

# Beyond buzzwords: Understanding the impact of diversity, equity, and inclusion

How focusing on DEI initiatives improves retention and performance



## The business case for DEI

People want to work for companies dedicated to diverse, equitable, and inclusive workplaces. According to a 2022 [GoodHire](#) survey of U.S. workers, 81 percent of respondents would consider leaving their jobs due to a lack of DEI commitment by their employer.

But the commitment to DEI must go beyond lip service. To be successful, organizations should embed DEI best practices into everything they do — hiring, promoting, and serving customers. Research and time have proven the benefits are worth it.

Not only do DEI initiatives help with hiring and retention, but diversity is a spark plug for performance. A 2021 study by [Gartner](#) revealed that eight out of 10 leaders found that DEI is extremely important in helping their organizations achieve their business goals.

In the last few years, the C-suite has begun to catch on. Roughly 40 percent of [companies](#) discussed diversity and inclusion in their earnings calls in 2020 compared to only 4 percent in 2019 — an increase of 900 percent. Overall, the benefits of DEI can be distilled into five key areas: retention, productivity, innovation, brand image, and profitability.





**“Diverse and inclusive workplaces earn deeper trust and more commitment from their employees.”**

– Principal Strategic Adviser,  
[Great Place to Work](#)

## Employees want to work for diverse and inclusive companies

The [cost](#) of replacing an employee can range from one-half to two times the employee’s annual salary. In addition to the direct monetary costs of attrition, there are indirect costs, including lost knowledge and a negative impact on company culture, which can lead to lower productivity and engagement.

A 2021 study of 8,200 adults in the U.S. by [Momentive.ai](#) found that employees’ perception of their organization’s DEI efforts had a major impact on their job satisfaction. Eightfold’s research team confirmed this finding, discovering that an organization’s overall rating on Glassdoor is highly correlated with its DEI rating – the more employees feel their organization values diversity, the higher that organization’s overall score on Glassdoor.

However, while many organizations prioritized working toward strengthening and supporting DEI practices in 2020, in large part due to the Black Lives Matter movement, more recent events, including market uncertainty and the economy, indicate that companies have perhaps shifted some focus elsewhere.

Eightfold data found that four out of the five top-performing firms fell below their respective industry averages in their retention of underrepresented workers (Blacks and Hispanics) in 2022. And all five firms researched fell drastically below the industry averages in terms of gender diversity throughout the 2019 to 2022 time period, except in one instance where the firm met the industry average.

The gender diversity data is, at least in part, attributed to the number of women who left the workforce during the pandemic to provide care for their families. Eightfold data has also [shown](#) that, in the tech industry, women are 65 percent more likely to be laid off than men, a factor that would have impacted their total workforce numbers in 2022.

In some good news related to retention and race, while Eightfold data saw three industry averages in racial diversity in the workforce decrease from 2019 to 2021, they rose in 2022 in healthcare, aerospace, and telecom. Pharma also saw a rise in 2021, but then fell back to 2019 levels in 2022. In terms of gender, all four of these industries are now on an upward trend in retaining women.

↑ 10%

**Increasing the share of Black or Hispanic employees by 10 percent can increase an organization's employee retention rate by 4.4 percent.**

↑ 10%

**Increasing the percentage of women in the workforce by 10 percent can increase an organization's employee retention rate by 1.4 percent.**



Keeping an eye on DEI and investing in those efforts consistently pays off in the long term. Another study from Eightfold researchers used diversity and employee retention data from 31 Fortune 500 companies and found that:

- Increasing the share of Black or Hispanic employees by 10 percent can increase an organization's employee retention rate by 4.4 percent.
- Increasing the percentage of women in the workforce by 10 percent can increase an organization's employee retention rate by 1.4 percent.

Research by [Great Place to Work](#) adds that when employees believe that everyone at the workplace is treated fairly, they are 5.4 times more likely to want to work at that organization for a longer time. By focusing on meaningful DEI, employers create environments in which employees feel as though they belong and their work matters, which motivates loyalty.

### **DEI helps workers feel safer and encourages productivity**

At a time when many companies are struggling to improve productivity, DEI may be the light at the end of the tunnel. Successive studies have shown that the more diverse and inclusive an organization is, the higher its productivity and profit. By creating a sense of belonging for all identities, employees grow a vested interest in the organization, in that they apply themselves fully.

A 2021 [Gartner](#) study found that in more diverse and inclusive workplaces, individual effort improves by 12 percent, while team collaboration and commitment improve by about 50 percent. Another study by [Deloitte](#) found that millennials are 83 percent more engaged when working in an inclusive culture. Inclusive teams also make [better business decisions](#) 87 percent of the time – twice as fast and with half the meetings.

More diverse workplaces also help employees develop new skills and facilitate workplace fairness. This creates a working environment that allows all workers to thrive (based on ability instead of social connections), which makes them happier and more productive.



**“If you are working in a diverse and inclusive environment, you will automatically be exposed to a wider range of different opinions, ideas, and skills far more regularly. This, in turn, will allow you to open your mind and become more curious about different ways of thinking. You will also be more likely to learn new skills from your colleagues.”**

– Yvonne Smyth, Head of Diversity and Inclusion, [Hays](#)

### **Overcome groupthink and foster innovation**

Simply interacting with individuals who are different enables group members to reassess their own assumptions, avoid groupthink, and safely question others. A study by [Cloverpop](#), a decision-management platform, found that more diverse teams make better decisions. And organizations with “[greater numbers of women](#)” are also more likely to introduce more innovations into the market over a two-year period.” Organizations with above-average diversity also [earn 19 percent more revenue](#) from innovation than their counterparts.

As the nonprofit [Network for Business Sustainability](#) notes, DEI efforts help both upper and lower management. “First, diversity is a ‘knowledge-based asset,’ with real advantages for strategy and implementation. Diversity leads people to consider multiple perspectives and develop better, more complex approaches. “For senior management, this means greater creativity, innovation, and flexibility in formulating strategy. For lower-level management, this results in better problem-solving in implementation and more original ideas that they can share with senior management.”

Additionally, when people from diverse backgrounds see representation in an organization it attracts new candidates, and existing employees can see a path ahead for them — all vital to attracting and retaining underrepresented groups.

**“Not only does sourcing for transferable skills expand the talent pool, but it opens up options for underrepresented groups who possibly don’t check all the boxes, simply because of their different lived experience or lack of access to the same types of connections.”**

– [Joshua Bellis](#), Global TA Programs Leader  
Head of Americas Recruitment, PTC

### **Drive DEI and purpose in your brand by addressing meaningful problems**

Having a sustainable DEI plan generates a social currency that organizations need to market themselves to customers and employees, which can result in higher stock prices, customer loyalty, and talent retention. [Top Design Firms](#) found that brands with a clear commitment to DEI are able to penetrate into new markets, build stronger relationships with their customers, and increase revenue.

[Studies](#) have also shown that when two brands offer the same product, one in three consumers considers each brand’s commitment to DEI when making their final purchasing decision. The likelihood of an immediate purchase following a diverse advertisement is consistent with both white and non-white consumers.

Lastly, customers expect companies to use their influence to actively weigh in on important social issues like minority and female representation. Amid the Black Lives Matter movement and the ongoing effects of the COVID-19 pandemic, this pressure has only increased. Other stakeholders, like investors, also want to see their own values reflected by the companies they support.

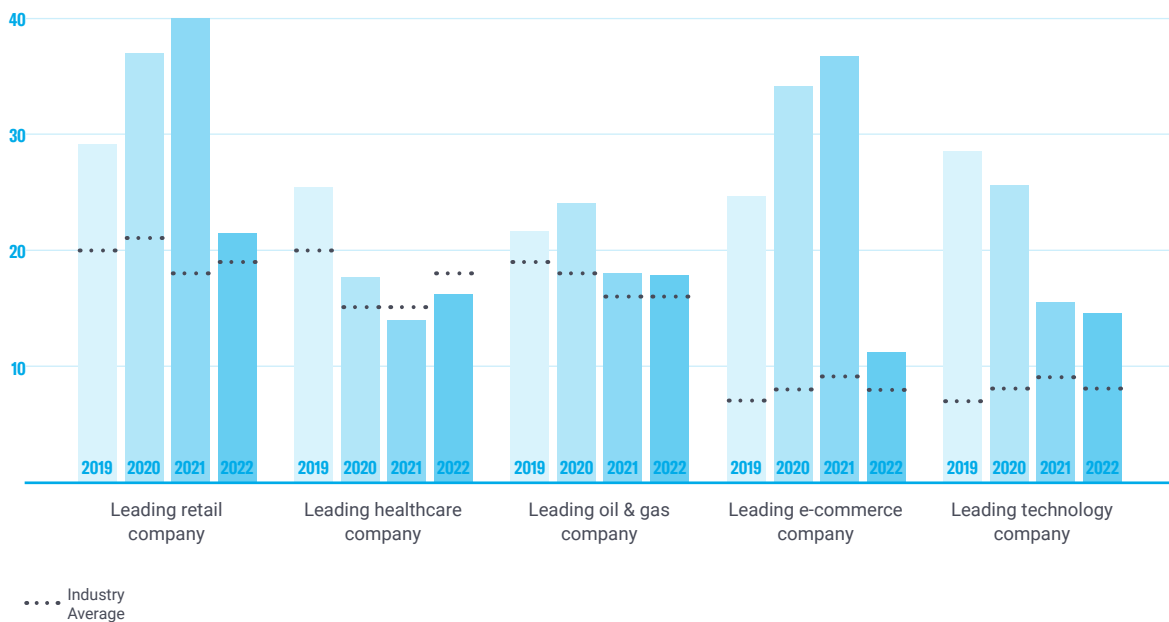


## The bottom line: DEI is profitable

An organization's commitment to diversity can pave the way forward for higher profits, competitive advantages, and sustained long-term growth. According to an analysis conducted by Eightfold using proprietary data, four of the top five revenue-generating U.S. companies maintained higher levels of diversity in terms of race in the years spanning 2019 to 2022 as compared to their respective industry benchmarks.

Likewise, [McKinsey](#) found that organizations in the top 25 percent for racial and ethnic diversity "are 35 percent more likely to have financial returns above their respective national industry medians." Similarly, they found "companies in the top quartile for gender diversity are 15 percent more likely to have financial returns above their respective national industry medians."

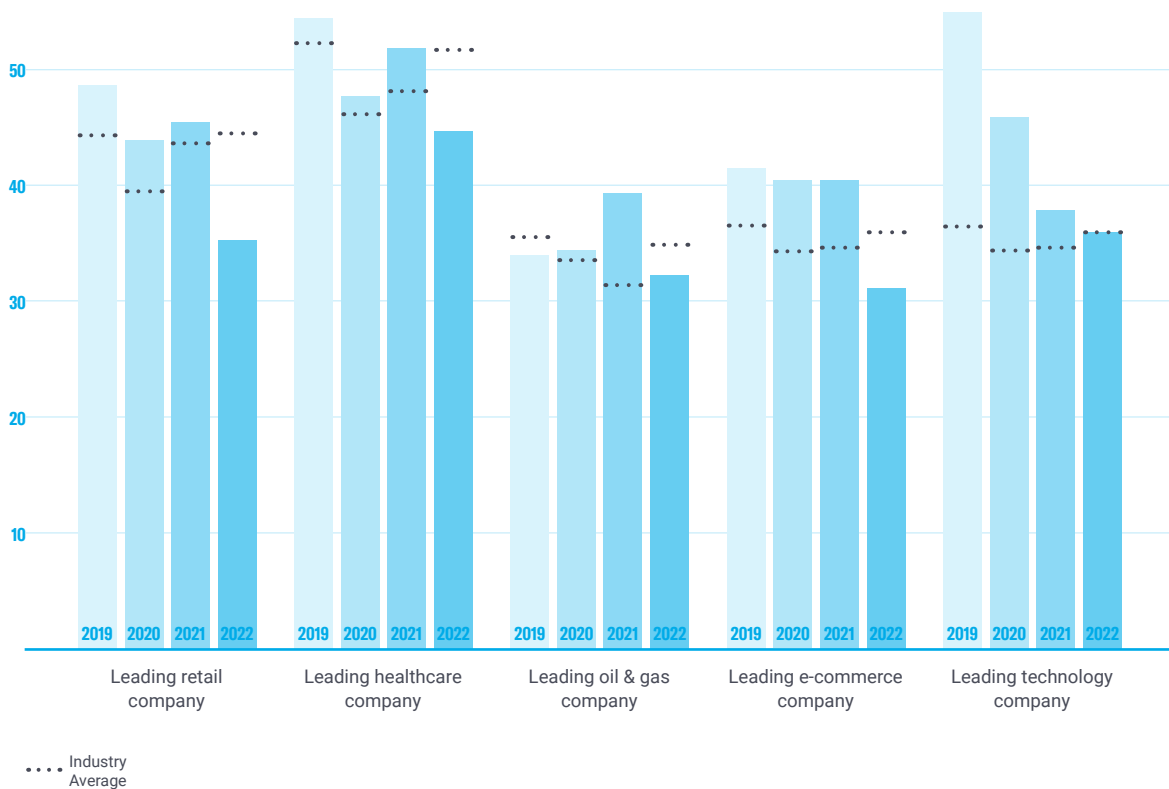
### Percentage of racial diversity (Hispanics and Blacks) in firms with the highest revenue compared to industry averages



Another report by [McKinsey](#) in 2019 studied the effect of diversity in leadership on profitability. It found that organizations in the top quartile with gender-diverse executive teams are 25 percent more likely to experience above-average profitability than their industry peers.

The study also found that the positive effects of diversity on profitability have been increasing over time. The positive effects of leadership diversity on profitability in 2019 are much higher than in 2017 and 2014. The more DEI principles are incorporated into organizational culture, the better the financial returns through performance, innovation, and employee engagement.

### Percentage of gender diversity (women) in firms with the highest revenue compared to industry averages

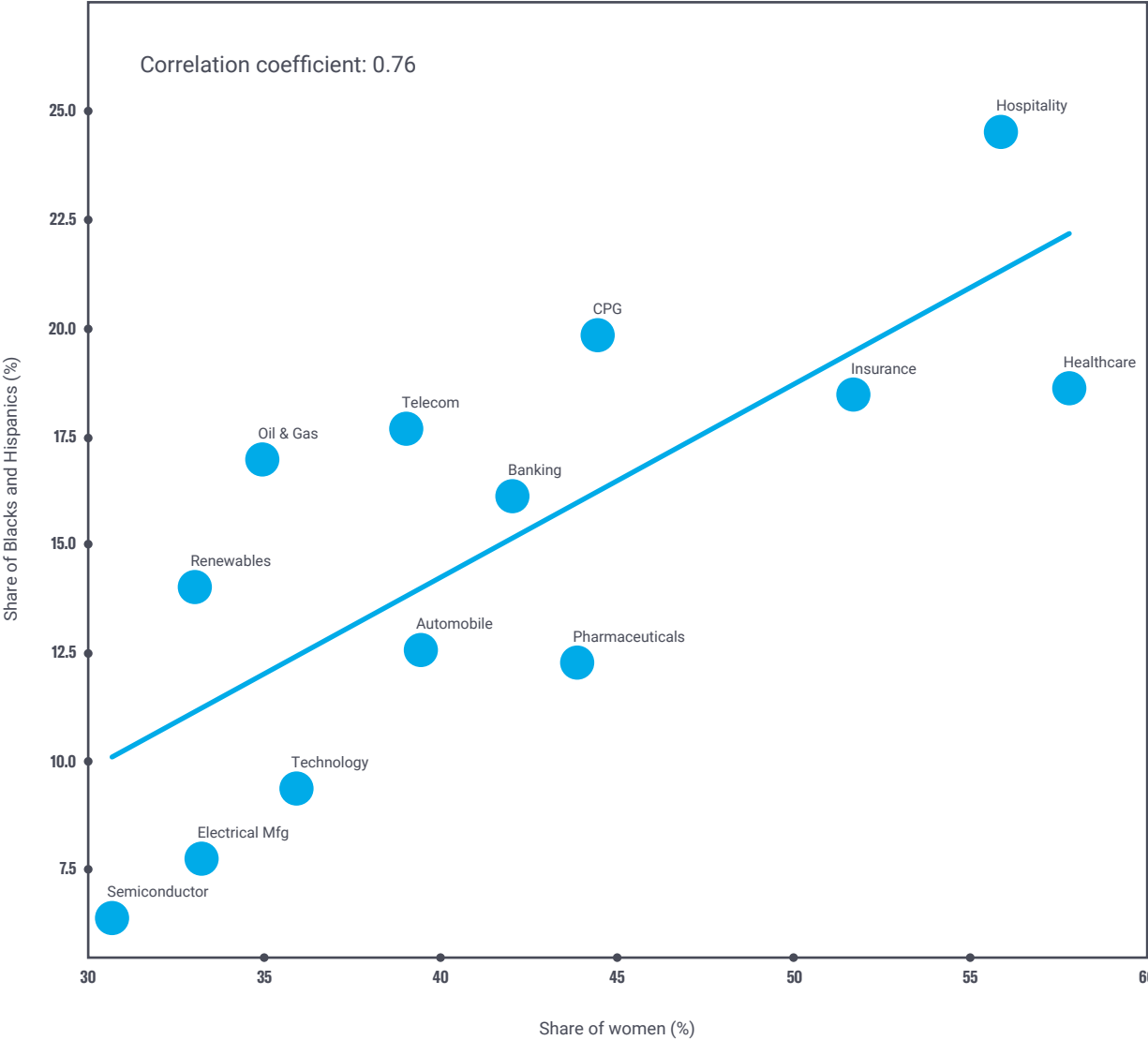




### Relationship between measures of diversity

Eightfold researchers measure diversity by the share of Blacks and Hispanics (as underrepresented groups in the United States) and women in the workforce. As Figure 3 shows, the share of Blacks and Hispanics and women in the workforce are highly positively correlated, meaning organizations and industries with a higher share of women in the workforce are also likely to have a higher share of Blacks and Hispanics in the workforce.

### Correlation between the percentage of women and the percentage of Blacks and Hispanics in the workforce



## 7 steps organizations can take to improve DEI outcomes

By having holistic tactics in place to make DEI initiatives successful, organizations can reap the benefits of a thriving culture, a strong brand image, and greater profitability. Below are some specific tactics that organizations can incorporate to improve their diversity, equity, and inclusion efforts.

- 1 Make DEI a priority:** The progression of diverse talent into executive, managerial, technical, and board positions should be a top priority and should receive funding accordingly. Leadership should keep in mind the business case for diversity and make everyone on the board aware of it. Additionally, leadership must identify the proper data-driven diversity priorities and track the effectiveness of DEI efforts. If DEI is not a priority, employees and customers will know.
- 2 Hold leadership accountable and educate managers on DEI best practices:** Organizations' DEI efforts have to move beyond their HR teams and employee resource groups (ERGs). Managers and leadership should be inclusive in their leadership style. Managers and executives also have to be accountable for DEI progress.



- 3 Ensure equality of opportunity through transparency:** For sustainable meritocracy, it's essential that companies ensure there are equal opportunities for advancement. Organizations should use analytics tools to enhance visibility on how equitable their compensation and promotions are while eliminating bias from these and striving to achieve diversity goals through long-term recruitment and talent-management strategies.
- 4 Address discriminatory behavior and microaggression:** Companies should establish a zero-tolerance policy for discriminatory behavior, such as bullying and harassment. They should also train managers and employees to recognize and resolve microaggressions.
- 5 Cultivate a sense of belonging by strongly supporting inclusion:** Organizations should create a work environment where everyone feels comfortable being themselves. To promote a sense of community and belonging, managers should demonstrate their commitment to diversity, and companies should create safe places and resources, such as ERGs. Additionally, organizations should routinely assess inclusion efforts through DEI-specific internal surveys.
- 6 Commit to change.** Despite evidence showing that DEI efforts lead to increased retention, performance, and profitability, progress in diversity is slow. A 2020 [McKinsey](#) study analyzed diversity data of more than 1,000 companies across 15 countries and found that female representation in executive teams only increased by 1 percent between 2017 and 2019. In addition, more than a third of companies had no women on their executive teams. In terms of ethnic representation in executive teams, the increase was only 2 percent between 2017 and 2019. Organizations should commit to improving DEI with both feet in the water — only then will they create meaningful change.
- 7 Focus on skills.** By hiring and promoting based on skills (and not social connections or past opportunities), equity grows and bias shrinks. “The more employers can rely on skills in the hiring process, the less likely bias can influence hiring outcomes,” said Maurice Jones, CEO of OneTen, an organization that promotes careers for Black talent in America. “We see the use of a skills-first approach as a business imperative to not only open the aperture of who is included in the talent pool, therefore making it more equitable, but also produce better business outcomes with higher performance and retention. By focusing more on skills, we can fast-track the career development of Black talent so they can more quickly find appropriate education opportunities and high-paying jobs.”

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### **About Eightfold AI**

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