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Report

# The Value of Diverse Leadership

**Prepared for:**  
**DiverseCity: The Greater Toronto Leadership Project**

**Prepared by:**  
**The Conference Board of Canada**

November 20, 2008

This report has been prepared by The Conference Board of Canada. Funding was provided by DiverseCity: The Greater Toronto Leadership Project, an initiative of Maytree and the Toronto City Summit Alliance.

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The authors would like to extend their sincere appreciation to Robin Cardozo, Neil Edwards, Jean McLeod, and Kim Raymer, who were interviewed as part of this project. Their ideas and comments were invaluable to us in preparing this report.

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## Introduction

Diverse leadership offers Canadian organizations a competitive advantage and is a source of strength and prosperity for Canadian communities.<sup>1</sup> Leaders play a pivotal role, and their impact is felt in everything from strategic decision making to organizational and community effectiveness and ultimately financial performance.<sup>2</sup> Diverse leaders bring added benefits and unique capacities that, when realized, add significant value in both the public and private spheres.

Five of the most important benefits of diverse leadership are:

- improved financial and organizational performance;
- increased capacity to link with new global and domestic markets;
- expanded access to global and domestic talent pools;
- enhanced innovation and creativity; and
- strengthened social cohesion and social capital.

This report examines in detail the nature of these benefits and highlights how organizations and communities can maximize them. It has been prepared for DiverseCity: The Greater Toronto Leadership Project, an initiative of Maytree and the Toronto City Summit Alliance, to help foster greater understanding of the benefits of diversity of leadership and knowledge about how this in turn can strengthen organizations and communities. By drawing on the literature about diverse leadership, the report seeks to stimulate dialogue among business, government, and community leaders, and encourage more organizations and communities to develop and appoint leaders from diverse backgrounds.

The benefits of diverse leadership can be truly impressive in their impact on organizational effectiveness and community strength. In the case of organizations, for example, an American Management Association study of more than 1,000 US corporations, found that diversity in ethnic backgrounds, gender and ages on senior management teams “consistently correlates to superior corporate performance.”<sup>3</sup>

In the case of communities, the results can also be highly significant. More effectively utilizing the skills of leaders from the immigrant and visible minority populations has been shown to increase social capital and prosperity.<sup>4</sup> Diverse leaders are better positioned to access and maximize the diverse talent available to Canadian organizations and communities. This is important because the difference in labour market results among immigrants and visible minorities compared with the Canadian-born and non-visible minority populations is huge. For example, Statistics Canada reported that 68 per cent of immigrants from countries such as Australia, who are mostly non-visible minority, are employed in their fields within six months of arrival in Canada, compared with only 33 per cent of those born in Asia or the Middle East, who are almost all visible minority. Furthermore, the Conference Board estimates that unrecognized

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<sup>1</sup> For the purposes of this report, leaders are defined as those with substantial influence, authority, and accountability within an organization. Typically, this would include the board of directors, executive managers (e.g., vice-presidents and above), and senior managers (e.g., department heads). Because of their position in the organizational hierarchy and local community, leaders drive business strategy, corporate culture, community actions, and social outcomes.

<sup>2</sup> On the importance of leadership see, Hambrick, et. al., “Upper Echelons,” pp. 193-206; and Benimadhu and Gibson, *Leadership for Tomorrow: Playing Catch-up with Change*.

<sup>3</sup> American Management Association, *Senior Management Teams: Profiles and Performance*, this study was based on an AMA survey conducted between 1996 and 1997.

<sup>4</sup> Social capital refers to the quality and value of the relationships among individuals and groups, and the extent to which these relationships promote trust, cooperation, and collaboration. Diverse leadership can strengthen the quality and value of the relationships among individuals and groups, leading to increased social cohesion, creativity and innovation, and productivity.

credentials among visible minorities cost Canadians between \$2.4 and \$3.4 billion in annual income.<sup>5</sup> This gap in unrecognized credentials contributes to a gap in leadership outcomes.

**DEFINITIONS:**

**Diversity:** Refers to the presence of a wide range of human qualities and characteristics. The dimensions of diversity may include (but are not limited to) ethnicity, race, colour, age, gender, and sexual orientation.

**Diversity Initiatives:** Refers to policies and programs designed to promote diversity throughout organizations and communities.

**Communities:** Refers to groups of individuals that share a common residential district, country of origin, culture, religion, or interest.

**Immigrants:** Immigrants are defined as individuals born outside of Canada who have obtained, or are in the process of obtaining permanent residency status or Canadian citizenship.

**Leaders:** Leaders are defined as those with substantial influence, authority, and accountability within an organization. Typically, this would include the board of directors, executive managers (e.g., vice-presidents and above), and senior managers (e.g., department heads). Because of their position in the organizational hierarchy and local community, leaders drive business strategy, corporate culture, community actions, and social outcomes.

**Organizations:** Organizations include private firms, crown corporations, public agencies and institutions, and non-profit and voluntary agencies and groups.

**Social Capital:** Refers to the quality and value of the relationships among individuals and groups, and the extent to which these relationships promote trust, cooperation, and collaboration, which, in turn, can improve community and organizational outcomes. Diverse leadership can strengthen the quality and value of the relationships among individuals and groups, leading to increased social cohesion, creativity and innovation, and productivity.

**Visible minorities:** Under the Employment Equity Act (1995, c. 44), visible minorities are defined as “persons, other than Aboriginal peoples, who are non-Caucasian in race or non-white in colour.” These persons may be either Canadian-born or immigrants. Statistics Canada defines Arabs, Blacks, Chinese, Latin Americans, Other Asians, Pacific Islanders, South Asians, West Asians and Multiple Visible Minority Origins as visible minority populations.

Sources: The Conference Board of Canada, Department of Justice, and Statistics Canada

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<sup>5</sup> Benimadhu, “Valuing Diversity,” p.13, based on statistics developed for Bloom and Grant, *Brain Gain*, p. i.

## Part One: Leadership Gaps and Opportunities

Canada professes to embrace diversity, yet there is a striking lack of inclusiveness at the top of its public, private, and non-profit organizations—especially in our largest organizations. For example, visible minorities comprise 16.2 per cent of the Canadian population, but hold only 5.2 per cent of senior management positions in large companies and 1.6 per cent of executive management positions in the public sector.<sup>6</sup> In 2006, only 24 visible minority candidates were elected to the 308-seat House of Commons, representing but 8 per cent of the total number of seats.<sup>7</sup>

At the municipal level, the story is similar. In 2006, visible minorities totaled 1.16 million and comprised 46 per cent of Toronto’s population but today only 9 per cent of the city council (4 of 44 councillors) are members of visible minority groups.<sup>8</sup> The great majority of visible minority individuals in Toronto are immigrants. Just over one quarter of Toronto’s immigrants (326 thousand out of an overall immigrant population of 1.24 million) are not yet citizens eligible to vote.<sup>9</sup> Even when they are subtracted from the calculation of eligible voters to elected representatives, the gap between the proportion of eligible voters who are visible minorities and the proportion of city council members who are visible minorities is substantial. As Ratna Omidvar, President of Maytree, has observed, “Public institutions are a mirror of the society. They reflect the power structure of the society and you see the faces represented in power and privileges.”<sup>10</sup>

Figures for the non-profit sector are scarce. But according to one 2005 study conducted in Alberta, visible minorities make up 11 per cent of the province’s population but only 5 per cent of the senior management in non-profit organizations.<sup>11</sup>

The lack of diversity in leadership within the business, community, and political environments represents an important missed opportunity and a challenge for the future, as leadership is a fundamental driver of performance and productivity. Conference Board research has shown that Canada’s performance in key areas has been slipping relative to the US and other major competitor nations since 1996, when tracking began.<sup>12</sup>

Exhibit 1 presents an explanatory framework to show the factors at work in performance and productivity. This model sets out three main drivers: global forces; business, community, and policy environment; and organization- and community-specific factors. Diverse leadership has the potential to make the greatest impact in the third category.

<sup>6</sup> HRSDC, *Employment Equity Act: Annual Report*, p. 22.

<sup>7</sup> CBC News, “Toronto’s Mosaic: A Reality Check.”

<sup>8</sup> Statistics Canada, “Community Highlights for Toronto (City): All Data”; Javed and Keung, “Visible Minorities Gaining.”

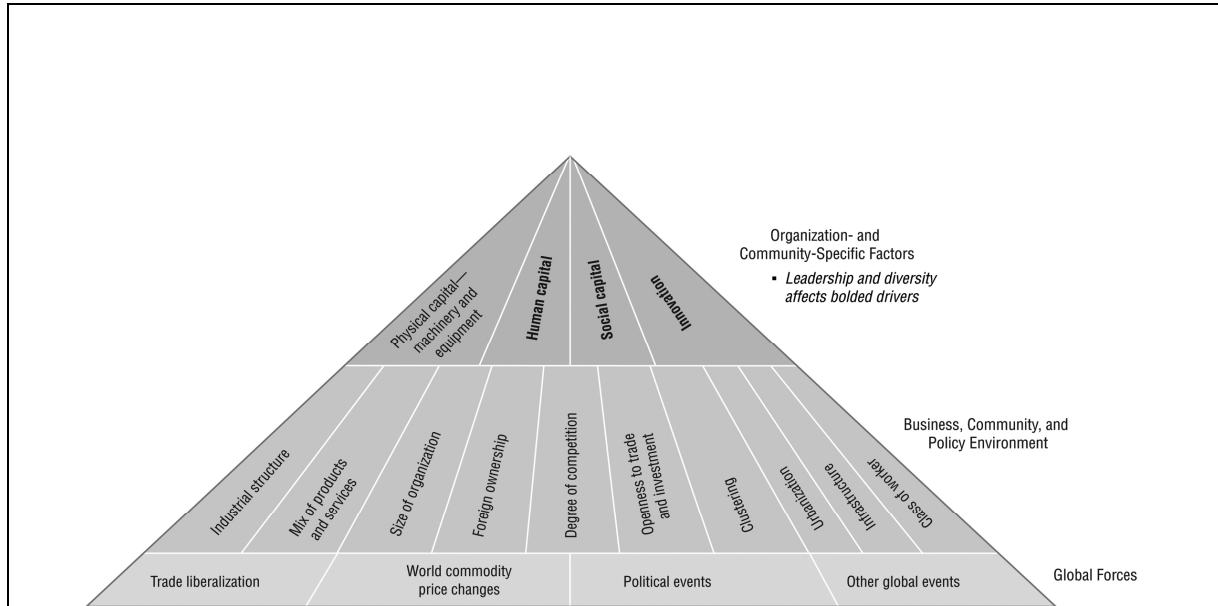
<sup>9</sup> Statistics Canada, “Community Highlights for Toronto (City): All Data.”

<sup>10</sup> Javed and Keung, “Visible Minorities Gaining.”

<sup>11</sup> Boland, P.T., Jensen, C., and Meyers, B., “Addressing the Leadership Challenge,” cited in Toupin and Plewes, *Exploring the Looming Leadership Deficit*, p. 130.

<sup>12</sup> See The Conference Board of Canada, *How Canada Performs*.

Exhibit 1: Performance and Productivity Drivers



**Organization- and Community-Specific Factors**

**Physical Capital:** Countries, communities, and organizations with high rates of investment in machinery and equipment capital also have, on average, higher productivity growth. Physical capital refers to the quantity as well as quality of capital—including factors such as the type of machinery and equipment (for example, information and communications technology); the age of machinery; the rate of investment in machinery and equipment; and capital intensity (that is, the amount of capital each worker has to work with).

**Human Capital:** The quality and skills of workers, managers, and senior leaders—commonly measured by educational achievement, literacy and numeracy, and leadership skills—act as engines of productivity growth.

**Social Capital:** Social capital refers to the quality and value of the relationships among individuals and groups, and the extent to which these relationships promote trust, cooperation, and collaboration. Diverse leadership can strengthen the quality and value of the relationships among individuals and groups, leading to increased social cohesion, creativity and innovation, and productivity.

**Innovation:** More-innovative countries and communities are richer and grow faster, and more-innovative organizations perform better. Research and development spending has been widely used as a proxy for innovation.

**Business, Community, and Policy Environment**

**Industrial Structure:** Countries and communities that have a larger proportion of their economies in high-value-added industries have higher productivity.

**Mix of Products and Services:** A country's, a community's, or an organization's productivity and income reflect what each produces, and the value of those goods and services. Countries, communities, and organizations that produce a larger proportion of high-value goods and services will have greater productivity and improved performance.

**Size of Organizations:** Larger organizations are more productive. Countries and communities that have a higher proportion of small and medium-sized organizations will have weaker productivity and performance overall.

**Foreign Ownership:** Canadian-controlled manufacturing firms may be less productive than foreign-controlled ones. The reasons for this are, to date, not fully understood.

**Degree of Competition:** The degree of competition in an economy is one of the key drivers of productivity, since competition increases the pressures on organizations and communities to adopt "best practices"—related to advanced technologies, workplace organization, management practices, and leadership.

**Openness to Trade and Investment:** Openness to trade and investment drives productivity growth for countries, communities, and organizations.

**Clustering:** Innovative organizations tend to locate in geographic clusters.

**Degree of Urbanization:** There appears to be a positive relationship between a region's or a community's degree of urbanization and its productivity.

**Infrastructure:** Countries and communities that invest in their infrastructure (for example, roads, bridges, broadband networks, and buildings) are able to generate higher productivity and performance.

**Class of Worker:** Self-employed workers appear to be less productive. This can have more to do with the resources at their disposal (e.g., financial, physical, and human capital) than the productivity of the worker.

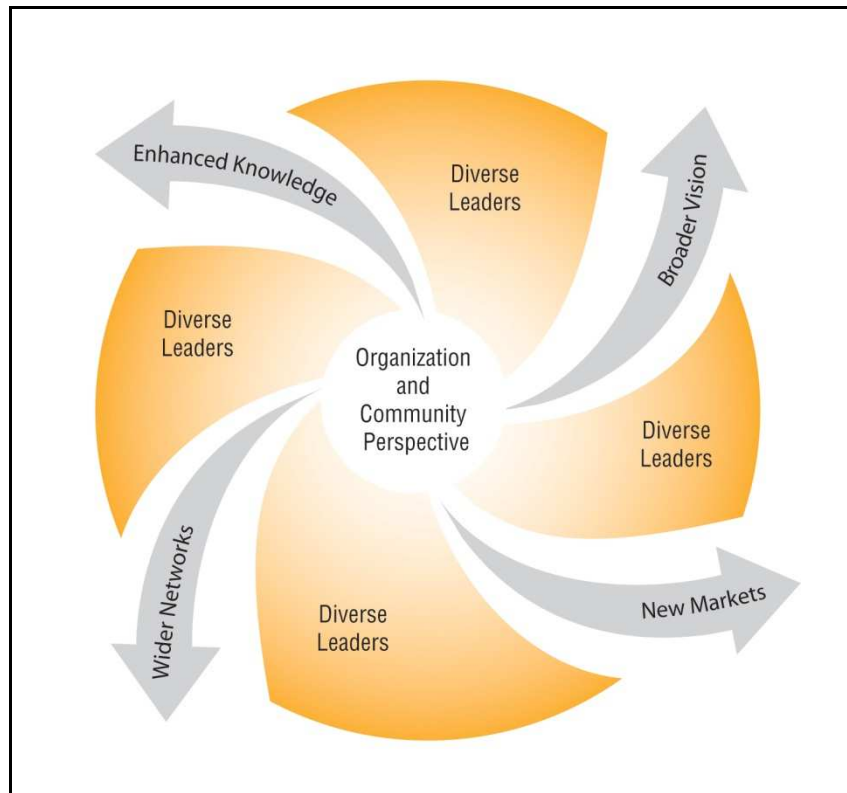
**Global Forces**

Countries, communities, and organizations have little control over many of the global forces that have an impact on profitability, productivity, and community outcomes. For example, world oil prices are affected by tensions in world affairs. Yet these prices influence our industries and communities directly—in the case of the profitability of oil and gas companies—and indirectly, in that oil prices affect the production costs of many organizations and the functionality of communities.

Canada has only a limited capacity to influence global forces, such as trade liberalization, world commodity prices, and political events. But there are other performance and productivity drivers that Canada can affect domestically. These include drivers at the business, community and policy level, such as industrial structure, openness to trade and investment, and urbanization. Organizations and communities also can affect several key performance and productivity drivers such as human capital, social capital, and innovation. To do so, however, organizations and communities need strong leaders in positions at or near the top. Strong leadership can improve organizational and community results; diversity strengthens leadership.

When leadership is diverse, the range of talents and perspectives broadens—bringing a wider array of knowledge, skills, and experiences to an organization. Diverse leaders bring fresh perspectives, market knowledge, creative thinking, and capacity for risk-taking (‘know-how’), and often attract new investors and skilled workers (‘know-who’). Ultimately, their contribution is to improve the financial performance and effectiveness of the organizations they lead, and to strengthen the communities in which they are active. There is a symbiotic relationship between the perspectives and outcomes created by diverse leadership, improving organizational effectiveness. [See Exhibit 2]

**Exhibit 2: Ways in which Diverse Leadership Enhances Organizational Effectiveness**



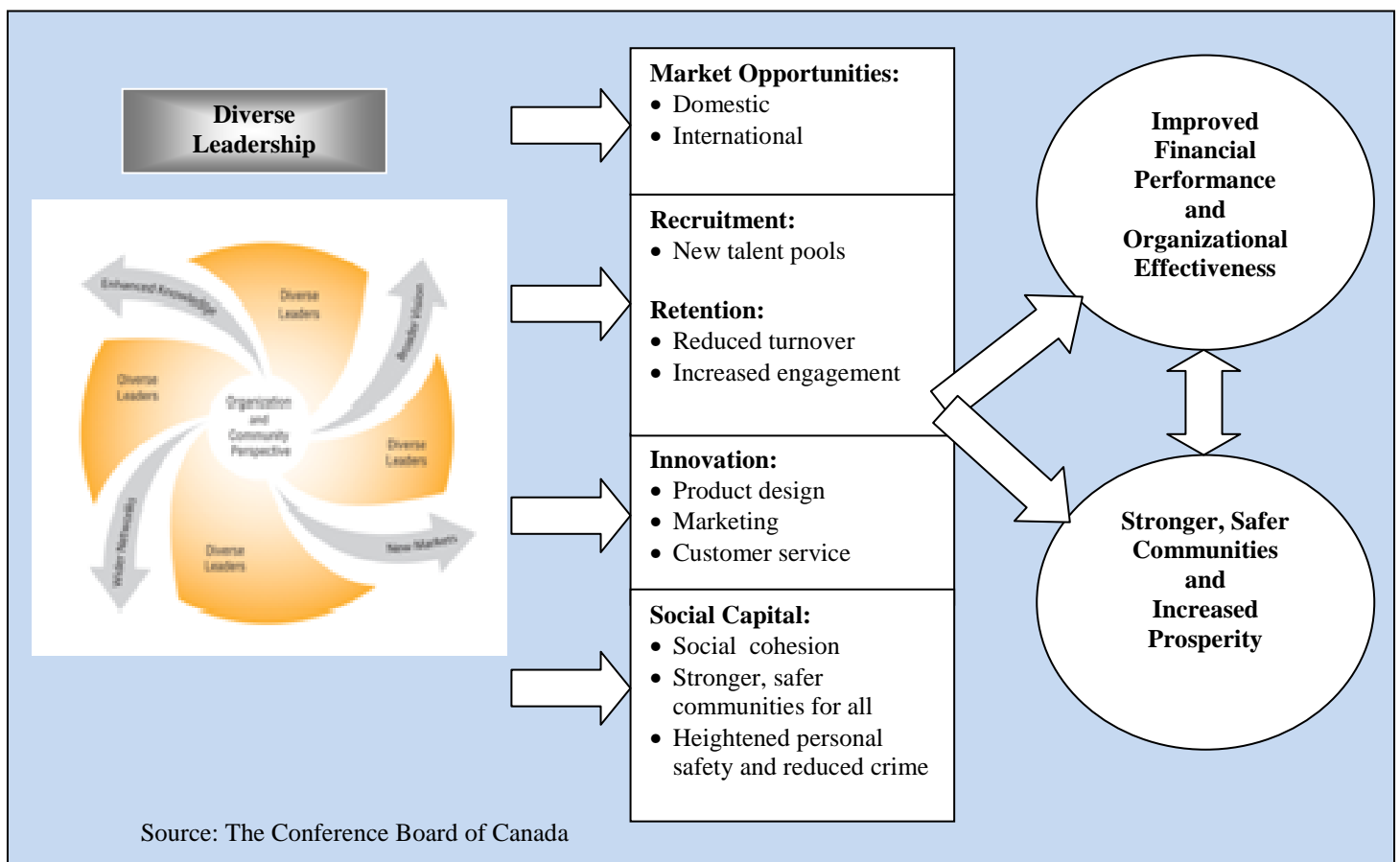
Part two of this report elaborates on the benefits of diverse leadership with sections on 1) financial and organizational performance; 2) linking with new global and domestic markets; 3) accessing global and domestic talent pools; 4) creativity and innovation; and 5) social capital and cohesion.

Part three explains how Canadian organizations can maximize these benefits and presents best practices for doing so.

## Part Two: The Benefits of Diverse Leadership for Organizations and Communities

**W**hen organizations and communities include diversity in their senior ranks, it often results in gains in performance and effectiveness. [See Exhibit 3]. According to Bill Hatanaka, Executive Vice-President of Wealth Management at TD Bank Financial Group, diverse leadership is “about attracting and keeping the best talent available, maintaining a ‘meritocracy’ and having access to the most diverse and creative thinking possible ... It is about having a reason for existing as an organization that resonates with our customers, our employees, our shareholders and the communities we serve, and remaining relevant in a changing world.”<sup>13</sup>

**Exhibit 3: Diverse Leadership: Benefits for Organizations and Communities**



<sup>13</sup> Hatanaka, “Conference Board of Canada – Seminar on Visible Minorities.”

## 1. Improved Financial and Organizational Performance

An abundance of research links improved financial performance with workforce diversity, but only a few studies consider its link with diversity in leadership specifically. Three international studies and a number of examples from business make a particularly strong case for the positive correlation between diverse leadership and financial performance.<sup>14</sup>

The first study, by the American Management Association (AMA), demonstrated that diversity in ethnic backgrounds, gender and ages among the senior management team in 1,000 U.S. companies was linked with better corporate performance between 1996 and 1997. For example, companies with senior managers of non-European descent reported a 20 per cent net increase in gross sales revenue on average over this period—7 per cent above companies with no senior managers of non-European descent. While smaller companies had greater diversity of leadership than larger companies, the improvement in performance remained even when firm size was controlled (i.e., when comparing firms of similar size).<sup>15</sup>

Another finding of the AMA study was that even *some* diversity in leadership can make a significant difference in organizational performance. Thus, organizations do not need to have a majority of diverse leaders to improve financial performance; they only need to have some diversity in leadership. As the study puts it, it is the “participation rather than the predominance” of diverse leaders that correlated with improved performance.<sup>16</sup>

A second study, conducted by researchers from Rutgers University and Iowa State University, examined 112 large U.S. companies for the period between 1993 and 1998. It found that ethnic and gender diversity on boards of directors is positively associated with improved organizational performance, as measured by return on assets and investment. Diversity on boards was inferred to bring in greater diversity of perspectives, leading to what might be termed “constructive conflict.” The result of this ‘conflict’ was a more thorough strategic decision-making process and organizational oversight<sup>17</sup> Because of the importance of these functions, this study reinforces the point that diverse governance leadership is even more significant than diversity of employees alone.<sup>18</sup>

A third study, carried out at the Universiti Tunku Abdul Rahman (Malaysia), looked at the top 100 non-financial companies on the Bursa Malaysia stock exchange, 2000 to 2005. The study found that ethnic diversity on boards of directors was “significantly and positively correlated with financial performance.”<sup>19</sup> Its results suggest that this is especially important because of the boards’ role in maximizing shareholders’ wealth (financial performance) through exercising control over top management (oversight functions).<sup>20</sup>

The Malaysian study also noted that “increased ethnic diversity offers greater innovativeness, greater creativity, quality decision-making and eventually financial performance.”<sup>21</sup> Conversely, a lack of diversity in leadership could lead to “groupthink,” or uniformity in perspectives, resulting in poorer

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<sup>14</sup> There are currently no published Canadian studies on the impact of diverse leadership on financial performance.

<sup>15</sup> This study is based on an AMA survey conducted between 1996 and 1997. American Management Association, *Senior Management Teams: Profiles and Performance*, pp. 37-44.

<sup>16</sup> *Ibid.*

<sup>17</sup> Erhardt, et. al., “Board of Director Diversity and Firm Financial Performance,” pp. 102-109.

<sup>18</sup> *Ibid.*

<sup>19</sup> Maran, “Ethnic Diversity of Directors and Its Implications on Firm Financial Performance,” pp. 437.

<sup>20</sup> *Ibid.*, p. 432.

<sup>21</sup> *Ibid.*, p. 440.

strategic decisions by companies. Malaysia's 1997 financial crisis, which resulted in the downfall of many listed companies, starkly illustrated the implications of poor corporate governance.<sup>22</sup>

The above studies on diverse leadership are supported by individual examples of the financial benefits of diversity and inclusion in general. When Dupont and IBM developed diverse product design teams, they saw business growth of \$45 million and \$290 million, respectively.<sup>23</sup> Also, at BMO, an increase in the hiring of Chinese employees assisted in boosting sales among Chinese Canadians by more than 400 per cent over a five year period.<sup>24</sup> Further examples are provided below. [See Textbox 1 and following sections]

#### TEXTBOX 1:

##### **PepsiCo: Leveraging Diverse Leadership for Business Growth**

PepsiCo CEO, Steve Reinemund, said that initiatives in diversity and inclusion were the most important part of his legacy; in fact, he attributed 20 per cent of the company's growth to these initiatives. As Reinemund explains, "different perspectives brought to bear on unique business challenges capture the best of the best ideas ... You cannot speak about growth and innovation and being a market segment leader without speaking about diversity and inclusion."

Reinemund's commitment to diversity was mirrored throughout the senior management team of the company, as shown by the appointment of Indian-born Indra Nooyi who succeeded him as CEO. Prior to this appointment, Nooyi had been a six-year board member and the company president. She has identified diversity and inclusion as a key driver of PepsiCo's continued growth.

Source: Diversity Inc.

## 2. Increased Capacity to Link with Global and Domestic Markets

Diverse leaders can help maximize global and domestic opportunities for Canadian organizations and communities by:

- leveraging international connections, cultural competencies, and language skills;
- improving relationships with diverse domestic customers, suppliers, and other stakeholders; and
- creating innovative products and services through their diverse perspectives.<sup>25</sup>

Global markets are important for organizations, enabling them to generate increased sales and productivity. By tapping into global markets, organizations access a larger customer base and greater purchasing power. Through connecting with networks of global suppliers, they reduce costs and increase revenue by optimizing expertise and inputs from around the world.<sup>26</sup>

A case in point is IBM. To better access global markets, IBM has built a leadership team that is as diverse as its customers in more than 170 countries around the world. At IBM, minorities (including visible

<sup>22</sup> Ibid.

<sup>23</sup> Thomas, "Diversity as Strategy," pp. 99 and 107

<sup>24</sup> Gandz, *Business Case for Diversity*, pp. 4–5.

<sup>25</sup> See Gandz, *Business Case for Diversity*. Gandz identifies three levels at which diversity is beneficial to organizations in this regard, including: (1) the service level (between the organization and customer/client); (2) the design level (when product/service is being designed); and (3) the strategy level (where market and entry strategies are discussed). Also, see Martino, *Diversity: An Imperative for Business Success*, pp. 17-20; and Lockwood, "Workplace Diversity."

<sup>26</sup> Hodgson and Park Shannon, *The Canada Project*, p. 15; and Goldfarb and Chu. *Stuck in Neutral*, p. i.

minorities and Aboriginal peoples) represent 17.8 percent of all officials/managers.<sup>27</sup> Since IBM took steps to address the lack of diversity in its workforce the number of ethnic minority executives in the company has jumped 233 per cent, and the number of female executives have grown by 370 per cent.<sup>28</sup> Ron Glover, IBM's Vice-President of Global Workforce Diversity explains: "if you have an inclusive culture and a diverse workforce and you're a global company, your ability to truly understand the culture and the expectations of your diverse global customers improves pretty significantly."<sup>29</sup>

Increasingly domestic markets also provide an opportunity for diverse corporate leaders to increase company revenues. In 2001, visible minorities represented \$78 billion worth of Canada's combined purchasing power, and this figure has grown with this population. If current immigration trends continue, Statistics Canada projects that the visible minority population will increase to one-fifth of Canada's total population with corresponding increases in purchasing power.<sup>30</sup> Diverse leaders often have deep knowledge of the needs and preferences of diverse markets. Therefore, organizations with diverse leaders have strong potential to grow the market share of products and services purchased by this population.

RBC, Canada's largest bank, is another example of an organization that is making the connection between diverse leadership and success in domestic markets. The bank placed second in the 2007 Corporate Knights Leadership Diversity Index, which identified the 50 Canadian companies with the greatest representation of visible minorities and women in senior executive positions [See Textbox 2].

#### **TEXTBOX 2:**

##### **Corporate Knights Leadership Diversity Index**

The Corporate Knights Leadership Diversity Index identifies Canadian organizations that have the greatest visible minority and female representation among their executives and board members. For 2007, the top ten companies are as follows:

1. Vancouver City Savings and Credit Union
2. Royal Bank of Canada
3. Husky Energy Inc.
4. Corus Entertainment Inc.
5. Hydro One
6. McKesson Canada
7. Hewlett-Packard
8. Bank of Montreal
9. Petro-Canada
10. Shell Canada

The findings show that some top organizations have embraced diverse leadership, but indicate there is a lack of diverse leadership overall. According to the study, "Of the 140 surveyed, 75 per cent of boards of directors had no visible minorities, and 23 per cent had no women. There were no female CEOs."<sup>31</sup>

Source: Corporate Knights, *Canadian Leadership Diversity Index*

<sup>27</sup> IBM, Employment Data.

<sup>28</sup> Thomas, "IBM Finds Profit in Diversity."

<sup>29</sup> *HR Management*, "Diversity on a Global Scale."

<sup>30</sup> Statistics Canada, "Canada's Visible Minority Population in 2017."

<sup>31</sup> Corporate Knights, *Canadian Leadership Diversity Index Results Announced*.

RBC has a number of managers dedicated to developing business in the growing Middle Eastern and South Asian communities. Account Manager Irfan Chaudhry used his fluency in Indian sub-continent languages, and his involvement with ethnically-based business organizations to generate significant growth in the bank's loan and deposit business. Zabeen Hirji, Chief Human Resources Officer for RBC, explains that "if you want to serve the market, you have to hire the market."<sup>32</sup>  
[See Textbox 3]

**TEXTBOX 3:****Seneca College: Understanding the Market through Diverse Leadership**

Diversity is central to Seneca's strategic vision and success. The college has more than 100,000 full- and part-time students from many social and cultural backgrounds, including international students from more than 90 countries.

Seneca's Board of Governors was the first post-secondary institution in the GTA to receive Maytree's Diversity in Governance Award. Its board is comprised of 20 volunteer members from the GTA who are responsible for the College's vision, direction, management, financial health, and goals. Board members typically serve two three-year terms and all appointments to the board are evaluated to ensure community representation.

Jean McLeod, past Chair of Seneca's Board of Governors, explains that embedding diversity at the leadership level helps the college to better serve the needs of students, employers, and the community at large. To ensure diversity at the top, the college enlists the assistance of organizations across the Greater Toronto Area (GTA).

"For many years Seneca's Board of Governors has embraced the mission of being a fully inclusive board," says McLeod. "The Board reflects current GTA demographics. We are proud of the fact that our Board leads by example and currently half of its members represent diverse groups."

Through their commitment to diversity, Seneca's leadership has been instrumental in creating a college that is recognized as multicultural; whose students learn in an environment that incorporates a statement on equity and diversity in all academic course outlines; and that celebrates and encourages awareness, understanding and appreciation of diversity in its many cultural student clubs, international days, and heritage events.

The positive impact is far-reaching and long term; a new generation of educated professionals is making its way into the workplace and the world with an awareness of how diversity strengthens organizations and communities.

Seneca Corporation, which is focused on taking Seneca's academic strengths to international markets, has taken the college's curriculum and expertise across the globe. The same commitment to diversity experienced in Toronto is therefore being exported to classrooms around the world. This is creating opportunities for international students to benefit from an education built on learning through diversity.

Source: Seneca College

<sup>32</sup> Shin, "The View From the Analyst and the Expert."

### 3. Expanded Access to Global and Domestic Talent Pools

Organizations with diverse leaders can recruit and retain a diverse workforce more effectively due to their expanded access to global and domestic talent pools. With labour markets tightening and visible minorities becoming a larger proportion of the workforce, these organizations will have the best chance of winning the “war for talent.”<sup>33</sup>

Labour shortages are being felt throughout Canadian organizations—and especially at the top—as the ageing workforce retires. Seniors are the fastest growing age group in Canada.<sup>34</sup> By 2026, the proportion of seniors in Canada will reach one-in-five.<sup>35</sup> Management occupations will be particularly affected. As of 2006, senior managers had a median age of:

- 50 in health, education, social and community services, and membership organizations;
- 49.7 in federal, provincial/territorial, and municipal government; and
- 48.8 in goods production, utilities, transportation and construction.<sup>36</sup>

Canadian-born school leavers alone will not be able to address these labour shortages, so Canadian organizations will need to recruit from the growing immigrant and visible minority populations to meet their need for talent. [See Textbox 4]

#### TEXTBOX 4:

##### **Stikeman Elliott LLP: Developing Diverse Leadership for Future Growth**

Named Canada’s National Law Firm of the Year by the *International Financial Law Review* in 2007, Stikeman Elliott knows the importance of diversity. In an address on the occasion of the firm’s fiftieth anniversary in 2002, Montreal Partner Richard Pound pointed out the firm would “need the broadest range of talents and backgrounds,” as it “faced a national and international future.”

The firm’s goal in recruitment is to attract the best and the brightest students and lawyers and to include all members of diverse communities in recruitment efforts. It supports young lawyers’ development as future leaders of the firm through its mentorship program and career development sessions. It also supports and encourages community outreach initiatives, such as the Pathways to Education Program. This program aims to “ensure that young people from at-risk and/or economically disadvantaged communities achieve their full potential by getting to school, staying in school, graduating and moving on to post-secondary programs.” By developing leaders from diverse communities internally, the firm believes that it will be well positioned for future growth across Canada and around the world.

Source: Stikeman Elliott LL

Visible minorities are attracted to organizations that champion diverse leadership. Hydro One’s CEO, Laura Formusa, observes that “if your policies are fair and you’re interested in diversity, you’re going to be attracting people from diverse backgrounds.” Formusa’s observation is confirmed by Tamara Vrooman, CEO of Vancouver City Credit Union (Vancity), who acknowledged that the firm’s reputation for diversity “was a driving factor in accepting her position.”<sup>37</sup>

<sup>33</sup> The term “war of talent” is said to have been first coined after a 1997 McKinsey study. Since then, the phrase has become more commonplace, cited books, such as: Michaels, at al.’s *War for Talent* and Florida’s *The Flight of the Creative Class*.

<sup>34</sup> Health Canada and the Interdepartmental Committee on Aging and Seniors Issues. *Canada’s Ageing Population*.

<sup>35</sup> Ibid.

<sup>36</sup> Statistics Canada, *Table 5: Occupations with highest median age*.

<sup>37</sup> Corporate Knights, “The view from the analyst and the expert.”

Creative people from all backgrounds are attracted to diverse cities and organizations. Professor Richard Florida explains that when creative people begin to congregate, good things can happen. His “creative capital theory,” encapsulates this notion. The idea is that creative people will power a region’s economic growth. The theory holds that regional economic growth is driven by the location choices of the “creative class,” which includes entrepreneurs, artists, scientists, and other knowledge-based professionals (i.e., the holders of “creative capital”). Creative people are attracted to places that are tolerant, diverse, and open to new ideas (e.g., places that are socially, culturally, and intellectually diverse).<sup>38</sup>

When creative leaders come together in a community, they can stimulate diversity, creativity, and prosperity. This growth will then, in turn, attract more diversity and creativity, leading into a “virtuous cycle” of diversity, creativity, and prosperity.<sup>39</sup> Diverse leaders facilitate this process, through their connections with firm performance and organizational effectiveness; global and domestic markets, investment, and talent; and their contributions to creativity, innovation, and social capital.

Another component of the business case for diverse leadership is the cost of doing nothing. If Canada does not better promote diverse leadership, it will lose dollars and talent. In 2001, The Conference Board of Canada calculated that the dollars lost due to reduced earnings—resulting from unemployment and underemployment among immigrants—equaled “\$3.4 to \$5.0 billion annually.”<sup>40</sup> The Board also cautioned that the talent lost will result from the departure of immigrants, many of whose credentials are not being recognized and whose skills and experience are not being fully utilized.<sup>41</sup> As Neil Edwards, Executive Lead of the Ontario Public Service Diversity Office put it “if people come to this province and do not feel included, then they are going to go somewhere else.”<sup>42</sup>

If organizations fail to adopt diverse leadership, they too will lose dollars and talent. Dollars will be lost because of missed opportunities to link with global and domestic markets, as well as to create and innovate. Talent will be lost because of greater difficulty recruiting and retaining diverse employees. These losses are the direct result of diverse employees’ perceptions that they lack opportunities to advance to leadership positions when there are few or no diverse leaders in the organization.

Two recent studies illustrate how this occurs. The first study, by Catalyst Inc., found that black Canadians regarded the lack of role models (i.e., senior-level black managers) within their organizations, and the fact that white employees were promoted faster, as an indication that their opportunities for advancement were limited, prompting some of them to leave.<sup>43</sup> The second study, a 2001 National Community for Latino Leadership report, revealed that the qualities Latinos looked for in leaders differed from conventional leadership models.<sup>44</sup> In the absence of Latino leaders who can give them the style and substance of leadership they seek, Latinos are more likely to become dissatisfied, disengaged and ultimately, to leave the organization.

#### **4. Enhanced Creativity and Innovation**

Organizations are under continuous pressure to be innovative; diverse leaders often have new perspectives and expertise that propel innovation. Expanding into new markets, securing additional sources of investment, and improving productivity often benefit from innovation. Technological

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<sup>38</sup> Florida, *The Rise of the Creative Class*, p. xiii.

<sup>39</sup> Austin, “Creative Classes.”

<sup>40</sup> Bloom and Grant. *Brain Gain*, p. 2.

<sup>41</sup> Hodgson and Shannon. *The Canada Project*, p. 15; and Goldfarb and Chu., *Stuck in Neutral*, p. 70.

<sup>42</sup> Neil Edwards, phone interview by Tim Krywulak.

<sup>43</sup> Giscombe, *Career Advancement in Corporate Canada*, p.17.

<sup>44</sup> National Community for Latino Leadership, *Reflecting an American Vista*.

developments, global competition, and demographic shifts create new risks and possibilities, placing a premium upon an organization's ability to adapt to evolving circumstances—sometimes rapidly. Diverse leaders, with their capacity to innovate, can increase an organization's capacity for responding to these pressures.

Gabriel Senn, owner of MediaBox, believes diversity is central to innovation. He explains that creativity arises when people from different backgrounds bring different perspectives: "If creativity is the ability to combine experiences, without this ability, we can never come up with anything new."<sup>45</sup>

Senn's view is supported by an earlier study on "Ethnic Diversity and Creativity in Small Groups."<sup>46</sup> In this study, a brainstorming task was given to categories of groups of undergraduate and graduate students: one category of groups was comprised of all Anglo-Americans and another category was comprised of Anglo, Asian, African, and Hispanic Americans. The ideas produced by the ethnically diverse groups were judged to be of higher quality (in terms of effectiveness and feasibility) than those of the non-diverse groups. This is the same positive dynamic that operates among groups of diverse leaders.

Further support for the relationship between diversity and creativity can be found in Scott E. Page's recent book, *The Difference: How the Power of Diversity Creates Better Groups, Firms, Schools, and Societies*. Using case studies and mathematical models, Page shows how diverse groups can consistently outperform homogeneous groups. Under certain conditions, moreover, he illustrates that this can even hold true in cases where the homogeneous groups have greater ability in a given task, such as brainstorming or problem solving, because diverse groups with the broader range of perspectives tend to "get stuck less often" than the homogeneous groups containing people who shared the same outlook.<sup>47</sup>

Examples from the business world also demonstrate that diverse leaders innovate by offering perspectives that can broaden a company's appeal to customers and markets. [See Textbox 5] Thus, when Dupont created a multicultural product design team that introduced new colour schemes and other innovations (more attractive to overseas customers), it increased its international business by \$45 million.<sup>48</sup> Similarly, when IBM created a diverse market development team it expanded sales to women and minority-owned businesses from \$10 million in 1998 to more than \$300 million by 2003.<sup>49</sup> Diverse leaders can also identify issues that may otherwise go unnoticed. As Jeffery Gandz points out in his *Business Case for Diversity*, "when Chevrolet launched the Nova into Latin America, perhaps Hispanic managers might have pointed out that "No va" in Spanish means "doesn't go!"<sup>50</sup>

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<sup>45</sup> Kitigawa and Krywulak, *Talent for Hire*, p.37.

<sup>46</sup> McLeod, et. al., "Ethnic Diversity and Creativity in Small Groups," pp. 248 – 264.

<sup>47</sup> See Page, *The Difference*.

<sup>48</sup> Gandz, *Business Case for Diversity*.

<sup>49</sup> David A. Thomas, "Diversity as Strategy," pp. 99 and 107

<sup>50</sup> Gandz, *Business Case for Diversity*.

**TEXTBOX 5:****The Ontario Trillium Foundation: Incorporating Broad Perspectives to Maximize Organizational Effectiveness**

The Ontario Trillium Foundation (OTF), an agency that distributes over \$100 million in grants to charities and non-profit organizations on behalf of the Government of Ontario, incorporates diversity in all aspects of its organizational strategy. Its mandate is to provide funding for initiatives in the arts and culture, environment, human and social services, and sports and recreation sectors across Ontario.

The OTF benefits from the insights that diverse leaders bring to its organization. At OTF, diversity is considered through several lenses, including race, ethnicity, region, language, and gender. OTF Chief Executive Officer, Robin Cardozo, says this enables the organization to incorporate a broad perspective on the issues, opportunities, programs, and practices considered in the course of its work. As Ontario becomes more diverse, this approach “becomes all the more important.” It provides not only for better decision-making, but also practical information on matters such as “how to best achieve our organizational goals when working with diverse racial, ethnic, or regional communities.”

Aboriginal participation on the OTF Board and Grant Review Teams, for example, has helped the Foundation to tailor its outreach to the Province’s diverse First Nations communities. Foundation grants to First Nations communities have doubled in the past three years as a result. Similarly, board members from Northern and rural Ontario have strengthened the organization’s understanding of challenges and opportunities in those communities, and consequently, enabled the Foundation to modify its funding formula and granting policies to better reflect the needs of these communities.

Source: Ontario Trillium Foundation

## 5. Strengthened Social Capital and Cohesion

Social capital and the attendant cohesion among people and groups create conditions for collaboration that stimulate greater creativity, thus contributing to enhanced prosperity in communities and organizations. Diverse leadership within communities tends to increase the social capital and cohesion of those communities, helping to make them stronger and more prosperous. Diverse leaders also contribute in other ways to community strength. They improve the effectiveness of community services and infrastructure, increase connections with international communities who are a source of future immigrants as well as a market for the business communities’ trade in goods and service, and foster creativity and innovation in processes that can engage the whole population in the work and life of the community.

Indirectly, the successes of diverse community leaders provide a strong underpinning for improved performance by the businesses operating with the community. They are especially important in building human capital and social cohesion that allows individuals from diverse backgrounds to work together more effectively in greater harmony within workplaces and communities. [See Textbox 6]

**TEXTBOX 6:****Ottawa Police Services: Developing Safer Communities through Diversity and Consultation in Recruitment**

Like many police forces in large urban centres, the Ottawa Police Services serves and protects a diverse and changing community. In 2004, it established a Community Outreach Recruitment Champion (CORC) program in an effort to expand access to talent in a competitive labour market, improve community relations, and increase organizational effectiveness. The Steering Committee for this program brought together 22 Community Recruitment Champions from diverse backgrounds. Since that time, recruitment classes changed from having 85 per cent white male candidates to having significant representation of various groups, ages, socio-economic backgrounds, religions, and cultures.

The CORC program builds on the Ottawa Police Service's Community-Police Action Committee (CPAC), initiated in 1999. The CPAC provides the police service and leaders from communities of visible minorities, as well as Aboriginal peoples, the opportunity to consult on common challenges and potential solutions. Through this initiative, the police gain better knowledge of community concerns while communities gain a larger voice within the police service.

Source: Ottawa Police Services

Yet most communities fail to elect and appoint adequate numbers of senior-level diverse leaders, or to promote diverse leadership throughout the middle ranks of community management. In large urban centres such as Vancouver, Toronto, and Montreal, visible minorities are proportionally underrepresented in municipal government. According to the Proportionality Index, where a score of 1.0 indicates true proportionality, the elected representation level of visible minorities in these cities is only 0.37, 0.32 and 0.39, respectively; and was an equally low 0.42 in the House of Commons in 2000.<sup>51</sup> This discrepancy is not only confined to elected positions. In Toronto, for instance, although visible minorities made up 43 per cent of the population and comprised 30 per cent of the applicants for public boards, agencies, and commissions in 2003, they made up only 22 per cent of the appointees.<sup>52</sup>

Underrepresentation is a problem not just for underrepresented populations, but for all Canadians. It contradicts the values of democracy and equality, and tends to put the legitimacy of decision-making in communities and organizations into disrepute. When these values and the legitimacy of decision-making are called into question, it risks degrading the social capital of the community.<sup>53</sup> If a social group lacks respect for a decision-making body—whether a community government or an organization's senior management team—then members of that group will be less likely to respect and abide by that body's rules. As the level of respect declines, it will become increasingly difficult (both financially and morally) for the decision-making body to enforce its decisions.<sup>54</sup> In the case of communities, the end result can be a breakdown in the social order.

<sup>51</sup> The proportionality index expresses "the proportion of group members within an elected body, divided by the proportion of group members within the general population. A score of 1.00 indicates perfectly proportional representation." Bird, "Obstacles to Minority Representation in Local Government in Canada," p. 182.

<sup>52</sup> Toronto City Summit Alliance, "Backgrounder for Toronto Summit 2007."

<sup>53</sup> Biles and Tolley, "Getting Seats at the Table(s)," pp. 177-178.

<sup>54</sup> Ibid. p. 178.

## Part Three: Realizing the Benefits of Diverse Leadership

Many organizations and communities are not yet fully realizing the benefits that diverse leadership could bring them. They do not include sufficient numbers of visible minorities, immigrants, and other diverse groups in leadership positions. Even when they bring diversity into leadership, the way in which they integrate individuals with diverse backgrounds into leadership is not always effective. However, best practices exist that show us how organizations and communities can realize the benefits; these are discussed below.

This section demonstrates ways in which organizations and communities can realize the benefits of diverse leadership; first, by providing a framework for action; and second, by suggesting a number of “keys to success” within this framework.

### 1. Framework for Action: An Integration-and-Learning Approach to Diversity in Leadership

To realize its full benefits, organizations and communities need the right approach to diversity in leadership. According to Harvard professors Robin J. Ely and David A. Thomas, two leading experts in the fields of diversity and leadership research, an ‘integration-and-learning approach’ involves integrating diversity at the *core* of an organization’s culture as a “valuable resource” for learning and development. By creating an open environment that “values variety and insight,” this approach actively encourages learning from the broader perspectives that diverse leaders and employees bring to the workplace.<sup>55</sup>

The integration-and-learning approach represents a significant shift from two earlier approaches: the so-called ‘discrimination-and-fairness paradigm’ and the ‘access-and-legitimacy paradigm’.<sup>56</sup> In the 1980s and 1990s, these earlier approaches were sparked by an emerging diversity literature, including William B. Johnstone and Arnold E. Packer, *Workforce 2000: Work and Workers for the Twenty-First Century*; and Anne Morrison, *The New Leaders: Leadership Diversity in America*. Johnstone and Packer emphasized the need for recruiting from more diverse talent pools, given the changing demographic composition of American society. Morrison focused on the financial benefits of diversity. She argued that “diversity is a worthy goal undoubtedly linked to the overall performance of any organization.”<sup>57</sup>

There are several reasons why the integration-and-learning approach has proven to be more effective than earlier approaches. The discrimination-and-fairness approach presumed that organizations should hire visible minorities (and other underrepresented groups) to reflect the demographic composition of society, and comply with employment-equity legislation. Its shortcomings were three-fold. First, the fact that diversity is “the right thing to do” was not a sufficiently compelling reason for some corporate leaders to buy in. Second, although filling quotas and providing mentoring for diverse hires resulted in diversification of staff, it did little to change work processes and culture. And third, by seeking to minimize the differences between diverse employees, this approach also minimized the organizational benefits of diversity.<sup>58</sup>

The access-and-legitimacy approach, first proposed in the 1980s, was motivated by a desire to leverage diversity to expand business opportunities. Although there is evidence that it provided benefits such as increased organizational morale, access to diverse domestic and international markets, improved firm

<sup>55</sup> Ibid, pp.84-85. Ely and Thomas were both formerly of the Wharton School of Business at the University of Pennsylvania.

<sup>56</sup> Thomas, and Ely, “Making Differences matter,” p.84-85.

<sup>57</sup> Lagace, “Racial Diversity Pays Off.”

<sup>58</sup> Ibid, pp.79-81.

reputation, and increased productivity, there were also factors that tended to limit its potential.<sup>59</sup> To begin with, some organizations that adopted the approach tended to pigeonhole diverse employees into jobs that mainly required interface with others of the same ethnic background. This left some diverse hires feeling exploited and limited in their opportunities. Moreover, much like the access and legitimacy paradigm, this paradigm did little to facilitate broad-based learning from diversity—incorporating diversity more at the margins rather than the centre of an organization’s culture.<sup>60</sup> The result was that too few entered or moved up to leadership positions in these organizations.

## 2. “Keys to Success” for the Integration-and-Learning Approach

There are several keys to making the integration-and-learning approach work. These keys are derived from Conference Board of Canada research studies, and from case studies produced at the Wharton School of Business, Harvard University, the Massachusetts Institute of Technology, Rutgers University, and the University of Illinois. Although primarily focused on organizations, the principles embodied here apply at the community level as well.

### Communication of the Business Case for Diverse Leadership

When organizational stakeholders understand the business case for diverse leadership, they are more likely to give it their full support.<sup>61</sup> Therefore, the value of diversity in leadership must be clearly communicated. This report provides evidence that can be employed in communicating such a case. Additional primary research specifically based upon the experience organizations and communities with diverse leadership in Canada could strengthen the case even further.

### Address Concerns over Procedures and Fairness

Concerns over the “procedural justice” of diversity initiatives, including the promotion of diverse leadership, is often perceived to be among the greatest barriers to the successful integration of diversity.<sup>62</sup> Reducing these barriers involves not only communicating the rationale for diverse leadership in an effective way, but also ensuring that the appointment process for promotions is transparent and fair. Transparency should demonstrate that appointments to senior management have been based on the breadth and depth of the perspectives, talents, skills, and experiences that a candidate brings to the organization, while fairness and good business practices should dictate that broad-based opportunities for learning, development and advancement are open to all.

### Strong Support from Senior Management

Adopting diversity in leadership requires strong support from senior management—ideally the most senior leadership in the organization. It calls for a concerted and sustained effort from the organization, and a willingness of the senior management team to work with diverse leaders. Without these supports, the likelihood of achieving diversity in leadership will be greatly reduced—especially because the barriers to achieving diversity at the highest levels can be “systematic, subtle and deeply engrained.”<sup>63</sup>

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<sup>59</sup> Ibid, p.79.

<sup>60</sup> Ibid, p.82.

<sup>61</sup> Jayne and Dipboye, “Leveraging Diversity to Improve Business Performance,” pp. 414-415.

<sup>62</sup> Orlando and Brown, “Understanding the Impact of Human Resource Diversity Practices on Firm Performance.”

<sup>63</sup> Jayne and Dipboye, “Leveraging Diversity to Improve Business Performance,” pp. 415-416; and Conference Board Inc., Diversity, pp. 12-13; and Baklid, et. al, *An Employer’s Guide*, pp. 18-21.

### Ongoing Measurement of Results

To be valued by the senior management and the organization as a whole, the impact of diverse leadership on performance should be measured. This will achieve three desirable results: it will reinforce the business case for diverse leadership, assist in the communication of its value, and identify areas for further improvement.<sup>64</sup>

### Integrate Opportunities for Learning, Development, and Advancement at All Levels

Opportunities for learning, development and advancement must be broad-based and fully integrated at all levels to ensure that individuals from diverse backgrounds have the opportunity to achieve leadership positions. This will reduce concerns over procedures and fairness. More importantly, it will go a long ways towards integrating a culture of learning and development at the centre of an organization's daily practice—an essential factor in maximizing the value of diverse leadership and creating the conditions that allow persons from diverse backgrounds to achieve leadership positions. These measures will also contribute to building one of an organization's most valuable assets: its intellectual capital.<sup>65</sup>

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<sup>64</sup> Ibid., pp. 414, 417, and 419-421; and Baklid, et. al, *An Employer's Guide*, pp 14-16.

<sup>65</sup> Kochan, et. al., "The Effects of Diversity on Business Performance."

## Conclusion

**A**lthough Canada prides itself on being a diverse multi-cultural society, there remains a serious lack of inclusiveness at the top of its public, private, and non-profit organizations. Our failure to bring people from diverse backgrounds into leadership positions is costing the country in missed opportunities in global markets, investment, and innovation, as well as in unemployment and underemployment due to underutilized skills among visible minorities, immigrants, and other groups.

How can these circumstances be changed? Bill Hatanaka, Executive Vice-President of Wealth Management at TD Bank Financial Group, says that “we must create the pathways that will enhance the opportunity for the current and this next generation of leaders to ascend to key positions based on merit and ability, not colour of skin or ethnicity. To do this we need to create a level and transparent playing field for all aspiring executives.” Hatanaka explains that, for the corporate world, a level playing field is “meritocracy, where the rules of the game are transparent, where the game is available to all willing and capable participants, and where best in class results are rewarded through advancement up to the next level.” But getting to that point, he notes, calls for two things: “applying a strong and active focus to the opportunity and removing the formal and informal obstacles that get in the way.”

There is some cause for optimism. This report shows some organizations are already engaged in increasing diversity at the senior and executive levels, and have begun to reap the benefits. If their efforts to increase leadership diversity inspire others and become more widely embraced Canada would take an important step towards securing its future competitiveness, sustainability and quality of life.

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