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The Chief Diversity Officer today

Inclusion gets
down to business

by **Billy Dexter**, Partner, Diversity Advisory Services practice

From roots in compliance and equal opportunity, diversity has emerged as a critical business issue for leading companies. They are aggressively seeking to harness its business relevancy by creating a culture of inclusion where the diversity of ideas shows up in better performance. To lead this enterprise-wide change they are elevating the role of Chief Diversity Officer and seeking to fill it with people who have the requisite competencies to meet its unique – and often misunderstood – challenges.

A recent analysis by Heidrick & Struggles of the role of diversity executives among Fortune 500 companies turned up some intriguing results. Of the 490 companies analyzed, 307 have an executive role designated for diversity. Strikingly, the higher a company ranks on the Fortune list, the more likely it is to have a diversity officer. For example, 81 of the top 100 companies have diversity officers, while only 46 of the bottom 100 have such a role (*figure 1*). Moreover, the higher a company ranks on the list, the more importance it is likely to accord the role, designating its occupant Chief Diversity Officer (CDO) or the equivalent.

A number of trends that have been developing for three decades or more are converging in 2010 to significantly elevate the importance of diversity to these companies: a growing recognition of the business value of diversity, its importance for innovation, and its role in creating a vibrant and productive company culture. For many organizations the tipping point has come with the realization that success in global markets and increasingly diverse domestic markets requires diverse leadership.

A report of the Census Bureau in May of 2008 sharply focused attention on the changing demographics of the US market. The Bureau found that more than one-third (34%) of the US population consists of people who identify themselves as being of 'minority' racial or ethnic heritage, an increase of 11% from 2000. From July 2006 to July 2007, the Hispanic population grew by 3.3%, followed by Asians at 2.9%, blacks at 1.3%, native Hawaiians and other Pacific islanders by 1.6%, and American Indians and Alaska natives by 1%. At the same time, the white population grew by only 0.3%. The approximately 45.5 million Hispanics living in the United States are now the country's largest minority group, accounting for 15% of the population, followed by blacks at 40.7 million (13.5%), and Asians at 15.2 million (5%). Four states and the District of Columbia are "majority-minority," with more than 50% of their populations made up of people other than single-race non-Hispanic whites. Hawaii led the nation with a population that was 75% minority in 2007, followed by the District of Columbia (68%), New Mexico (58%), California (57%) and Texas (52%). This growth in minority populations means not only increasingly diverse markets, but also increasingly diverse new entrants into the workforce.

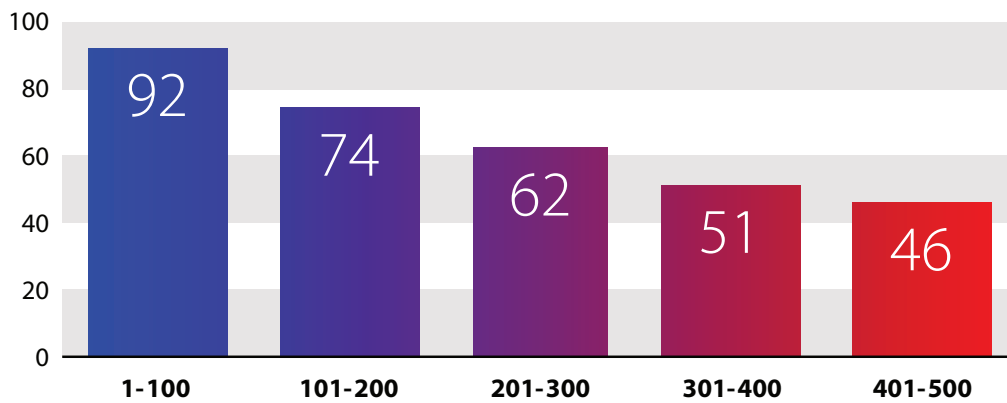


figure 1

Diversity analysis for the Fortune 500 companies

base: 490 companies source: Heidrick & Struggles KMC research, 2009

Further, in 2008 the United States elected its first African-American President, a development that was greeted enthusiastically by diverse populations around the globe. The new administration has created the most diverse and inclusive leadership team in the country's history, setting a new standard for all organizations.

Meanwhile, the most promising emerging markets are no longer the largely white Eastern European countries and similar regions, but China, India, Brazil, and a number of countries in Africa. The economies of developing countries are expected to provide the most powerful engine of global growth for the foreseeable future, outstripping global growth as a whole, even if developed countries recover completely in 2010.

Diversity is no longer merely an issue of equity in hiring but of strategy in the marketplace. Companies that are unable to communicate with or win over diverse markets domestically and globally will see their market share erode and their financial performance suffer. Leading companies that understand these dynamics have accordingly evolved the role of diversity officer from its earlier incarnations in equal opportunity and compliance to that of a change agent. In this demanding new role, the diversity officer must be able to help guide the company through major cultural transformation in order to harness the business value of diversity as a core competence of the company.

The evolution of the role

From the mid 1980s to the late 1990s, the role of diversity officer, director, or manager lacked positive connotations in the business world and offered no career path. It was often an obscure role far down in the HR organization or otherwise occupied some anomalous and essentially powerless position on the org chart. Some organizations put people into the diversity role who had no previous experience, or people whose careers were in decline, or someone who happened to be a visible minority with a passion for diversity. Often, they were placed in an affirmative action or EEO role. Diversity strategies were not tied to business results and diversity professionals were not expected to be strategic business partners or demonstrate strong business acumen.

However, as leading companies realized the business relevancy of diversity and inclusion, their stance gradually changed. Those who early on saw the demographic writing on the wall understood that their workforce should look like their customer base, not only out of fairness but because they believed that from a brand perspective such policies might improve business results. Eventually, some began to see that diversity wasn't simply a numbers game

but a matter of bringing diverse ideas and perspectives into the company in such areas as marketing, product development, and the like. Today, the leaders in diversity have taken it several steps further. They value diversity of perspectives and know how to put it to work in a business context. But they also know that to secure long-term advantage from diversity they must create a corporate culture where diversity is central to strategy as well as to operations.

Over the course of this evolution, companies have put resources into an ever-widening circle of activities. Diversity and inclusion training has been adopted so that employees can bring their 'whole selves' to work, where everyone has an opportunity to be successful and thereby add business value. Much effort has also been put into talent acquisition and retention in order to recruit a diverse workforce at all levels, improve the 'employment brand,' and to increase the likelihood of keeping the most valuable of those employees.

In many cases, diversity efforts haven't stopped at the four walls of the company but have been extended to include the company's expenditures with minority or otherwise diverse suppliers and vendors. In fact, such expenditure is one of the four measures that *DiversityInc* magazine applies in its annual scorecard of the top 50 companies for diversity – the other three being CEO commitment, human capital, and corporate and organizational communications. More recently, effort has gone into tying diversity to business performance through such measures as increased revenues, market penetration, and employee retention.

As the business importance of diversity has increased, so has the role of the diversity officer. In some leading US companies the Chief Diversity Officer has a direct line to the C-suite, and in some cases, a direct line to the CEO. In these companies, the CDO isn't seen as merely a provider of 'diversity services' to other functions or as an adjunct to HR but as a critical player in orchestrating the change that will lead to a new business culture. To get it right, companies must not only do the relatively easy job of recognizing the value of the role, but also the much harder job of finding or developing a CDO who has the competencies to succeed in it.

Essential competencies for Chief Diversity Officers

Based on our firm's leadership research and our experience working with companies on talent issues related to diversity, we have found that today's successful CDO has seven essential competencies – the observable skills, knowledge, and abilities that are required for high performance within a given role. Those seven competencies include:

- **Business acumen:** The CDO must know the company's business and have a keen sense of business judgment. The best among today's CDOs are able to create diversity strategies tied to company strategy and to measure the impact of diversity on the business.
- **Leadership:** As a leader, the CDO establishes a clear vision for diversity and communicates it throughout the organization. The vision states where the organization needs to go and the CDO maps out how the company will get there.
- **Change management:** The CDO is able to systematically orchestrate and drive culture change throughout the organization. The ultimate goal is to create a culture in which the extraction of business value from diversity is second nature at all levels of the organization.
- **Results orientation:** As a change agent and business leader, the CDO establishes metrics for change and has the ability to move the organization from point to point and in clear alignment with business results.
- **Building and maintaining credibility:** Because CDOs cross so many different business lines, they must be able to build and maintain credibility with a variety of different constituencies both internally and externally. If the CDO is unable to build strategic partnerships with these stakeholders, diversity initiatives are likely to wither on the vine.
- **Ability to influence:** Diversity has many aspects that are often difficult to articulate and to create buy-in around. The CDO must have the ability to persuade other leaders of the value and the many implications of

diversity – keeping in mind that many of those leaders will be at different levels of understanding of what’s at stake.

- **Commitment to diversity:** Certainly, the CDO should be committed to diversity both as a value in its own right and as an engine of better business performance. That commitment includes maintaining expertise in the full spectrum of diversity, from cross-cultural sensitivity to the ability to define what constitutes an inclusive workforce, to the ability to make diversity a concrete reality in the business.

In assessing potential CDOs, it is essential that none of these competencies be overlooked. Results orientation in the absence of the ability to influence others and maintain credibility will produce little in the way of results. Similarly, commitment without change management or leadership skills is unlikely to make a difference in an organization. Today’s complete CDO possesses all of these competencies in exceptional measure and puts them to work every day.

The CDO as Strategic Business Partner

Much of the need for these competencies comes down to an inescapable fact: almost all of the policies, initiatives, and strategies that come under the heading of diversity usually depend on others for execution – others over whom the CDO may have no operational authority. As a result, much of the operating responsibility of the role involves providing consulting and coaching to senior executives about diversity – helping them develop strategy for their business units and making sure that they understand what the organization is doing and why, how results are measured, who is accountable. From a strategic point of view, the CDO must not only be able to interact effectively with others on the executive team but also play a wide variety of roles in providing value that these other leaders will be eager to embrace and to put into practice (figure 2).

office	business focus	CDO’s role
Chief Executive Officer / Board of Directors	Chairing new Board governance efforts, increasing Shareholder value in the midst of regulatory reform and economic uncertainty	Supports the CEO in influencing organizational change
Chief Marketing Officer	New entry into US and Global Multicultural markets	Instilling multicultural competencies within the organization to enable innovative strategies which accelerate new market entry
Chief Ethics Officer	Sarbanes Oxley, SEC and other regulatory reform matters	CDO may have Ethics role in establishing the guidelines for the corporate code of conduct
Chief Legal Officer	EEO, Sarbanes Oxley, SEC and industry related regulatory issues	Aligning accountability with legal and governance policies
Chief Information Officer	Supply Chain Management; Knowledge Management – enabling virtual communications and connectivity	Leveraging the organizations infrastructure to connect people to each other
Chief Financial Officer	Sarbanes Oxley, SEC and Investor Relations efforts	Creating a value proposition optimizing opportunities, minimize risk and maximizing returns
Chief Communications Officer	Implement communication strategy and align enterprise wide	Internal and external positioning of the company, its Diversity brand attributes and community involvement
Chief Human Resources Officer	Alignment of strategy, structure and systems so it is in the employee’s self-interest to work inclusively and productively	Pipeline development, succession planning, bonus systems, professional development, training and programs, i.e. mentoring, affinity groups, recognition events

figure 2

CDO – C-Suite relationships

How the diversity leader interacts with senior leaders

source: Diversity Best Practices

The strategic scope of the role has increasingly meant working closely with the CEO and interacting with the Board. In the past, Board presentations from diversity officers were rare. Today, however, CDOs in leading companies appear before their Boards to assure them that the organization has satisfied legal concerns and is creating an inclusive culture by aligning talent management strategies. And because savvy Boards understand that embracing diversity and diverse teams leads to smarter decisions, they want to make sure that senior leadership in the organization is embracing diversity and inclusion, to know how diversity is being integrated into key business decisions, and to understand how diversity is impacting shareholder value.

The scope of the strategic role also includes complex global components as the company operates in different cultures around the world, where diversity means different things to different people. In many European countries diversity is regarded less as an issue of ethnicity and more of an issue of gender and social class. Further, it is often positioned as a matter of equal opportunity. Although the business impact of diversity is often recognized, the business case for comprehensively pursuing it is a fairly new concept. For companies operating internationally, it is therefore essential to have a CDO who understands the challenges in differing locales and can develop a strategy that is appropriate for each and orchestrate them in the overall culture of the company.

Finding the right Chief Diversity Officer

The executives who are taking on the exacting challenges of diversity at leading companies today are themselves a diverse lot. Our analysis of the Fortune 500 found that 65% of diversity officers are female. In terms of ethnicity, 37% are African-American, 19% Caucasian, 4% Hispanic, 2% Asian, and 39% unknown. Their educational backgrounds are varied, ranging from MBAs to JDs, to undergraduate and graduate degrees in a wide range of disciplines. Of a sample of 182 diversity officers, the terminal degree for 73 is a bachelor's, for 87 it is a master's, and for 22 it is a doctorate. Interestingly, there is little disparity between the percentage of these diversity officers developed internally versus those hired externally. In a sample of 205, we found that 54% were internal appointees and 46% were external hires.

To determine the industrial sectors in which the efforts of these executives are meeting with the most success we used a proprietary Heidrick & Struggles assessment system to grade companies. Each company was assessed across five criteria on a scale of 1 to 5, with 1 being poor and 5 being outstanding. Overall, the companies on the Fortune 500 achieved an average score of 2.84. By sector, the top performer was Logistics (*figure 3*). Although the sample

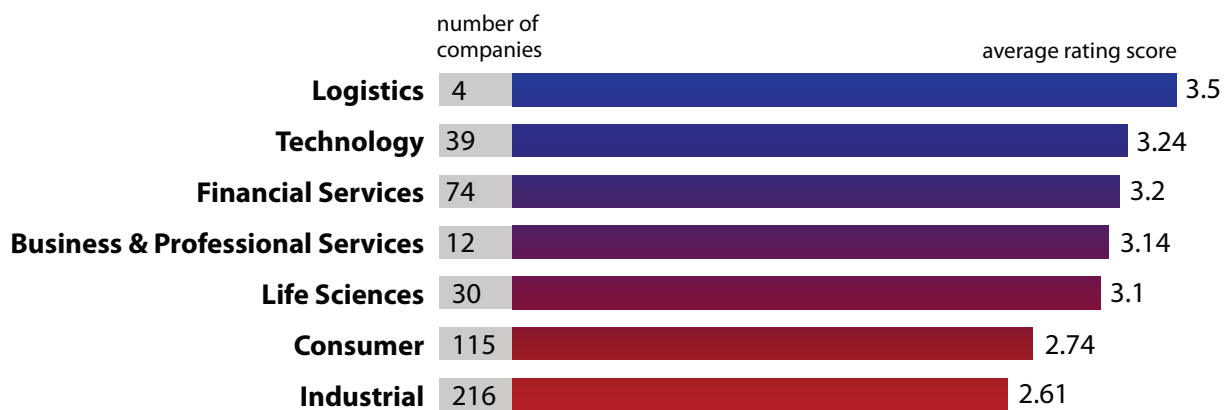


figure 3

The best sectors for diversity in Fortune 500 companies

source: Heidrick & Struggles KMC research, 2009

for this sector was small, the logistics companies on the Fortune list have long been in the forefront of diversity efforts. Technology was the second best performer at 3.21, followed closely by Financial Services at 3.18. Somewhat surprisingly, the Consumer sector, for which diverse markets on a large scale are critical, scored only 2.74.

In our experience, successful integration of diversity into the business for the companies that constitute these sectors requires three things:

- Board and CEO commitment to diversity and inclusion.
- Senior leadership's understanding of diversity as central to the business.
- A CDO who possesses the requisite competencies that the new prominence of the role demands.

Boards and CEOs increasingly 'get it' when it comes to diversity. And in leading companies senior leadership understands the business value of diversity. In addition, as we have found in our research, these companies are developing a cadre of leading diversity executives. However, as more companies scramble to catch up to the leaders in their sectors, demand for top diversity talent is increasing sharply and the talent pool is limited. Because

the centrality of diversity to business has been recognized only relatively recently, there are few top executives with the enterprise-wide, global experience that the role demands. Further, the ability to lead and orchestrate cultural change on the scale that today's CDO must tackle, requires individuals who possess all of the requisite competencies to an unusually high degree.

To help find and attract such talent, many leading companies turn to Heidrick & Struggles. Our Diversity Advisory Services practice assesses and maps top diversity talent and maintains relationships with that talent around the globe.

Whether under the title CDO or something else, this new breed of diversity and inclusion leaders knows how to harness the business value of diversity as a core competence of the company. Working with Heidrick & Struggles to find or develop this much-in-demand talent, companies can make strides that continue to pay dividends over the long term – in market share, product innovation, productivity, acquisitions, leadership effectiveness and the many other areas where diversity and inclusion get down to business. ■

About the author

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