

Disregard Diversity at Your Financial Peril: Diversity as a Financial Competitive Advantage

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Supposedly the business case for diversity is weak. It's mainly "wishful thinking." That was the conclusion reached by the Institute for Inclusion in the Legal Profession in its 2011 report, "The Business Case for Diversity: Reality or Wishful Thinking?" While the report considered many factors, it failed to look at the profitability of diversity directly. When diverse and non-diverse firms are compared in terms of revenue, profits, and customer figures, the business case for diversity is overwhelming.

Having Women at the Top Pays

Companies with three or more women on the board outperform their less diverse counterparts. A 2011 research report in *Catalyst, Inc.* by Nancy M. Carter and Harvey M. Wagner entitled "The Bottom Line: Corporate Performance and Women's Representation on Boards (2004-2008)," found those companies outperform companies with all-male boards by 60 percent in return on invested capital, 84 percent in return on sales, and 60 percent in return on equity.

For Fortune 500 companies, companies with the most women on their boards outperformed those with the least by 66 percent in return on invested capital, 42 percent in return on sales and 53 percent in return on equity.

Racial Diversity Also Pays

Likewise, companies with greater racial diversity at the top outperform their more homogeneous counterparts. According to research cited in a 2009 article, "Does Diversity Pay?: Race, Gender, and the Business Case for Diversity" by Cedric Herring in the *American Sociological Review*, on average, the most racially diverse companies bring in nearly 15 times greater revenues than the least racially diverse.

Racial diversity, Herring found, is a better determinant of sales revenue and customer numbers than company size, age, or number of employees at a worksite.

Diversity is Highly Profitable for Law Firms

The benefits corporate America reaps from diversity apply to law firms. Douglas E. Brayley and Eric S. Nguyen, authors of "Good Business: A Market-Based Argument for Law Firm Diversity" in *The Journal of the Legal Profession* in 2009, studied the data from the 200 highest-grossing firms (the Am Law 200). Highly diverse law firms report, on average, much higher profits per partner and revenue per lawyer than the rest of the Am Law 200 firms.

Even controlling for hours, location and firm size, the authors found that "differences in diversity are significantly correlated with differences in financial performance." In fact, according to the study, "a firm ranked in the top quarter in the diversity rankings will generate more than \$100,000 of additional profit per partner than a peer firm of the same size in the same city, with the same hours and leverage but a diversity ranking in the bottom quarter of firms."

Diversity Means Profit

Why diversity is so successful is open question. Most likely, it is diversity's ability to combat groupthink – the tendency of homogenous groups to approach problems from the same angle. What is known is that businesses that ignore the profitability of diversity do so at their financial peril.

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