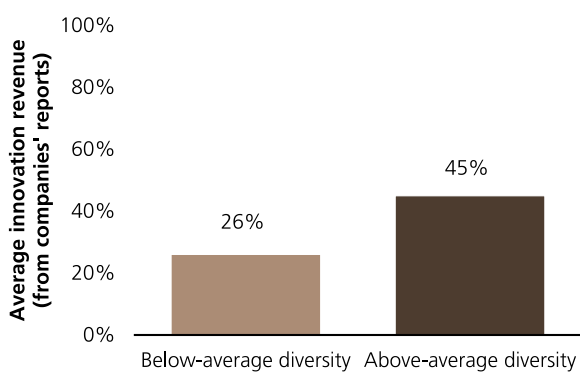
More diverse, innovative teams may also drive firm-wide productivity gains. A 2018 study of US corporate data between 1996 and 2009 found a positive correlation between the presence of corporate policies that support LGBTQ+ workers and productivity. More inclusive firms that had supportive policies reported 3% higher productivity than less inclusive businesses.[10]

Statistics from the US suggest the diversity of perspective from immigration can also deliver innovations—including entrepreneurship, new companies, and new ideas. One study from the Ewing Marion Kauffman Foundation showed immigrants were twice as likely to become entrepreneurs; and a subsequent study found at least one immigrant cofounder for a quarter of the US technology and engineering firms created between 2006 and 2012.[11]

A growing body of evidence points to neurodiversity—building teams of differently abled thinkers—spurring innovation. Evidence includes neurodiverse software testing teams in Australia’s Department of Human Services being 30% more productive than others.[12]

Diversity in management can also yield innovation benefits. A 2018 study from the Boston Consulting Group found a strong and statistically significant link between management team diversity and innovation revenues. Firms with above-average diversity delivered 45% of total revenues from innovation, compared to 26% for those firms with below-average diversity among leaders (Fig. 3).[13]

Fig. 3 – Diversity of leadership can spur greater innovation



Source: BCG Henderson Institute, UBS. Data as of January 2018.

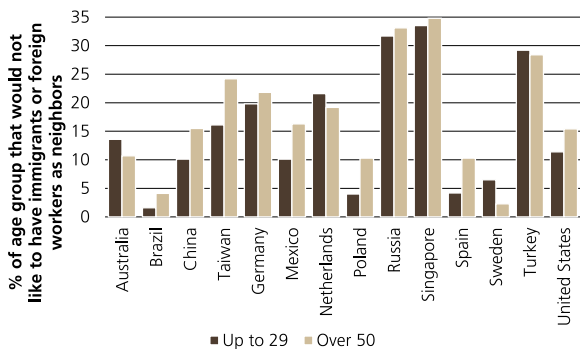
C. Market access

The new technologies of the Fourth Industrial Revolution—especially communication technologies—have increased the benefits of diversity and inclusion as a tool to access new markets. It is becoming more important to have the right people to appeal to diverse, values-driven customers looking for personalized goods and services. Intangible assets, such as brand value, constitute an increasing share of company value, as the Fourth Industrial Revolution favors capital-lite industries. Consumer experiences will increasingly shift to digital ones, raising the potential importance of brand value and reputation over convenience or the physical location of a store. The benefits of being a diverse and inclusive brand—and the costs of having a prejudiced brand—are rising.

Previously, many businesses catered their products and services to the majority to target the most profit for the least risk. This operating model could exclude minorities and fuel prejudice. Today’s businesses increasingly must include and serve a more diverse audience.[14] Today’s consumers increasingly demand personalized goods and services that match their needs or align with their values. The idea of a “one-size-fits-all” offering is becoming irrelevant. Technology has enabled platform companies to democratize content and enjoy economies of scale where the marginal costs may be close to zero. An example would be how visual entertainment has evolved. Gone are the days when the monopoly of studio-produced television catered to a Western, white, middle-class, male audience and was produced by Western, white, middle-class, males. Today, democratized content, produced by diverse groups and posted on video-sharing platforms at zero marginal cost, can be supported by crowdfunding and turned into a full series through a streaming platform.

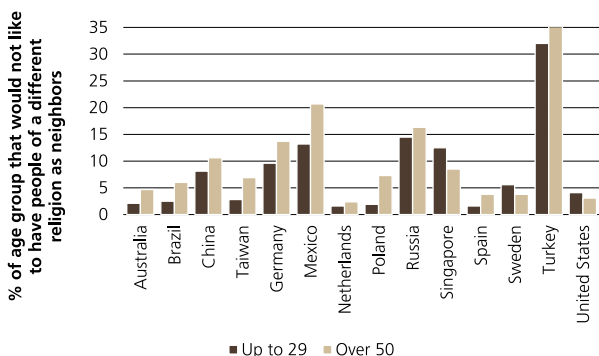
Younger generations, accustomed to extreme connectivity and global communities, care about diversity and inclusion. Data from the sixth round of the World Values Survey finds that younger people (aged less than 29) are generally more open than older people (aged 50+) to having immigrant or foreign worker neighbors (Fig. 4). One observes the same trend for having a neighbor of a different religion (Fig. 5).

Fig. 4 – Younger people are more inclusive of immigrant or foreign worker neighbors



Source: Inglehart, R., C. Haerper, A. Moreno, C. Welzel, K. Kizilova, J. Diez-Medrano, M. Lagos, P. Norris, E. Ponarin & B. Puranen et al. (eds.). 2014. World Values Survey: Round Six - Country-Pooled Datafile Version: <https://www.worldvaluessurvey.org/WVSDocumentationWV6.jsp>. Madrid: JD Systems Institute.

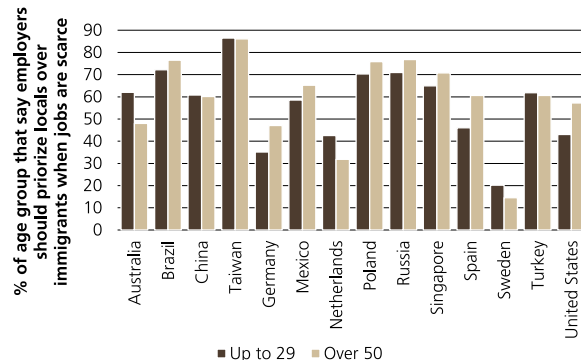
Fig. 5 – Younger people are more inclusive of neighbors with a different religion to their own



Source: Inglehart, R., C. Haerper, A. Moreno, C. Welzel, K. Kizilova, J. Diez-Medrano, M. Lagos, P. Norris, E. Ponarin & B. Puranen et al. (eds.). 2014. World Values Survey: Round Six - Country-Pooled Datafile Version: <https://www.worldvaluessurvey.org/WVSDocumentationWV6.jsp>. Madrid: JD Systems Institute.

However, age alone does not explain attitudes of diversity and inclusion. And assuming younger generations are inherently more diverse overlooks other potential factors, such as economic circumstances or job opportunities. The fact that some younger generations favor giving jobs to native workers over immigrants (**Fig. 6**) suggests the commercial and economic case for diversity and inclusion remains to be made.

Fig. 6 – Economic circumstances may lead younger people to adopt more self-interested (and less inclusive) views



Source: Inglehart, R., C. Haerper, A. Moreno, C. Welzel, K. Kizilova, J. Diez-Medrano, M. Lagos, P. Norris, E. Ponarin & B. Puranen et al. (eds.). 2014. World Values Survey: Round Six - Country-Pooled Datafile Version: <https://www.worldvaluessurvey.org/WVSDocumentationWV6.jsp>. Madrid: JD Systems Institute.

Consumers are also prepared to pay for goods and services that reflect their values, such as a business's open commitment to diversity and inclusion. A 2015 survey from the Nielsen Company concluded that 68% of shoppers would be happy to pay a price premium for a sustainable product. This share is up from 50% two years earlier. And companies with a demonstrable commitment to sustainability topics experienced four times higher sales growth versus less socially conscious peers.^[15]

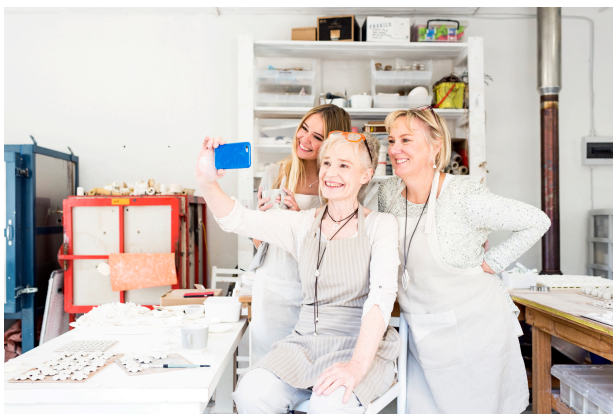
In a world where technology allows for greater personalization of goods and services, a diverse and inclusive workforce is more likely to understand consumer problems and design personalized solutions that match the customer's particular needs. This is not to say, for example, that a skin care company can only design personalized skin care products if it has at least one employee in the gender, ethnicity, or race for which it wants to cater. This does not mean that designers of later-living retirement homes or lifelong learning apps need to be older people to understand particular needs. But it does mean that companies may find it more efficient to employ a diverse workforce and build an inclusive environment to counteract the effects of standardization that seeks to satisfy the non-existent "average" consumer.

Let's take an example. Two psychologists—Knight and Haslam—chose two groups to perform typical office jobs. One group worked in a "lean office" environment—popular in the early 2000s—with a uniform, minimalist working space. The other group worked in the same

environment, albeit enriched with wall art and living plants. Performance was 15 percent better in the enriched than lean environment. But in a third example, where subjects could customize workspaces to their own tastes (the personalized condition), productivity was 30 percent higher than in the lean environment. Autonomy and personalization to allow workers to design the best workspaces to their diverse preferences yields measurable, positive commercial outcomes.[16]

The technology of the Fourth Industrial Revolution makes it easier to penalize firms and consumers that do not reflect social attitudes, including to diversity and inclusion. The Gender Fair app analyses companies and their offering based on firms' treatment of women. The Human Rights Campaign produces a Buyer's Guide to offer the same service to screen companies based on their sexuality policies.[17]

In a more digital world, it is easier to mobilize a boycott. And more digital business-to-consumer interactions can prolong or increase the costs if companies behave in ways their stakeholders dislike. A disgruntled consumer of the past may have spread their dissatisfaction locally by word of mouth and at small scale. A disgruntled consumer today can spread their poor online review globally, instantly, and at scale. History can provide some guidance on the economic costs for a company if it is boycotted for its homogeneous workforce or prejudiced practices. The 1977 boycott of Coors Beer for anti-gay (and anti-union) practices was mobilized by rising politician Harvey Milk. By 1984, Coor's share of the Californian beer market slid to 14%, from 40% just prior to the boycott.[18]



Chapter 2: Challenges to diversity and inclusion – and how to overcome them

The commercial benefits of being a diverse and inclusive business are not just theoretical. A large and growing body of literature presents the evidence for more diverse businesses being more profitable.

This does not mean small and mid-sized private enterprises find building a diverse and inclusive business easy. Becoming more diverse and inclusive can, in practice, lead business owners and entrepreneurs to make well-intentioned mistakes.

Every business is different. Each will have its own successes and points for improvement when fostering a more diverse and inclusive workplace. There is no one-size-fits-all approach.

Nevertheless, we discuss three types of diversity and inclusion challenge—or misconceptions—and suggest some alternative perspectives and potential solutions.

Misconception 1: Diversity and inclusion strategies should look the same for every company

Companies that want to build a more diverse and inclusive workforce cannot start without considering the legal, political, and social conditions of where they operate. These conditions vary considerably across countries. Every business will therefore have a different strategy for diversity and inclusion.

Businesses will find it harder to promote gender-diverse practices if they operate in countries where women are under-represented economically and politically. Only 25% of the 35,000 parliamentary seats—across 153 countries—are held by women and two countries have no female parliamentarians.[19]

Businesses will find it more challenging to build diverse teams—putting the right worker, in the right place, at the right time—if some countries do not treat LGBTQ+ and non-LGBTQ+ employees equally. Around 60% of countries allow managers to fire employees based on their sexual or gender identities.[20]

Diversity and inclusion do not have equal commercial and societal impact across industries or sectors either. The

gains from diversity and inclusion from risk management, complex problem solving, or innovation may be greater for certain types of companies. Studies and meta-analyses (studies of studies) from van Dijk and colleagues and Joshi and Roh suggest diverse teams have the edge over nondiverse ones when there is a bigger need to use diverse information in a business and when this diverse knowledge is especially relevant to a firm's core business.[21] In other words, diversity and inclusion yield greater benefits in the knowledge economy—in sectors such as the legal, financial, creative, or technology industries—and in high-value-added service sectors. Diversity and inclusion may yield fewer (commercial) benefits for businesses with homogeneous products or services or where a firm follows a consistent, repetitive process. Indeed, repetitive tasks with replicable processes—clerical roles or truck driving for example—and lower added economic value may be most ripe for automation in the Fourth Industrial Revolution. Diverse teams, if they are not inclusive, can lead to intergroup tensions and potentially negative performance. Inclusivity and diversity management is therefore paramount.

Misconception 2: Top management is exclusively responsible for diversity and inclusion strategies' success

Leaders will need to support efforts if a business is to become more diverse and inclusive. Corporate culture changes are likely only to endure if top managers are committed to a diversity and inclusion strategy in both word and deed. The strategy also must be credible to stakeholders and consistent with the overall business objectives—the latter being set by top management. A diversity and inclusion strategy should be seen and be evident—as opposed to senior managers talking about it but failing to evidence it through attending diversity events or building a diverse and inclusive management team around them.

However, business owners and entrepreneurs should not underestimate the roles of middle managers, teams, and employees in driving diversity and inclusion.

First, diversity and inclusion models must listen to the needs, concerns, and aspirations of underrepresented groups. Many management structures remain biased toward certain groups who may not have experienced the challenges or prejudices that minority communities face. Even in the presence of company affinity groups that give a collective voice and psychological safety to discuss race, gender, ethnicity, or sexual orientation, there is some evidence to suggest diversity and inclusion policies must extend beyond discussion. Success likely depends on

breaking down management “groupthink,” finding new ways to promote inclusion in the firm's organizational structure, and acknowledging that building an inclusive environment across the firm requires investment.[22] Rising inclusion is not a given result of rising diversity levels. Different perspectives can lead to increasing tensions or disagreements if not carefully managed.

Second, overreliance on top managers and dedicated diversity and inclusion departments to drive change can be counter-productive. One 2013 study found that having a diversity department—mandated by top managers—may not drive grassroots organizational change. Employees may think diversity is not one of their objectives because someone else is managing it.[23]

Third, diversity and inclusion strategies are only effective if top managers' messages match with aligned policies for underrepresented groups that middle managers and the whole firm put into practice. Ultimately, middle managers and employees will make most business decisions where diversity and inclusion factors matter, such as hiring and managing employees. One 2005 experiment found that equal opportunity commitments for older potential employees only stimulate this group's interest in joining a firm if the firm also offers real benefits that matter to older workers—flexible work arrangements or mentoring, for example.[24] A 2016 meta-study of 260 diversity training studies concluded that diversity training is most impactful when it is included with other practical diversity practices.[25] And studies conclude that employees attending diversity training feel more motivated (and more willing to implement their learnings) if the company's own managers deliver the training.[26]

Misconception 3: The objective of diversity and inclusion strategies is to drive equal outcomes

In the Fourth Industrial Revolution, it will become more important for companies to have the right worker, in the right job, at the right time. Diversity and inclusion strategies can support this need if they help companies to hire and retain the best qualified workers, regardless of differences in personal characteristics.

However, business owners and entrepreneurs might consider the difference between equality of opportunity and equality of outcome when implementing diversity and inclusion strategies.

Unconscious biases and prejudices can mean that certain groups of people are underrepresented, overlooked, or

discriminated against in hiring and promotion decisions. These biases can be reinforcing such that it requires cultural change to break the mold of a monoculture. Diverse and inclusive companies work to reduce these biases and prejudices by designing policies that promote *equality of opportunity*.

Positive or affirmative action programs—such as quotas for applicants from particular backgrounds—may help to boost equality of opportunity *but with limitations*. Certain types of affirmative action programs cannot reduce prejudice against invisible differences. Businesses may only be aware of differences in gender identity, sexual orientation, physical abilities, and neurological profiles if employees disclose them. A quota for hiring of LGBTQ+ employees in theory may be a quota for “out” LGBTQ+ employees in practice. Affirmative action programs for a particular group also risk overlooking “intersectionality,” or the combination of different characteristics. Mandating for a fixed proportion of women in board or executive management teams may not be sufficient for diversity of thought if managers still all share the same ethnicity, educational background, or workplace experiences. And teams must be sufficiently inclusive and tolerant of difference to reduce the risk of peer pressure and conformity with the dominant group characteristics.

Moving away from hiring decisions where “structure follows strategy” and managers hire for a “standardized” job role—a remnant of the First Industrial Revolution where laborers needed to fit into increasingly standardized production lines—may also support equality of opportunity. This may be particularly helpful for neurodiverse job candidates. Conventional hiring practices may overlook neurodiverse candidates not because they don’t have the right *skills* for a job, but because they may not perform in a *particular way* at the interview.^[27]

Ultimately, employees each have different talents and points of development. Having the right person in the right job at the right time depends on equality of opportunity to apply for a job, perform it well, and progress in a firm. Diversity and inclusion maximize the chances that the right person gets a job *independent of* factors that are not relevant for job performance. Well-designed diversity and inclusion strategies help to overcome the unconscious biases and rules-of-thumb that all people have.



Chapter 3: Three practical tips to promote diversity and inclusion in your business

There is no one-size-fits-all strategy for any business to become more commercially successful through diversity and inclusion. Nevertheless, we identify three practical tips for business owners, executives, and entrepreneurs to consider when designing a diversity and inclusion process for their firm.

External view – interview with Joseph N. Sanberg

Founder of CalEITC4Me and UBS #TOGETHERBAND expert for SDG 10 (reduced inequalities)

Q. How important is corporate diversity and inclusion to reducing inequalities?

A company cannot claim to be in support of equality if it does not prioritize hiring a wide span of different genders, ages, races, and abilities. And prioritizing diversity is rendered meaningless without advocating for inclusivity.

To truly transform a company into a champion of equality, people from groups that have been historically marginalized must be uplifted, listened to, and amplified. It’s not enough to just hire a diverse pool—companies need to take a hard look at who is being promoted, whether there are pay differences between people with the same job, and who is in positions of power to be decision-makers.

It’s great to have diversity as a value, and it’s great to roll-out inclusivity training—but those practices are merely the first step when it comes to reducing inequality in the corporate world. We need to be honest with ourselves and admit that there is still a lot of work to do to make our industries more equitable.

Q. What role do SMEs have to play in supporting more diverse and inclusive societies?

SMEs are the future. They are breaking the old-school corporate-America mold, and they do this because they have to. Without that innovation, they won't be able to compete in today's market and will fail to thrive. That's actually a great position to be in, because it demands that SMEs do things differently and challenge longstanding practices that we know are unfair but are accepted as "the way things have always been."

SMEs are in this incredible position to totally reimagine the way we do things in corporate America, to prioritize building a company that reflects the world it operates in. And part of supporting a diverse and inclusive society means ensuring that your business practices—and the other companies that are part of your business ecosystem—reflect your values. I think SMEs are leading the way in this and taking on a leadership role where they are accountable for their net impact on the world.

It's not enough to have a diverse and equitable workplace if your company is investing in the private prison industry on the side. So as SME leaders, we're in a place to answer for all the ways our companies might impact society, and I think that consumers will respond to businesses that choose to prioritize making a net positive impact.

Q. Can SMEs become more profitable by becoming more diverse and inclusive?

SMEs undoubtedly will become more profitable by increasing their diversity and inclusivity. We know that when you prioritize hiring or promoting one type of person to work for your company, you're limiting your workplace to one group's perspective. But with a diverse staff, you get a breadth of different backgrounds and perspectives that will expand the company's ability to grow and thrive.

Furthermore, for too long, historically marginalized communities have been underestimated or overlooked when it comes to marketing, and so many companies have a limited view of their target consumer. But these communities have spending power, too, and when a company limits its target market because its decision-makers are mostly white or mostly male, they lose out on the ability to market the company to a huge community of people.

In that vein, I also think that people my age and younger are becoming very conscious consumers—people care about the business practices of companies, and they're choosing to take their business elsewhere if a company doesn't reflect their values or prioritize inclusivity. That's great because younger consumers are creating an environment where companies won't be able to make a profit unless they can say that their decisions are both good for business and good for the world.

SMEs have nothing to lose and everything to gain by building their business to be diverse, inclusive, and thoughtful about the world they're operating in. I think that will be the only viable way of conducting business in the near future and I'm excited for us to arrive at that place, because it will represent a shift away from the toxic mindset that has led corporate America for so long. This is a "get on board or get out of the way" moment.

**This interview contains views which originate from outside Chief Investment Office Global Wealth Management (CIO GWM). It is therefore possible that the interview does not fully reflect the views of CIO GWM.*

TIP 1: Focus on diversity and inclusion awareness and education

Successful companies consist of people that understand the opportunities a diverse and inclusive workforce can bring—and the barriers or prejudices certain groups might face based on their personal characteristics.

Conversations about prejudice or exclusive environments can be difficult for underrepresented groups *and* privileged groups. It would be important to create the right environment for affinity groups to gather and share their experiences across the firm. But it is also important to encourage privileged groups to be their own tutors. An expectation that groups experiencing prejudice will always be the educators can lead to emotional strain, with negative consequences for productivity, employee wellbeing, and a sense of "belonging" in the company.

Education should ideally foster inclusive teaching—learning about different groups of people—from an early age. Business owners, however, have little sway over early years curriculum. Education programs should also aim to reduce fear of change (a risk factor for blaming marginalized groups and fueling prejudice). Encouraging lifelong learning and consistent skills refreshing can help workers and companies to navigate the structural change of the Fourth Industrial Revolution. It can counter unconscious bias and prejudice and support the building of more diverse and

inclusive businesses. Education could also focus on personal stories that help to humanize marginalized and prejudiced groups and build a sense of community as opposed to “otherness.”[28]

The tools to promote awareness and education should be as inclusive as possible. Middle managers, including those not in underrepresented groups, should deliver relevant training that can be practically applied. Use of digital asynchronous training tools can help employees to learn at times that suit them, especially in a world of more widespread remote working after COVID-19.[29]

TIP 2: Rethink your organizational management structure

Diversity and inclusion depend on people, by building varied teams of employees, being open to varied ideas, having a mindset to drive innovation, and responding to the various needs of different stakeholders. But successful diversity and inclusion strategies also depend on processes. Evaluating and amending organizational management could therefore be critical to reaping the commercial benefits of diversity and inclusion.

Unconscious bias is part of the fabric of society and, indeed, of many companies. Business owners, executives, and entrepreneurs may begin by considering their hiring processes. Can more be done to find talented, diverse people for a flexible role, rather than following a traditional, restrictive approach of having a set role? Are job descriptions written in unbiased language, candidates’ CVs reviewed at the same time, and irrelevant information that may bias interviewees’ chances removed? Are managers aware of how using self-evaluation as part of performance management may lead to unintended gender bias, as women have been shown consistently to score their performance lower than men?[30] In this instance continuous feedback through the year can be more inclusive than single year-end assessments.

Human resource managers should carefully consider how diversity and inclusion data—or a lack of it—impacts the company’s culture and performance. Taking away personal information to de-bias hiring decisions does not necessarily have the intended effects. For example, the “Ban the Box” movement in the United States aimed to remove a tick box on job applications indicating whether a candidate had ever been to prison. In the United States, there is evidence of a higher bias of young black men being incarcerated. The initial idea was that removing the box would reduce prejudice against young black men. However, in the first trial

of removing the box in the state of Illinois, recruitment of young black men *fell* after the box was removed from job applications. Rather than reducing bias and prejudice, the lack of information led some recruiters to follow their biases. Employment of young black men may have fallen because recruiters *assumed* young black male candidates had gone to prison in the absence of evidence.[31]

Business owners and leaders might also consider their conflict resolution and teambuilding processes. Diversity alone—building teams with different personal characteristics and potentially opposing views—might create tensions with the prevailing groupthink. Investing in diversity management, inclusion, and having a formal process to smooth tensions are important. Other practical examples could include learning and training to combat unconscious bias, the creation of “shadow boards” drawn from varied backgrounds to provide fresh insights into executive decisions, and cultivating a climate where “prestige” rather than “dominance” drives company hierarchies.[32]

TIP 3: Create a healthy culture of challenge

Successfully becoming a more diverse and inclusive company that delivers better commercial results and a greater societal impact is not a one-time effort. Doing so likely require a culture of continuous challenge.

This challenge can take several forms. It may begin by remembering that prejudice is any form of irrational discrimination.

Companies need to distinguish between rational and irrational discrimination. It would be irrational not to hire someone with the right skills for the job simply because of their race, sexual orientation, or because they support a rival sporting team to the hiring manager. It may be rational to charge different customers different prices if, for instance, they buy different products or buy in bulk.

Challenge can involve holding employees and managers accountable for promoting a more diverse and inclusive workforce. Accountability will likely require the collection of quantitative targets for diversity and inclusion, numerical data to measure performance, and explicit performance indicators in employee and manager appraisals around diversity and inclusion goals. Private businesses are unlikely to perfect these processes at the first attempt—especially if expertise and resources are limited. Challenge should therefore include testing measurement approaches, acceptance of failure, learning from mistakes, and openly

communicating what worked and what not to employees. It cannot be forgotten that failures, while inevitable, may lead to costs that fall disproportionately on underserved or overlooked groups of stakeholders. These groups cannot expect firms to be perfect—but they will likely expect firms to be authentic, transparent, and willing to improve on their diversity and inclusion performance.

Challenge could also involve small and mid-sized enterprises working to drive change beyond their company. A lack of diversity and inclusion will not just hurt firms in the Fourth Industrial Revolution—it could also hurt societies. Taking a neutral stance on prejudice may no longer be enough. Neutrality could increasingly have negative commercial consequences, through a combination of regulation, stakeholder pressures, the rise of stakeholder activism or engagement, and the increasing connection of financial performance to environmental, social, and governance factors.

There is growing evidence that makes the commercial case for diversity and inclusion. But as the structural changes of the Fourth Industrial Revolution advance, it is likely that the economic and societal case for diversity and inclusion will also rise. Small and mid-sized enterprises (SMEs) account for around 90% of global businesses and more than 50% of global employment.[33] The role of private business owners and their SMEs in driving a more equal, more productive, and more profitable world cannot be overlooked.

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