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IDEA WATCH

How Diversity Can Drive Innovation

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How Diversity Can Drive Innovation

Most managers accept that employees benefit from a diverse workforce, but the notion can be hard to prove or quantify, especially when it comes to measuring how diversity affects a firm's ability to innovate.

But new research provides compelling evidence that diversity unlocks innovation and drives market growth—a finding that should intensify efforts to ensure that executive ranks both embody and embrace the power of differences.

In this research, which rests on a nationally representative survey of 1,800 professionals, 40 case studies, and numerous focus groups and interviews, we scrutinized two kinds of diversity: *inherent* and *acquired*. Inherent diversity involves traits you are born with, such as gender, ethnicity, and sexual orientation. Acquired diversity involves traits you gain from experience: Working in another country can help you appreciate cultural differences, for example, while selling to female consumers can give you gender smarts. We refer to companies whose leaders exhibit at least three inherent and three acquired diversity traits as having two-dimensional diversity.

By correlating diversity in leadership with market outcomes as reported by respondents, we learned that companies with 2-D diversity out-innovate and out-perform others. Employees at these companies are 45% likelier to report that their firm's market share grew over the previous

year and 70% likelier to report that the firm captured a new market.

2-D diversity unlocks innovation by creating an environment where “outside the box” ideas are heard. When minorities form a critical mass and leaders value differences, all employees can find senior people to go to bat for compelling ideas and

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can persuade those in charge of budgets to deploy resources to develop those ideas.

Most respondents, however—78%—work at companies that lack 2-D diversity in leadership. Without diverse leadership, women are 20% less likely than straight white men to win endorsement for their ideas; people of color are 24% less likely; and LGBTs are 21% less likely. This costs their companies crucial market opportunities, because inherently diverse contributors understand the unmet needs in under-leveraged markets. We've found that when at least one member of a team has traits in common with the end user, the entire team better understands that user. A team with a member who shares a client's ethnicity is 152% likelier than another team to understand that client.

Inherent diversity, however, is only half of the equation. Leaders also need acquired diversity to establish a culture in which all employees feel free to contribute ideas. Six behaviors, we have found, unlock innovation across the board: ensuring that everyone is heard; making it safe to propose novel ideas; giving team members

decision-making authority; sharing credit for success; giving actionable feedback; and implementing feedback from the team. Leaders who give diverse voices equal airtime are nearly twice as likely as others to unleash value-driving insights, and employees in a “speak up” culture are 3.5 times as likely to contribute their full innovative potential.

These findings constitute a powerful new dimension of the business case for diversity. ♥ **HBR Reprint F1312B**

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