

## A business case for diversity



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## Introduction

In 2018, Australia has yet to improve its ranking on the OECD gender equality data, having previously dropped in ranking on female economic empowerment and gender representative leadership. It is widely recognised that representation of women and culturally diverse leaders in Australia are lagging behind many developed countries of the world. This discrepancy doesn't only become apparent at the leadership level but at the very entry level of many organisations.

Technical, mining and construction fields are amongst the ones who suffer more disproportionately than their white-collar counterparts, although the diversity situation is not impressive in many ASX listed companies and beyond. Those that are coming out on top of the list, with best business performance and healthiest shareholder returns, are the ones who have female Chief Executives at the helm and those that have been heavily investing in diversity strategies.

In Australia, 50.2% of the population are female and 64.6% are of non-Australian ancestry. It logically follows that our workplaces should be reflective of this composition, therefore representing the society that we live in and the communities that we serve. Unfortunately, this isn't the case. In a recent report by Diversity Council Australia, on the ASX 200 listed business leaders, it was found that no chief execs have indigenous background, and only 16.3% of CEO's are women, while 93% of board chairs were men.

While it might seem common sense that diversity is good for business, many organisations still struggle to articulate a coherent and robust business case for consistent and targeted investment in diversity. The reality is that diversity is good news for everyone involved: communities, organisations, employees and customers – and it can benefit your business in a number of ways.

## Attract the best

The talent landscape is changing organically – women comprise 46.4% of all employees in Australia, and female graduates now outnumber male graduates at Australian universities, at 58.7% of all graduate degrees. Even in STEM courses that have traditionally suffered from a poor female student pipeline, numbers are rising from 12% female representation ten years ago, to 37% in 2017.

Furthermore, with the prevalence of online learning in the last ten years, the demographics of graduates are evolving – mature aged students, students from disadvantaged backgrounds and students with family commitments, are finding ways to obtain qualifications thanks to the improved accessibility of education.

Having the best talent is a key factor in business performance. In order to capture the best talent available, organisations must ensure that their brand is relevant and appealing to the diverse pool of candidates in the job market. One way of achieving this is to build a more diverse workforce, therefore demonstrating your organisation's commitment to, and effort towards creating equal opportunities.

**20% more women than men (aged 25-34), hold Bachelor's degree.**

## Retain the best

The cost of replacing an employee can be up to 75% of their annual salary, depending on the level of their job role. Workplaces that have higher levels of diversity, show 24% greater retention of employees.

This happens via two mechanisms: one is the increased sense of belongingness in a work community that values people's differences and takes advantage of their unique experiences; the second is the increased emotional commitment to colleagues, likely driven by the perceived sense of being a valued team member.

It is reported that there is 21% more emotional commitment to colleagues in more diverse workplaces. Furthermore, teams that follow an inclusive process in work, make decisions 2 times faster with only half the number of meetings.

**It can cost up to \$120K to replace a mid-level employee.**

## Enhance Performance

There is compelling evidence that workforce diversity is good for the bottom line. There is an 80% improvement in business performance when levels of diversity are high across the business.

Research reports that racial diversity and gender diversity are associated with increased sales revenue, more customers, greater market share, and greater relative profits. More specifically, for every 1% increase in gender and ethnic diversity, there is a 3% and 9% increase in sales revenue, respectively.

At the executive level, companies in the top quartile for gender diversity are 35% more likely to experience above-average profitability. For ethnic and cultural diversity, there is a 33% likelihood of out performance.

This occurs as a result of multiple factors, one of which is the fact that numerous and different perspectives improve problem solving and creativity and challenge team members to think outside the square. Decisions made and executed by diverse teams deliver 60% better results.

Further to this, a lift in team intelligence is reported as a result of increased social interaction amongst different people, as opposed to familiar interaction norms of those who come from similar backgrounds. Diverse organisations report 57% increase in performance against goals and an 11% lift in discretionary effort from their employees.

**For an ASX listed company, increasing diversity by 1% could translate to anywhere between \$7 million and \$22 million dollars in extra revenue.**

## Improve market access

The success of any organisation lies in their ability to service their customers adequately. This includes understanding who the customers are, how they behave and how they make purchasing decisions.

Women are the driving force behind 72% of household purchases and influence 60% of car purchases. In addition to this, women's buying power has been steadily increasing as a result of increased workforce participation and growing disposable income.

In Australia, we are becoming increasingly more impacted by the purchasing power of China's new consumer-class, with most retailers around Australia advertising for roles in both English and Chinese language. There is also growing research reporting the buying power of LGBTI communities and forecasts that 78% of their friends and families would make a switch to a more LGBTI-friendly brand.

To capture the changing consumer landscape, organisations need to ensure that they remain relevant and appealing to different customer profiles. To understand and articulate the needs of different customers, and be able to translate these into a product/service, organisations must first establish diversity internally.

Diverse groups approach problems differently, contribute different personal experiences and draw on different cultural norms. They are therefore less likely to group-think (building on similar ideas and thoughts) and likely to think more creatively about problems. This results in better solutions for a diverse consumer base.

**Increasing female workforce participation by 6%, would increase the size of the Australian economy by \$25 billion per year.**

## Conclusion

The argument for workforce diversity is commercially, ethically and scientifically robust. It has taken too long to bring diversity into the spotlight in Australia. Organisations have been able to get away with inequality, turn a blind eye and throw excuses at the issue. As investors and governments start to choose and mandate better representation of diversity at all levels, those organisations that don't evolve will be left in the dark ages. Given it is 2018, proactive opportunities are well behind us but active and systemic targeting of the problem is necessary for progress.

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