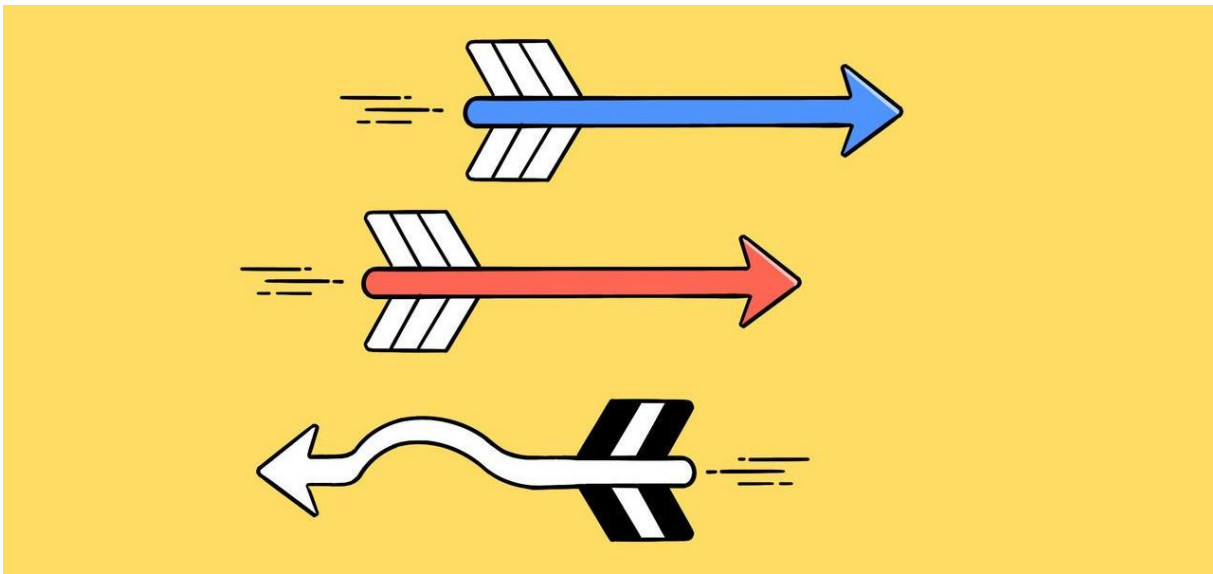


How to cut through the cacophony over DEI

Outrage on right and left obscures both the costs of DEI and the benefits of diversity



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What, if anything, should firms do to improve the diversity of their workforce? After the murder of George Floyd in 2020, many bosses felt compelled to act. Partly out of fear of being called out for prejudice, corporate America rushed to embrace diversity, equity and inclusion (dei) schemes. By 2022 three-quarters of the s&p 500 had a chief diversity officer; more than two-fifths of listed firms set targets to increase the racial diversity of their workforce. Now many think the pendulum has swung too far.

The resignation of Claudine Gay, a black woman, as president of Harvard University has ignited a broader debate about merit and identity. Bill Ackman and Elon Musk, two billionaires, have excoriated dei for itself being discriminatory. After the Supreme Court's landmark decision to end affirmative action in university admissions last summer, many activists and politicians increasingly have corporate dei schemes in their sights.

As America's culture wars rage on, bosses are being caught in the middle. Progressives argue that dei enables companies to do their bit to tackle America's entrenched inequalities. Conservatives see it as an attack on meritocracy. One side ignores the costs of many dei schemes, the other ignores the real benefits of diversity. How should businesses cut through the noise?

The critics are right that the thinking on DEI is muddy, and that many DEI initiatives are ineffective, even harmful. In 2015 McKinsey, a consultancy, identified a positive correlation between the gender and ethnic diversity of the workforce and firms' profitability. Although academics have since criticised its methodology, the findings were breathlessly cited by bosses and corporate advisers, and the link was treated as causal and cast-iron. For example, from 2023 Nasdaq required firms listed on its stock exchange to have at least one board member who was not a straight white man—or explain why they do not. It was left to Jesse Fried, a professor at Harvard Law School, to point out that Nasdaq was ignoring scholarship which finds that board diversity can have a negative impact on performance.

Diversity schemes often fail. Sometimes this betrays bad faith: firms with a discrepancy between their words and actions are often accused of “diversity washing”. Some schemes are well-meant but ineffective. Research by Frank Dobbin and Alexandra Kalev showed that diversity training programmes fail to reduce bias. In the worst instances, DEI initiatives backfire. Targets can be seen as quotas, which undermine the principle of fair competition and cast a shadow over minorities who do well under them. Other research shows that adding equal-employment statements to job advertisements can put minority candidates off applying. No wonder support for votes on social issues at annual general meetings is draining away.

The case for diversity does not need dressing up in pseudoscience. The simple reason for businesses and their shareholders to care about recruiting people from a broad range of backgrounds is that they want the most able people. Mr Musk and Mr Ackman are both successful businessmen: they too want to assemble the best possible teams.

Diversity should be a spur to looking far and wide for talent, no matter someone's gender, race or sexual orientation. A firm convinced that it is overlooking the best candidates from a particular demographic cohort, for example, could choose to lengthen its shortlists to include more from that group. That will not mechanically create workforces that mirror the population, but it can maximise talent and diversity of thought. Quotas, by contrast, have the perverse effect of narrowing the search by excluding talent. As with so many areas touched by the culture wars, the row over DEI has become muddle-headed. The clear, simple argument for diversity is being drowned out. ■

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