

THE B TEAM



DIVERSITY: BRINGING THE BUSINESS CASE TO LIFE

JANUARY 2015

Value diversity: cultivate and celebrate diversity at all levels of business, while ensuring equality of opportunity for all employees.

Join us.

“Diversity fosters creativity. We need to generate the best ideas from our people in all levels of the company and incorporate them into our business practices.” ¹

FRÉDÉRIC ROZÉ
CHIEF EXECUTIVE OFFICER
L'ORÉAL USA

“There is no question that seeking out diversity of thought, background, experience and perspective, coupled with having an inclusive environment where those differences are seen as assets, helps give us a competitive advantage.” ²

MARK KING
BUSINESS PARTNER
OFFICE OF DIVERSITY AND INCLUSION
THE KELLOGG COMPANY

BREAKING IT DOWN

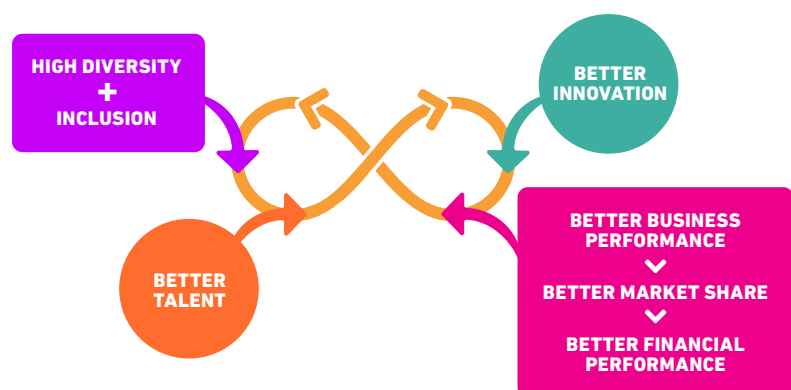
There is a significant body of research that proves the business case for diversity (broadly defined) and inclusion in the workplace is irrefutable.

We have compiled the 'best bits' from the reports and studies, and summarised their findings to show you how diversity and inclusion could strengthen and grow the competitiveness of your business.

There are five key benefits that make up the business case for diversity and inclusion:

- 1 Better financial performance
- 2 Better business performance and reputation
- 3 Better customer connections and market share
- 4 Better innovation and group performance
- 5 Better and broader talent

Over the next few pages, we will explain each of these areas in more detail to demonstrate that diversity is an opportunity, not a problem to solve. We also plan to evidence that diversity has the potential to transform your business, helping you innovate, expand and increase profit.



Commitment to diversity results in a positive feedback loop that attracts better talent, leads to more innovation and improves business performance.

1. BETTER FINANCIAL PERFORMANCE

It is no coincidence that businesses which have the most diverse teams have better financial performance. Much of the research to date has focused on gender diversity, particularly at board level, which has a clear positive impact on financial performance. In this section, we will explore the reasons for this in greater detail and help you consider how your business can benefit.

WHY DIVERSE BOARDS MATTER

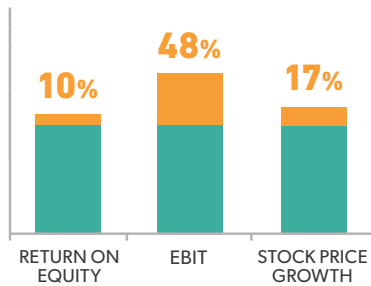
There is a compelling array of statistics that illustrate the business benefits, particularly the financial benefits, of diversity within boards and senior leadership. Between 2008 and 2010, [McKinsey & Company](#) reviewed the performance of 180 public traded companies in France, Germany, the UK and US with more diverse executive teams to see if they outperformed their less diverse peers.³

The report clearly showed that diversity makes a difference:

“The findings were startlingly consistent: for companies ranking in the top quartile of executive-board diversity, Returns On Equity (ROE) were 53% higher, on average, than those in the bottom quartile.”⁴

Before this, researchers at [Pepperdine University](#) in the US uncovered over the course of five research pieces (2001 – 2007) that organisations that made it on to [Fortune](#)’s ‘100 Most Desirable MBA Employers’ list for women outperformed the industry medians when it came to numerous financial measures. These included profits as a percentage of revenue, assets and equity, which were 55, 50 and 59% higher, than the median, respectively.⁵

[Forbes](#) reached a similar conclusion. They examined the stock performance of the 26 publicly traded companies on its ‘2010 Power Women 100’ list that are headed by women and found that, on average, these companies outperformed their industries by 15% and the overall market by 28%.



Companies with the highest proportions of women in senior leadership positions outperformed industry averages for the Stoxx Europe 600.

The statistics in favour of diversity on boards continue to mount. Another report by [McKinsey & Company](#) on gender diversity and corporate performance found that the 89 European-listed companies which had the highest proportions of women in senior leadership positions and at least two women on their boards outperformed industry averages for the Stoxx Europe 600. ⁶ They enjoyed 10% higher return on equity, 48% higher EBIT (operating result), and a greater stock price growth of 17 percentage points. ⁷

Further adding to the business case for diversity, research carried out in September 2014 by the [Credit Suisse Research Institute](#), of more than 3,000 companies across 40 sectors, showed that “companies with more than one woman on the board have returned a compound 3.7% [stock market return] a year over those that have none, since 2005”. ⁸

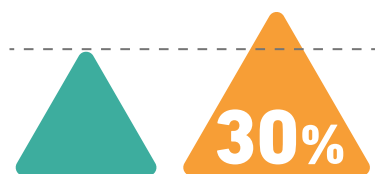


THREE IS THE MAGIC NUMBER

Over the last decade, studies of business performance across Europe, North America, and some parts of Asia, have shown time and time again that gender-diverse boards have a distinctly positive impact on financial performance.

[Catalyst](#)'s 2011 study ⁹, which compared Fortune 500 ¹⁰ companies, found this to be especially true when there are three or more women on the board, along with higher than average numbers of women in leadership and senior management roles. A separate study by Catalyst showed:

“Companies with the most women board directors outperformed those with the least return on sales (ROS) by 16% and return on invested capital (ROIC) by 26%.” ¹¹



Boards need a critical mass of about 30% women to outperform (as measured by ROE) all-male boards.

[Social Sciences Research Network](#)'s 2012 paper ¹², which reviewed more than 150 German firms over five years, supports Catalyst's findings. It adds that boards need to be made up of 30% women to outperform (as measured by ROE) all-male boards. Based on average board size, this translates into about three women – suggesting that three really is the magic number.

Adding weight to this, the 2007 report from [McKinsey & Company](#) measured the “organisational excellence” of companies in North America, Europe and Asia, based on nine criteria. ¹³ They found that senior management teams with three or more women had higher scores on average than teams with no women. Moreover, McKinsey learnt that the score rose significantly when teams were made up of approximately one-third women. ¹⁴

The reason for better financial performance resulting from gender-diverse boards is thought, by the [Credit Suisse Research Institute](#) ¹⁵, to be a combination of: ‘better’ companies hiring more women; women choosing to work for more successful companies; and women themselves helping to improve companies’ performance.

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- *Improving Financial Performance - Why Diversity Matters*, Catalyst, (July 2013).
- *The CS Gender 3000: Women in Senior Management*, Credit Suisse Research Institute, (September 2014).

2. BETTER BUSINESS PERFORMANCE & REPUTATION

When it comes to business performance and reputation, diversity leads to better outcomes – but an inclusive culture is also crucial. As well as explaining this in more depth, the following section will show you how diversity can specifically improve the reputation of your business.

INCLUSION IS THE SOLUTION

When a diverse workforce is valued through an inclusive workplace culture, the business benefits pile up quickly. This idea is supported by a 2012 survey by [Deloitte](#) of 1,550 employees in three major Australian businesses that clearly showed the impact of workforce diversity on organisational performance.¹⁶ The report said:



Combining high diversity with high inclusion maximizes business outcomes.

“When Deloitte modelled the relationship between diversity and inclusion and business performance, we identified an ‘uplift’ of 80% when both conditions were high... when there is high diversity and low inclusion, or low diversity and high inclusion, the business outcomes are never as impressive as the high diversity and high inclusion combination.”¹⁷



‘WHERE’ IS AS IMPORTANT AS ‘WHO’

Some research also shows that diversity of nationality has a profound effect on business performance. For instance, a study of 146 Swiss firms across 32 industries found that management teams with a range of nationalities perform better.¹⁸

This is thought to be because teams of managers that include people who have spent their formative years in different countries are better at solving complex tasks. These groups of nationally diverse people also outperform homogenous groups in offering alternatives and perspectives.

This helps improve strategic decision-making and influences firm performance. To add to this, researchers found the effect was even stronger in teams that had worked together longer and in “highly internationalized firms”.¹⁹

“We couldn’t have gone through all of the mergers and acquisitions and continue to be successful without having a diverse workforce. It’s important to our business strategy and it makes us more innovative and competitive.”

DEBBIE STOREY
SENIOR VICE PRESIDENT OF TALENT DEVELOPMENT
& CHIEF DIVERSITY OFFICER, AT&T

Better business performance is also achieved when teams include skilled migrants, according to research. An analysis of 20 European countries found that skilled migrants had a positive impact on knowledge formation, measured by published article citations and patent applications.²⁰ This type of diversity also had a positive effect on the productivity of native workers, as new ideas are likely generated by diverse approaches to problem solving.²¹



THE POWER OF ONE

Businesses should not underestimate the power that diversity has when it comes to building and protecting reputation. A 2013 report by [Catalyst](#) titled ‘Why Diversity Matters’ showed that the presence of at least one woman on a board was associated with a significantly lower likelihood of financial restatement - which can negatively impact corporate reputations.²² The report states:

“More than 73% of the boards that had restatements had no women.”²³

Researchers believe this to be because even just one female board member contributes to better independence of the board, improved monitoring, and better decision-making.

Diversity can also help protect reputation by leading to less instances of fraud. Researchers compared firms in China that had no fraud with firms with those that had regulation violations over a ten-year period.²⁴

They found that firms with higher proportions of women board directors and those led by women chairs were less likely commit fraud or violate security regulations. The list of violations included: illegal share buybacks, inflated profits, assets fabrication, shareholder embezzlement, and price manipulation – all with the potential to be hugely damaging to both business performance and reputation.²⁵

CHANGING PERCEPTIONS

A firm's reputation is all about the way it is perceived by others – and a study by [Catalyst](#) and [Harvard Business School](#) found diversity can strongly influence perception. Researchers discovered that gender-inclusive leadership was linked with notably higher levels of corporate philanthropy, which in turn has a positive impact on reputation.

It was also found that businesses with women leaders were likely to put in place higher quality social and environmental initiatives– which play a key role in building reputation.

“When it comes to corporate sustainability, stakeholders should look to a new benchmark to help judge the long-term health of a company: the presence of gender-inclusive leadership, both on the board and in executive leadership teams.”

CATALYST



Another study carried out by [Roger Williams University](#) in the US found that companies that were viewed as ‘ethical or good corporate citizens’ were more likely to have more women board directors than companies without those reputations – showing a clear link between diversity and positive perceptions. ²⁶

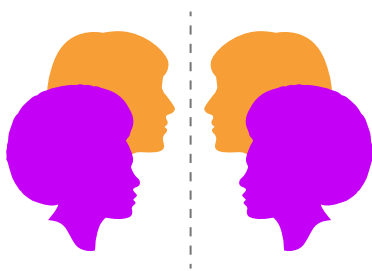
Finally, research by the European Commission showed 69% of companies with active diversity policies noted enhanced corporate reputation was a key benefit gained. ²⁷

WHAT TO READ NEXT

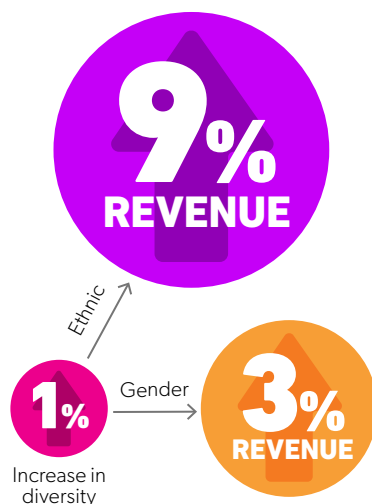
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- *Reflecting the Marketplace and Building Reputation - Why Diversity Matters*, Catalyst, (July 2013).

3. BETTER CUSTOMER CONNECTIONS & MARKET SHARE

This section covers how businesses with workforces that mirror their markets are more likely to understand consumer needs and build better relationships with customers – delivering long-term value. While those without diverse employees are less likely to benefit from the increased spending power of minority markets.



At JC Penney, reflecting the ethnic makeup of the broader community in employees was found to have positive effects on productivity and earnings.



MIRRORING MARKETS TO BOOST RESULTS

For a long time, business leaders have recognised that an inherently diverse workforce enjoys a competitive edge, in terms of selling products or services to diverse audiences – and the statistics back this up.²⁸

An analysis of more than 700 [JC Penney](#) stores in the US found that having employees mirror the race and ethnic makeup of their communities positively affected productivity, customer satisfaction and earnings, increasing productivity by an impressive \$69 million.²⁹

The authors of a [Deloitte Review](#) article entitled ‘Diversity as an Engine of Innovation’ note that:

“Where workforce diversity is aligned with demographics, those employees are playing an increasingly important role in helping their customers connect with a diverse customer base.”³⁰

Lending weight to this idea, an [American Sociological Review](#) study of over 1,000 organisations, published in 2009, found that a racially and gender diverse workforce was positively associated with more customers, increased sales revenue, greater relative profits, and greater market share.³¹

More specifically, the study claimed that for every 1% rise in the rate of gender diversity and ethnic diversity in a workforce, there is a 3% and 9% rise respectively in sales revenue.

So the connection between diversity and improved customer connections is clear – but what is the reason for this? Research by the [Centre for Talent Innovation](#) in 2013 explains that:

“An inherently diverse workforce can be a potent source of innovation, as diverse individuals are better attuned to the unmet needs of consumers or clients like themselves [...] Their insight is critical to identifying and addressing new market opportunities.” ³²



The same report goes on to explain that where teams have one or more members who represent the gender, ethnicity, culture, generation or sexual orientation of target customers, the entire team was 158% more likely to understand the customer and thereby increase the likelihood of innovating effectively.

INCREASING INNOVATION

Market growth and innovation go hand-in-hand with diversity. According to a study in 2013 by the [Centre for Talent Innovation](#), there is a strong correlation between ‘highly innovative, diverse companies’ and market growth:

“Employees at publically traded companies with [leadership] diversity are 70% more likely than employees at non-diverse publically traded companies to report that their firm captured a new market in the past 12 months, and 45% more likely to report that their firm improved the market share in that same timeframe.” ³³

TAPPING INTO DIVERSE MARKETS

According to [Deloitte’s Global Human Capital Trends 2014](#), the industries that could particularly benefit from a diverse workforce that matches its diverse customer base include retail, hospitality, food service, oil and gas, insurance, and even banking.

The report states that having diverse employees is the best way to understand and respond to diverse customer needs. It claims:

“[Failing to do] this is one of the most significant gaps in the diversity story, with the breadth of ideas and experiences from a more diverse front line falling by the wayside as decisions are made by more distant, homogenous teams that sometimes fail to fully include diverse perspectives.” ³⁴

Other studies, also carried out by [Deloitte](#), go on to highlight that ‘matching the market’ with diverse employees leads to customer loyalty. ³⁵ There is also a knock on effect as the employee base gets strengthened by the better recruitment process that is required for building better customer connections, which then helps grow a business’ market share.

This is particularly worth noting when you consider that, according to the research from Deloitte:

“For nearly two decades, growth in buying power of minority communities [in the US] has greatly outpaced that of white consumers.” ³⁶



Growth in minority buying power has outpaced white consumers.

There are two key areas where it has been found that minority market opportunities are not being realised. One is US Hispanic, Asian and Native American populations, where African Americans are seeing the greatest gains in disposable income. The other is LGBT populations, where purchasing characteristics indicate that a high percentage of gay consumers are university-educated, shop online and purchase the latest technology.

As the various studies have shown, a diverse workforce will be better able to succeed in targeting these markets – offering businesses in the right sectors the opportunity to build a new customer base and increase market share.

It is also important for businesses to consider that markets are changing and they need to be ready to respond.

“In Europe, [women] are the driving force behind more than 70% of household purchases, although they only account for 51% of the population.” ³⁷

Companies will need to continue to integrate women into their decision-making processes as their significant influence on shared purchasing decision continues. There are other growing markets that have also been overlooked, including services and goods for individuals with disabilities and the over 60s retail market. One thing is clear: for businesses with the right approach, there is huge potential.

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- *Does Diversity Pay?: Race, Gender, and the Business Case for Diversity*, Cedric Herring, (American Sociological Review, April 2009).
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4. BETTER INNOVATION & GROUP PERFORMANCE

Businesses that embrace diversity have been shown to be measurably more innovative than companies that don't. This is because a diverse range of voices results in more interesting new ideas, services and products. It also encourages free-flowing thinking and better solutions when problems arise. This section explores these ideas in more detail.

INNOVATION: WHY IT MATTERS

Innovation doesn't have to be ground-breaking or world-changing. It does not only happen at creative, scientific or technology-based companies, either. Innovation should be part of every business. It means doing something new, different, smarter or better to improve things, whether it is achieving greater productivity or performance, increased profits or efficiency, or offering better products and services.



There's a strong consensus that diversity fuels innovation. A report by [Forbes Insights](#) in 2011 revealed that among companies with more than \$10 billion in annual revenue, 56% strongly agreed that diversity helps innovation.³⁸

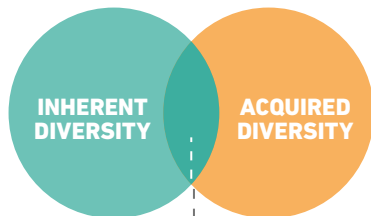
Building on this, the [Centre for Talent Innovation](#) have shown that it is 'serial' innovation that is driving and sustaining the growth of companies, regardless of sector, competitive strengths and market growth. In a 2013 study by CTI, it is commented:

"What drives serial innovation? A diverse workforce that's managed by leaders who cherish difference, embrace disruption, and foster a speak up culture... By encouraging a proliferation of perspectives, leaders [...] enable companies to realise greater efficiencies and trim costs – another way that innovation drives bottom-line value."³⁹

This strongly indicates that it is only companies with diverse workforces that are innovating repeatedly and continuously – and they are the ones doing exactly what is needed to achieve sustained growth in a fiercely competitive and increasingly complex global economy.

TWO-DIMENSIONAL DIVERSITY

The research from the [Centre for Talent Innovation](#) goes on to unveil the secret of achieving serial innovation: ‘two-dimensional diversity’ in leadership or ‘2D Leadership’.



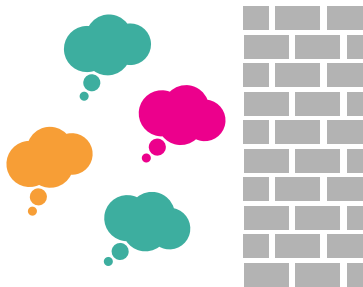
2D diversity is the key to serial innovation.

This describes leaders who have inherent or core diversity – in other words, they have traits they were born with such as gender, race and religious background – alongside acquired diversity – traits gained from experience such as cultural fluency, social media skills and language skills.

The study reveals that 2D diversity drives a repeated production of new ideas and solutions:

“By correlating diversity in leadership with market outcomes [...] we learned that companies with 2D diversity out-innovate and out-perform others. 2D diversity unlocks innovation by creating an environment where 'outside the box' ideas are heard.” ⁴⁰

SYLVIA ANN HEWLETT
FOUNDER & CEO, CENTRE FOR TALENT INNOVATION



Leaders who don't value ideas from diverse sources risk stifling innovation.

Undoubtedly, homogeneity of thought, especially at senior and leadership level, is one of the most significant obstacles to innovation. Diversity that is endorsed by decision makers at every level will consistently yield idea generation, grow imaginative capacity and resourcefulness (both individual and collective) and, ultimately, increase the ability to see new concepts through to market – the very heart of innovation.

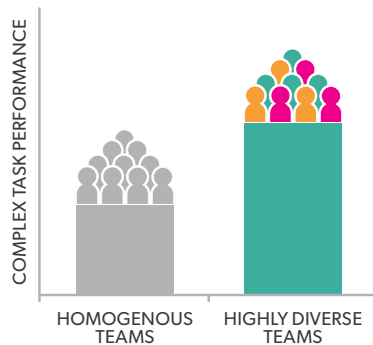
“Ideas from women, people of colour, LGBTQs, and Gen-Ys are less likely to win the endorsement they need to go forward because 56% of leaders don't value ideas they don't personally see a need for.” ⁴¹

It is clear that in order for innovation to flourish, diversity must be openly valued and nurtured.

HOW TEAM DIVERSITY BOOSTS PERFORMANCE

In his book, *The Difference*, Scott Page shows where, how and why diversity leads to better outcomes - and makes a convincing case for why diversity trumps like-mindedness in group situations. He writes:

“Diverse people work the same way. Yes, they can handle any contingency owing to their differences, but they can also combine their differences to create even better solutions.” ⁴²



Similarly, researchers measured the diversity characteristics of 28 teams at a company in Germany and found that highly-diverse teams performed better on highly-complex tasks than homogenous teams. ⁴³

The authors posit that this result was related to the diverse teams' wider range of thinking processes and increased creativity. ⁴⁴ Moreover, researchers Horwitz and Horwitz reviewed 20 years of research on team diversity in 2007 and identified a positive relationship between diversity and team performance. ⁴⁵

As David Feitler puts it:

“Groupthink may lead to a cohesive team, but one that will happily agree on the same costly mistake.” ⁴⁶

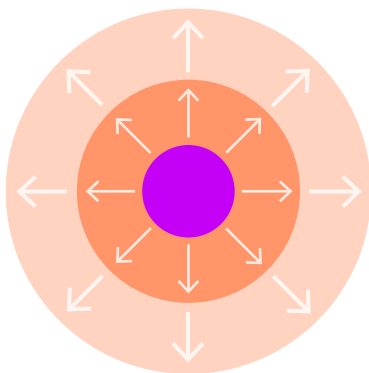
For optimum performance, it is crucial that business leaders consider ways to improve the diversity of their teams.

WHAT TO READ NEXT

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- *Global Diversity and Inclusion: Fostering Innovation Through A Diverse Workforce*, Forbes, (July 2011).
- *Increasing Innovation & Group Performance - Why Diversity Matters*, Catalyst, (July 2013).
- *Innovation, Diversity & Market Growth*, Centre For Talent Innovation, (2013).

5. BETTER & BROADER TALENT

This report has already shown how diverse talent is a critical resource for businesses wanting to be successful in a highly competitive global market. In this final section, this document builds on that and looks at why hiring for diversity, with specific business objectives in mind, and nurturing diversity in leadership is key. This part of the report also covers why creating a culture of inclusion is essential in attracting and retaining top diverse talent.



Staying competitive requires casting nets beyond traditional talent pools for leadership.

THE CHANGING CHANNELS OF RECRUITMENT

It is hardly news that 'talent' is critical to a business' competitiveness. However, in the context of the current evolving marketplace, broadening traditional recruitment channels to include greater diversity of individuals is predicted to make the difference between thriving, getting by and failing.

It will be the businesses that reassess what 'top talent' means and take an honest look the gap between what they've been recruiting for and what they actually need that will stand the best chance of success in the future.

As the authors of a 2012 report called ["Is there a payoff for top-team diversity?"](#) put it:

"Relentless competition for the best should reward organisations that cast their nets beyond traditional talent pools for leadership." ⁴⁷

FINDING TOP TALENT: IT STARTS WITH YOU

If you want to recruit the best talent, research shows you need to have an organisation that appeals to a diverse range of people. External perceptions of how well your company embraces peoples' individuality are key.

To be certain of success, diversity strategies need to evaluate honestly and to discover where pressure to conform may be hindering a culture of inclusion.

As the 2011 [Forbes Insights'](#) study explained, those "winning the fight for global talent" are designing their diversity and inclusion policies as

recruiting and retention tools, “helping to broaden the pool of talent a company can recruit from, while also helping to build an employment brand that is seen as fully inclusive”.⁴⁸

“If you want to attract the best talent, you need to be reflective of the talent in the market.”⁴⁹

EILEEN TAYLOR
GLOBAL HEAD OF DIVERSITY, DEUTSCHE BANK

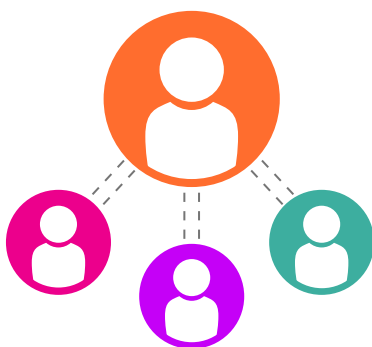
PUTTING THE PIECES TOGETHER

Hiring practices as a whole need to be reimagined. There are already companies who are getting ahead of the game by using a variety of approaches to engage the kinds of diverse people they hope to bring on board.

While this is certainly a step in the right direction, businesses also need to consider teams as a whole. As an article on [Harvard Business Review](#)’s blog put it, “we know intuitively that innovation goals are well served by cross-functional “SWAT” teams that are diverse in their membership”.⁵⁰

Scott Page adds weight to this argument when he writes:

“In hiring people... the belief that the best group consists of the best individual people rests on faulty logic. Instead, the best collections of people are both diverse and capable.”⁵¹



Managers who demonstrate a strong commitment to diversity create a climate of more engaged employees.

HOW TO HOLD ON TO GOOD PEOPLE

Employee satisfaction and engagement hinges partially on how well diverse people are treated within the company. Research has shown that a better ‘diversity climate’ will lead to a lower intent to leave and consequently reduced staff turnover, as well as measurable improvements in the performance of diverse teams.⁵²

Additionally, a global survey by the [Corporate Leadership Council](#) of more than 50,000 employees at 59 organisations found it was the managers who showed a strong commitment to diversity that most effectively engaged with employees.⁵³

“Those employees who are most committed perform 20% better and are 87% less likely to leave the organization — indicating the significance of engagement to organizational performance.”⁵⁴

Meanwhile, in an insightful report on 'otherness', [Catalyst](#) has explored the negative impact of employees feeling like an outcast on the performance of both individuals and the business as a whole.⁵⁵

Effective managers who are committed to diversity play a key role in nurturing and retaining top talent, as do leaders who have the leverage to create a company-wide culture of inclusion.

It is vital to remember that:

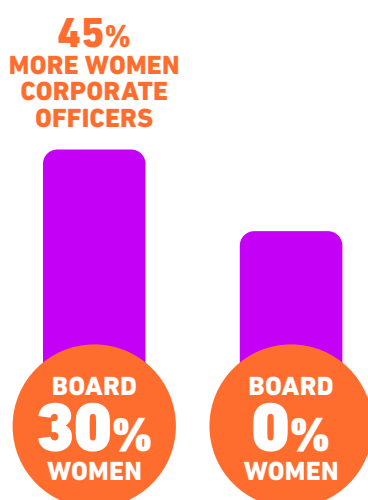
"One reason people leave organizations is that they feel they no longer 'belong'. Or perhaps they feel they will 'belong' and thrive in another organization that appreciates their unique value. A company that fails to create a diverse and inclusive workplace risks alienating or excluding key employees, who are then more likely to disengage or eventually leave the organization."⁵⁶

THE IMPORTANCE OF ROLE MODELS

Senior leaders set the tone for their organisational culture and role models at all levels of an organisation can make a difference.

"You have to be intentional and make sure that you populate your organisation with leaders who represent diversity. That creates an environment that allows those with a diverse background to say, 'if they can, I can.'"⁵⁷

JAMES ROGERS
CHAIRMAN, DUKE ENERGY



Companies with women board directors go on to have more woman corporate officers than those without.

The importance of role models was demonstrated by a 2008 study by [Catalyst](#) which found that companies with 30% women board directors in 2001 had, on average, 45% more women corporate officers by 2006 than companies with no women board directors.⁵⁸

This shows that appointing more diverse individuals into positions of leadership is a way of sewing the seeds of diversity across the rest of the organisation in the future.

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NOTES

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- 3 To score a company's diversity, McKinsey & Company focused on two groups that can be measured objectively from company data: women and foreign nationals on executive teams (the latter used as a proxy for cultural diversity).
- 4 Thomas Barta, Markus Kleiner, and Tilo Neumann, [Is there a payoff for top-team diversity?](#), *McKinsey Quarterly*, (April 2012).
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- 9 Nancy Carter and Harvey Wagner, [The Bottom Line: Corporate Performance and Women's Representation on Boards 2004-2008](#), (Catalyst, 2011).
- 10 Fortune 500 is the ranking of the top 500 US incorporated companies.
- 11 Catalyst, "Improving Financial Performance", [Why Diversity Matters](#), (July 2013).
- 12 Jasmin Joecks, Kerstin Pull, and Karin Vetter, [Gender Diversity in the Boardroom and Firm Performance: What Exactly Constitutes a 'Critical Mass'?](#), *Social Sciences Research Network, Working Paper Series* (February 22, 2012).
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The B Team is a not-for-profit initiative formed by a global group of business leaders to catalyze a better way of doing business, for the wellbeing of people and the planet.

Founded in the belief that the private sector can, and must, redefine both its responsibilities and its own terms of success; The B Team is developing a 'Plan B' - for concerted, positive action that will ensure business becomes a driving force for social, environmental and economic benefit.

Plan A - where business has been motivated by profit alone - is no longer an option.

The B Team is focused on driving action to meet a set of global business Challenges that underpin Plan B – by starting 'at home' in their own companies, taking collective action to scale solutions and using their voice where they can make a difference.

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