

Is there a payoff from top-team diversity?

Thomas Barta, Markus Kleiner, and Tilo Neumann

Between 2008 and 2010, companies with more diverse top teams were also top financial performers. That's probably no coincidence.

There are many reasons companies with more diverse executive teams *should* outperform their peers: fielding a team of top executives with varied cultural backgrounds and life experiences can broaden a company's strategic perspective, for example. And relentless competition for the best people should reward organizations that cast their nets beyond traditional talent pools for leadership.

To understand whether reality is consistent with theory, we looked at the executive board composition,¹ returns on equity (ROE), and margins on earnings before interest and taxes (EBIT) of 180 publicly traded companies in France, Germany, the United Kingdom, and the United States over the period from 2008 to 2010. To score a company's diversity, we focused on two groups that can be measured objectively from company data: women and foreign nationals on senior teams (the latter being a proxy for cultural diversity).

Diversity and performance

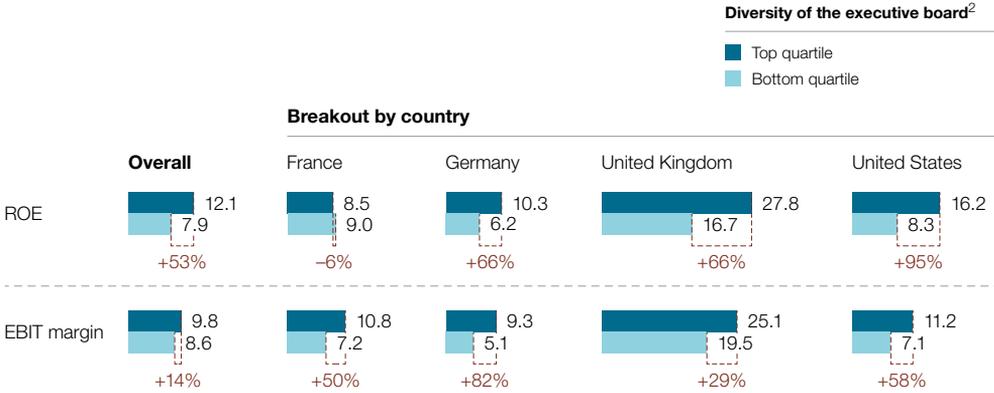
The findings were startlingly consistent: for companies ranking in the top quartile of executive-board diversity, ROEs were 53 percent higher, on average, than they were for those in the bottom quartile. At the same time, EBIT margins at the most diverse companies were 14 percent higher, on average, than those of the least diverse companies (exhibit). The results were similar across all but one of the countries we studied; an exception was ROE performance in France; but even there, EBIT was 50 percent higher for diverse companies.

The broad range of companies in our sample makes us confident that industry-specific distortions—those arising, for instance, when a particularly profitable industry has high numbers of foreign executives—are negligible. We did another stress test as well, looking at a subset of German companies for the independent (as opposed to combined) effects of gender and

Exhibit

Companies with diverse executive boards enjoyed significantly higher earnings and returns on equity.

Average returns on equity (ROE) and margins on earnings before interest and taxes (EBIT),¹ 2008–10, %



¹ Comparison of top quartile vs bottom quartile of DAX 30 (Deutscher Aktienindex), CAC 40 (Euronext Paris), the top 30 by market cap of the FTSE 100, and the 80 Fortune 500 companies with the highest and lowest diversity levels; diversity analysis based on women and foreign nationals/ethnic minorities on companies' executive boards; adjusted for statistical outliers.

² Our multivariate regression analysis of diversity with country-specific fixed effects gives a coefficient of +9.89 (significant at 1% level) or +4.71 (significant at 10% level).

Source: Bloomberg; Thomson Reuters Datastream; McKinsey analysis

international diversity. Here, too, the performance relationships were strong. Research by our colleagues that focuses on senior women alone (and was conducted over time frames different from ours) also produces similar results.²

Diversity in action

We acknowledge that these findings, though consistent, aren't proof of a direct relationship between diversity and financial success. At high-performing companies, the board or CEO may simply have greater latitude to pursue diversity initiatives, and other management innovations may contribute more directly to superior results. We will con-

tinue to explore these issues in further research.

As a starting point, and to get a reality check on the aggregate data, we looked for evidence of diversity's influence on the actions of individual companies during the volatile 2008–10 time frame our analysis covered. In a number of cases, diversity appeared to play a critical role. At adidas, one of the companies that ranked in our top quartile in diversity and performance, senior leaders have designated diversity as a strategic goal and started building it into the guts of the organization. To deepen the talent base, for

instance, the company has set hard targets for increasing the number of women in management ranks. Today, women account for 30 percent of all managers, up from 21 percent three years ago. The company's goal for 2015 is 35 percent. The effort is supported by numerous policies, including gender-balanced recruiting, child care assistance, and flex- and part-time work opportunities. To spur innovation across global markets, adidas is also ensuring diversity in its design centers—and has won a number of awards for product creativity.

Among other top-ranking companies in our research, senior-team diversity appeared to support strategies with a cross-cultural dimension. One global food company that ranked in the top quartile for diversity completed a series of successful international joint ventures between 2008 and 2010. These actions advanced a strategic goal of geographic decentralization and risk diversification, while ensuring that its products fit the varying preferences of local cultures and markets. The more diverse footprint paid operational dividends as well: at some of these joint ventures' plants, the company discovered highly efficient manufacturing processes, which it absorbed and then disseminated across its own manufacturing base. Similarly, a leading telecommunications company whose top team hailed from a number of different nations significantly expanded its global network infrastructure and was able

to meet ambitious growth targets in emerging markets.

While we can't quantify the exact relationship between diversity and performance in such cases, we offer them as part of a growing body of best practices. These successful companies are simultaneously pursuing top-team diversity, ambitious global strategies, and strong financial performance. **O**

¹ This group encompasses the senior leadership of companies in the United Kingdom and the United States, as well as management board members in France and Germany (Comités Exécutifs and Vorstand, respectively).

² For more on these results, see two studies in McKinsey & Company's *Women Matter* series: *Women at the top of corporations: Making it happen* (October 2010) and *Women Matter: Gender diversity, a corporate performance driver* (October 2007), available on mckinsey.com.

Thomas Barta is a principal in McKinsey's Cologne office, **Markus Kleiner** is a consultant in the Frankfurt office, and **Tilo Neumann** is a consultant in the Berlin office.

Copyright © 2012 McKinsey & Company. All rights reserved. We welcome your comments on this article. Please send them to quarterly_comments@mckinsey.com.