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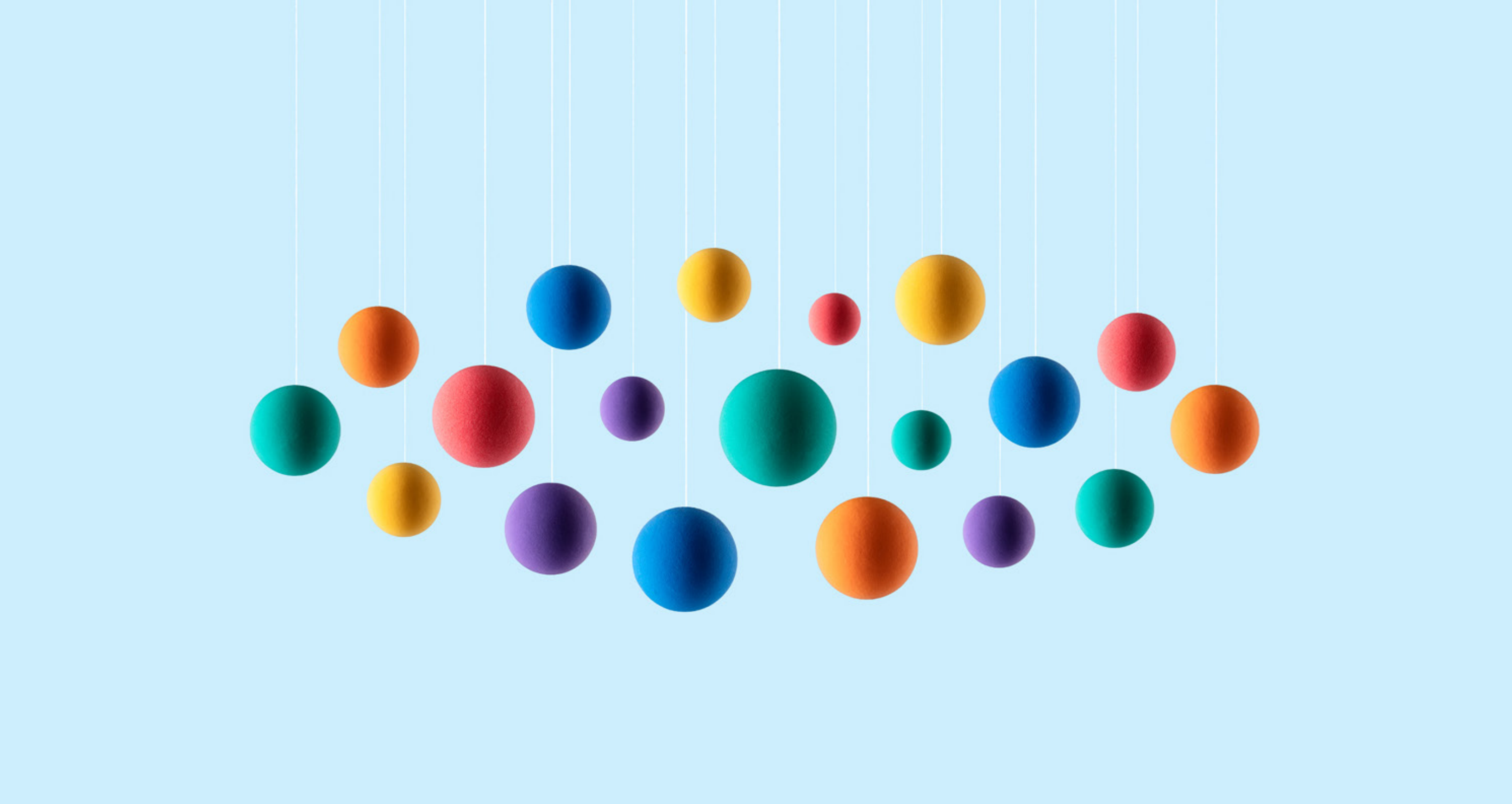
What is diversity, equity, and inclusion?

Diversity, equity, and inclusion are three closely linked values held by many organizations that are working to be supportive of different groups of individuals, including people of different races, ethnicities, religions, abilities, genders, and sexual orientations.



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Variety, as they say, is the spice of life. If diversity is another word for variety, how can it enhance or flavor the world?

Diversity—through the lenses of race, ethnicity, ability, gender, sexual orientation, neurodiversity, and beyond—can help to strengthen organizations, as studies have shown time and again. Quite simply, diversity, equity, and inclusion (DEI) is used to describe three values that many organizations today strive to embody to help meet the needs of people from all walks of life. While concepts such as biodiversity are important offshoots of the core idea of diversity, this article focuses on diversity, equity, and inclusion in business and society rather than in other contexts.

Companies that are diverse, equitable, and inclusive are better able to respond to challenges, win top talent, and meet the needs of different customer bases. With DEI in mind, companies are considering how to better support employees. Over the past few years, many organizations have taken strides to build diversity, equity, and inclusion into their policies and hiring practices.

What are the differences between diversity, equity, and inclusion?

Diversity, equity, and inclusion are often grouped together because they are interconnected and it is only in combination that their true impact emerges. Some organizations include related concepts, such as belonging, in their DEI strategies. But all of these terms are also easily misunderstood. It's important to grasp the individual meanings and implications of each of these terms:

— *Diversity* refers to who is represented in the workforce. Some examples of diversity in workplaces include:

  - *Gender diversity:* What makes up the composition of men, women, and nonbinary people in a given population?
  - *Age diversity:* Are people in a group from mostly one generation, or is there a mix of ages?
  - *Ethnic diversity:* Do people in a group share common national or cultural traditions, or do they represent different backgrounds?
  - *Physical ability and neurodiversity:* Are the perspectives of people with disabilities, whether apparent or not, accounted for?

These are a few of the most common examples, but what is considered diverse can range widely. Nobel Prize winner Richard Thaler touches on this in an interview with McKinsey on debiasing the corporation. "There's lots of talk about diversity these days," says Thaler. "We tend to think about that in terms of things like racial diversity and gender diversity and ethnic diversity. Those things are all important. But it's also important to have diversity in how people think."

— *Equity* refers to fair treatment for all people, so that the norms, practices, and policies in place ensure identity is not predictive of opportunities or workplace outcomes. Equity differs from equality in a subtle but important way. While equality assumes that all people should be treated the same, equity takes into consideration a person's unique circumstances, adjusting treatment accordingly so that the end result is equal. In an episode of the *McKinsey Talks Talent* podcast on the inclusive workplace, McKinsey senior partner and talent expert Bill Schaninger offers a view on the implications of equity when sourcing talent: "There's a real difference between equal and equitable. Suppose we said, 'All interns are created equal. We pay them nothing.' The people who can afford an entire summer without getting paid are likely already coming from a position of privilege."

— *Inclusion* refers to how the workforce experiences the workplace and the degree to which organizations embrace all employees and enable them to make meaningful contributions. Companies that are intent on recruiting a diverse workforce must also strive to develop a sufficiently inclusive culture, such that all employees feel their voices will be heard—critical if organizations want to retain their talent and unlock the power of their diverse workforce. In an episode of the *McKinsey Talks Talent* podcast on the inclusive workplace, McKinsey partner and DEI expert Diana Ellsworth shared an example of how a lack of inclusion can manifest in workplace culture: "The LGBTQ+ community is underrepresented in the workplace, especially at more senior levels. As a result, many feel like an "only" at work and are more likely to experience microaggressions; they might feel unable to talk openly and comfortably about themselves, for example, or need constantly to correct assumptions about their personal lives."

Why is diversity in the workplace important?

A series of three McKinsey reports shows the impact of diverse workplaces: *Why diversity matters* (2015), *Delivering through diversity* (2018), and *Diversity wins: How inclusion matters* (2020). The latest findings draw from a data set that encompasses 15 countries and more than 1,000 large companies, as well as research on employee sentiment, and the results show a correlative relationship between business performance and diversity. It's worth noting that greater access to talent and increased employee engagement contribute to this performance effect. The business case for diversity is robust, and the relationship between diversity on executive teams and the likelihood of financial outperformance has gotten stronger over time. And the results have been replicated in further research, for instance, in Latin America and Central Europe.

Some of the key findings from the latest *Diversity wins* report include the following:

— Most employees support diversity, with overall sentiment on diversity 52 percent positive and 31 percent negative.

— There are clear correlations between diversity and business performance. Analysis of 2019 data shows that companies in the top quartile for gender diversity within executive teams were 25 percent more likely than companies in the fourth quartile to have above-average profitability (up from 21 percent in 2017 and 15 percent in 2014).

— The greater the representation of gender diversity, the higher the likelihood of outperformance. For instance, companies where more than 30 percent of the executives are women were more likely to outperform companies where this percentage ranged from only 10 to 30. The most gender-diverse companies see a substantial differential likelihood of outperformance—48 percent—over the least gender-diverse companies.

— The business case for ethnic and cultural diversity is also strong: in 2019, companies in the top quartile bested those in the fourth quartile by 36 percent in profitability. Notably, the likelihood of outperformance continues to be higher for diversity in ethnicity than in gender.

— Progress in building diverse workforces remains stubbornly slow.

— Despite employees' support of diversity, there are high levels of negative sentiment on inclusion—namely, equality, openness, and belonging—particularly around equality and fairness of opportunity.

Even during a crisis, when leaders might be tempted to shelve DEI efforts to ensure the company's financial survival, there is value to prioritizing diversity, equity, and inclusion. In the words of McKinsey's Bryan Hancock from *McKinsey Talks Talent*: "D&I is good business. It doesn't have to be at the expense of financial outcomes. . . . This isn't an issue where leaders can say, 'We can't do diversity right now, because we're under a lot of pressure.' Diversity is one of the things you've got to be mindful of in every context."

What other benefits can organizations realize from inclusion and diversity?

In addition to profitability, there are five key domains in which inclusion and diversity can significantly affect an organization's overall performance:

1. *Winning talent:* Organizations that monitor the demographic profile of their workforces are better able to retain top performers while making sure that diverse talent isn't lost.

2. *Improving the quality of decision making:* Diversity brings multiple perspectives to the table during times when enhanced problem-solving skills and vision are needed.

3. *Increasing customer insight and innovation:* Diverse teams are typically more innovative and better at anticipating shifts.

4. *Driving employee motivation and satisfaction:* Research in Latin America showed that companies that are committed to diversity are 75 percent more likely to report a pro-teamwork culture.

5. *Improving a company's global image and license to operate:* Companies that can maintain or increase their focus on inclusion and diversity during crises are poised to avoid consequences such as struggling to attract talent or losing customers and government support.

How can organizations foster an inclusive workplace?

For companies looking to bolster inclusion and step up their DEI efforts more broadly, five areas of action stand out:

— Ensure that diverse talent is well represented.

— Strengthen leadership accountability and capabilities.

— Be fair and transparent, enabling equality of opportunity.

— Promote openness and tackle microaggressions, bias, and discrimination.

— Foster belonging through unequivocal support for all the ways diversity manifests.

A McKinsey survey about inclusion at work and how to address organizational barriers to it offers unique insight at a more granular level. The research finds that respondents of all backgrounds encounter barriers to feeling included—and that women, respondents who are ethnic and racial minorities, and those who identify as LGBTQ+ encounter additional challenges.

A few key data points from the survey add nuance about the lived experiences of employees in workplaces, inclusive and otherwise:

— Employee engagement is strongly linked with a sense of inclusion. Those who feel very included are more likely than others to say they feel excited by and committed to their organizations.

— Nearly 40 percent of respondents say they have turned down or chosen not to pursue a job because of a perceived lack of inclusion at the organization.

— Over a third of respondents say their organizations don't put enough effort into creating a diverse, inclusive environment (while only 6 percent say too much is being done).

— A resounding 84 percent of respondents say they have experienced microaggressions at work. More than one in four say they have needed to correct others' assumptions about their personal lives, for example. High levels of respondents have experienced everyday slights rooted in bias, such as not receiving credit for their ideas, being asked to speak as a representative for a group of people like themselves, or being coached to communicate in a way that feels inauthentic.

— Looking only at LGBTQ+ respondents, 37 percent say they have had an uncomfortable experience coming out to colleagues in the preceding month.

— Among respondents who identified as racial or ethnic minorities, 40 percent of those who indicated they have discussed identity-related issues at work in the preceding month say they have felt at least slightly uncomfortable in those situations.

To serve these workers better, organizations can pay attention to four main factors associated with employees' inclusion:

1. *Diverse, inclusive leadership:* The presence of diverse leaders at an organization, as well as an organization's focus on inclusive leadership, are correlated with individuals feeling more included.

2. *Meritocracy and initiatives to increase fairness in performance evaluations:* A meritocratic company culture is strongly associated with a sense of inclusion.

3. *Sponsorship:* Respondents who say colleagues at their organization have gone out of their way to create professional-advancement opportunities for them are also more likely than others to feel a strong sense of inclusion.

4. *Substantive access to senior leaders:* More than half of all respondents say that meaningful interactions with senior leaders have aided their career advancement.

What is intersectionality?

Intersectionality, a term coined by Professor Kimberlé Crenshaw in 1989, refers to the ways different parts of one's identity intersect or overlap with one another. For instance, gender is one aspect of a person's identity, but so are sexual orientation and race. A Black woman who is queer, or a White woman who has a disability, may take a perspective that acknowledges how those different aspects of their identity overlap or intersect. *McKinsey's Women in the Workplace 2021* report, for instance, found that LGBTQ+ women, as well as women with disabilities, are much more likely than women overall to experience microaggressions on the job.

Acknowledging intersectional identities can strengthen companies and communities more broadly. "Everyone deserves to feel empowered across all aspects of who they are," says McKinsey senior partner Guangyu Li. "It shouldn't be left to any individual community to defend itself. It's in our collective interest to show up for each other with concrete action and to come together in solidarity."

Allyship is a concept that is closely related to intersectionality. An ally aligns with people in the minority to help foster equitable and inclusive opportunities for all. In corporate America, White women, for instance, may take allyship actions such as mentoring women of color, advocating for new opportunities for them, and actively confronting any discrimination they might face. However, there is a notable disconnect between the allyship actions that women of color say are most meaningful and the actions that White employees prioritize—suggesting opportunities for recentering efforts around the experience of women of color and other marginalized groups.

What issues are important to women in the workplace?

Women's representation in the corporate world has largely increased in recent years, but the pandemic has affected their participation in the workforce. It is worth noting that dynamics of gender in the workplace may be regionally specific. While much of McKinsey's work offers insight into women in corporate America, you can explore additional material on global gender equality, as well as gender diversity in Africa, Canada, Central Europe, France, Japan, the Middle East, and other regions.

The largest study of women in corporate America is Women in the Workplace, conducted by McKinsey in partnership with LeanIn.Org. The latest research, now in its seventh year, reflects information from 423 organizations that employ 12 million people, and includes responses from more than 65,000 people surveyed on their workplace experience, as well as in-depth interviews with women of diverse identities.

Findings from the *Women in the Workplace 2021* report include the following:

— Women's representation in the corporate pipeline (that is, the journey an employee might take from starting as an entry-level worker to advancing to a spot in the C-suite) has increased since 2016. But women—and women of color in particular—remain significantly underrepresented in leadership.

— At every step in the career ladder, women of color lose ground to White women and men of color.

— The "broken rung" problem remains a challenge for women, particularly those seeking their first step up from entry level to manager. For every 100 men promoted to manager, only 86 women are promoted.

— Burnout, stress, and exhaustion continue to affect women more than men. In the past year, one in three women considered leaving the workforce or downshifting their career, a notable increase from levels seen early in the COVID-19 pandemic.

— Women leaders are doing considerable work to support DEI efforts and employee well-being more broadly, but they're not necessarily being recognized for it. For instance, employees with women managers are more likely than others to say that their manager has supported and helped them in the past year; women leaders also spend more time than men on DEI work that's outside their formal job responsibilities. Less than a quarter of companies, though, recognize this work in performance reviews, for example.

To support women in the workplace, companies need to invest deeply in all aspects of diversity, equity, and inclusion. Although there are no quick fixes, there are some steps companies should take to empower women at work:

— Companies should put more practices in place to ensure that promotions are equitable. Beyond reducing potential bias in the hiring process, companies need to extend similar rigor to performance reviews.

— Organizations need to track representation and hiring and promotion outcomes more fully. A company may track representation for women overall, but does it break those numbers down to look at representation for women of color in particular?

— Companies need to double their efforts when it comes to accountability. Only two-thirds of companies hold senior leaders accountable for progress on diversity goals, and less than half consider progress on diversity metrics in performance reviews.

— To create a culture that embraces and leverages diversity, companies need to promote senior-level sponsorship, with top leaders fully and publicly supporting DEI efforts, modeling inclusive leadership, and actively participating in training and events.

— Spurring high employee engagement will also be crucial. Raising awareness of the barriers that many women face can help, and further training (on bias, antiracism, and allyship) can take employees from awareness to action.

— Burnout is on the rise, and investing in solutions to help address this problem will remain a crucial issue for many organizations. In addition to expanding on successful established policies and trying new approaches, companies can track symptoms and establish new norms to improve the everyday experience of employees.

What do we know about advancing racial equity for Black Americans in the US private sector and across society?

Black Americans in the workforce are at a disadvantage; the median annual wage for Black workers is approximately 30 percent, or $10,000, lower than that of White workers, with serious implications for economic security, consumption, and the ability to build generational wealth. They are underrepresented in higher-wage industries and executive roles, and they face lower odds for advancement. Clear racial patterns exist across the US labor force, with nearly half of Black workers concentrated in low-paying healthcare, retail, food services, and accommodations roles.

There are many benefits to righting historical wrongs and realizing the full potential of Black American talent: addressing wage disparities alone, for instance, could propel two million Black Americans into the middle class for the first time.

Doing so will take effort on many levels. Research from the McKinsey Institute for Black Economic Mobility suggests some jumping-off points:

— Consumer-facing companies that pursue broader racial-equity goals can better serve Black consumers.

— Harnessing the power of retail can drive demand for Black-owned brands.

— Addressing racial disparities in farming could generate billions in value for the agriculture industry.

— Increasing financial inclusion to broaden services for Black Americans could yield $2 billion in potential revenue, and changes in three key areas can help companies make more progress toward racial equity in financial services.

— Supporting historically Black colleges and universities can accelerate Black economic mobility.

— Understanding Black representation in film and TV could help drive greater diversity.

— Building supportive ecosystems for Black-owned business could add $290 billion in business equity.

— Emphasizing health equity can activate meaningful change or even help retain talent.

The stories of Black leaders' journeys can offer inspiration and hope for personal and professional development. Get insight from Jason Wright (president of the National Football League's Washington Commanders), Stephanie Hill (an executive vice president at Lockheed Martin), and Barry Lawson Williams (the founder of Williams Pacific Ventures).

What issues are important to Latinos in the workplace?

In the United States, Latinos make up 18.4 percent of the population and 17.3 percent of the labor force, and that share is projected to rise to more than 30 percent by 2060. This community faces challenges, and US- and foreign-born Latinos alike remain far from equal with non-Latino White Americans, with Latino Americans earning just 73 cents for every dollar earned by White Americans. They face discrimination in securing financing to start and scale businesses, and they face challenges accessing food, housing, and other essentials.

McKinsey research on the economic state of Latinos in America finds that they are underpaid, collectively, by $288 billion a year. At full parity, though, Latinos could spend an extra $660 billion annually, and Latino businesses could generate trillions in revenue and support millions of new jobs, while also creating new flows of generational wealth. Addressing barriers faced by Latinos in America could make the economy more robust for all.

How can we empower Asian Americans at work?

Asian Americans have contributed to the US economy since the 1800s, yet they have historically been overlooked. This group as a whole is often perceived as the "model minority," a term that diminishes the unique issues faced by their diverse community. Recently, given the rise in racially motivated attacks on Asian Americans during the COVID-19 pandemic, historically unaddressed challenges faced by this group are coming to light, offering a fresh reminder of the need to support and include Asian Americans at work.

In corporate America, Asian Americans are underrepresented in senior leadership roles (as are Black, Hispanic, and Latino Americans). What might help? Recognizing where in the corporate pipeline Asian Americans are underrepresented, mitigating implicit and unconscious bias during promotion and performance evaluations, fostering sponsorship for Asian American employees, and expanding workplace flexibility and support such as paid sick leave.

What does research show about the experiences of LGBTQ+ employees in the workplace?

For LGBTQ+ employees, many workplaces today fall short of full inclusion, even if there is visible corporate support for LGBTQ+ communities. For example, LGBTQ+ women are more underrepresented than women generally in America's largest corporations. Just four LGBTQ+ CEOs head these corporations—only one woman, and none identifies as transgender. An episode of the *McKinsey Talks Talent* podcast considers the latest research on the LGBTQ+ experience in the workplace and highlights practical steps for all employees to signal support and boost progress for this community.

Transgender employees face a unique set of challenges. They earn 32 percent less money than cisgender employees (cisgender refers to people whose gender identity aligns with the sex assigned to them at birth). More than half of transgender employees say they are not comfortable at work, and they report feeling less supported by managers. These strong feelings of exclusion have significant economic implications: greater transgender inclusion in the workforce through wage equity and increased employment could boost annual consumer spending by $12 billion a year. To help address the issues, companies can be intentional in recruiting (for example, by asking applicants what pronouns or names they prefer to use) or offer trans-affirming benefits, among other actions.

How do different industries approach diversity, equity, and inclusion?

Different industries may well need to take different approaches to diversity, equity, and inclusion, depending on the composition of their workforces. Several articles offer insight into those industry-specific dynamics, especially with regard to gender diversity:

— Companies can repair the broken rung on the career ladder for women in technical industries and roles.

— Organizations can work to close gender and race gaps in the US financial-services sector.

— Voices from the fashion industry on diversity offer insight on what actions might be most meaningful for creating more inclusive workplaces.

— Organizations can make traveling in cities safer and more comfortable for at-risk groups.

— The COVID-19 pandemic hit the education space hard; as the recovery continues, ensuring that education is equitable and inclusive will be vital.

— In the public and social sectors, women are increasingly represented, but they are also feeling burned out—a few actions can bend the curve.

— Consumers are expecting more from brands than ever before—The McKinsey article "The diversity imperative in retail” suggests what retailers can do to meet DEI needs.

— Private equity can help catalyze DEI efforts to transform the global business community and improve returns.

— In media and entertainment, women remain locked out of top roles.

— While women in healthcare and life sciences have made progress, they remain underrepresented at senior levels.

— Research from the oil and gas industry suggests actions for the sector to consider to help attract and retain women.

— The McKinsey article, “Why women are leaving the mining industry and what mining companies can do about it,” offers some solutions.

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