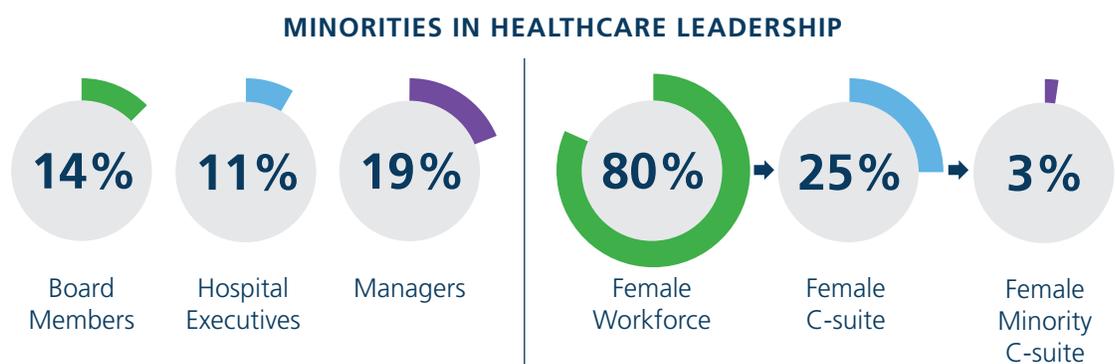


Exploring the Benefits of Leadership Diversity

Despite progress, there remains room for considerable improvement in regards to leadership diversity in healthcare. B.E. Smith monitors this complex topic as part of its interim and executive recruitment services. This B.E. Smith industry report provides a current update with particular focus on the benefits organizations can attain and leverage by successfully building diverse leadership.

Leadership Diversity: Where Healthcare Stands

Several healthcare industry organizations periodically conduct surveys quantifying ethnic, racial, and other categories of diversity in leadership. A 2015 survey by American Hospital Association’s Institute for Diversity in Healthcare Management found that while minorities represented 32% of patients in hospitals, they comprised only 14% of hospital board members, 11% of executive leadership, and 19% of mid-level and first-level managers.¹ On gender, despite a healthcare workforce that is 80% female, women occupy approximately 25% of hospital CEO positions. That’s roughly in line with other industries where 20% of C-suite executives are female—and “just 3% of C-suite roles are held by Asian, African American, Latina, or other women of color.”²



¹ “Diversity and Disparities: A Benchmarking Study of U.S. Hospitals in 2015,” *Institute for Diversity and Health Equity*, 2016, <http://www.diversityconnection.org>

² D. Barton and L Yee, “How Companies Can Guard Against Gender Fatigue,” *McKinsey & Company*, February 2018.

The Complexity of Diversity

What makes diversity especially challenging is its complexity. Leaders must address inclusion on multiple levels as shown in Figure 1:

- Racial and Ethnic
- Gender
- Generational
- Experiential (background)
- Cognitive (thought)

The Benefits of a Diverse Leadership and Workforce

How far should hospitals take the effort to attain substantial diversity goals? It is a fair question given myriad pressures buffeting organizations in a rapidly transforming industry. Strong justification emerges from understanding two categories of benefits: financial and clinical.

Financial Benefits

ROI is important for all initiatives. Unfortunately, there is a paucity of healthcare-specific studies aimed at quantifying diversity's economic value. However, several good cross-industry analyses offer illumination and imply promise for healthcare. B.E. Smith has reviewed these and summarizes key findings to help inform decision-making.

Gender Diversity Improves Profitability

The Peterson Institute assessed an array of studies on global businesses to answer the question, "Is Gender Diversity Profitable?" They found mixed evidence in areas such as board representation, but "the presence of female executives is associated with unusually strong firm performance." Moreover, "the correlation between women at the C-suite level and firm profitability is demonstrated repeatedly, and the magnitude of the effects is not small ... a profitable firm at which 30% of leaders are women could expect to add more than one percentage point to its net margin."³ Given today's narrow hospital margins, an improvement of this magnitude is meaningful. Another study of 11,000 public companies showed that those with a female CEO or head of the board had "a 25% annualized return since 2009, more than double the 11% delivered by the MSCI World Index."⁴

Inclusion and Diversity Produce Competitive Advantage

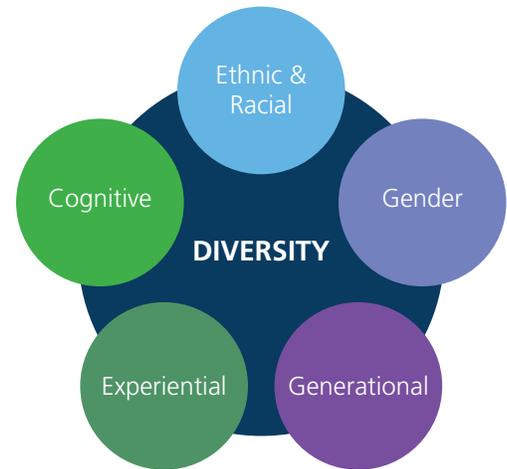
Asserting that "successful companies regard inclusion and diversity as a source of competitive advantage," McKinsey evaluated the business case using data from over 1,000 companies. The results were powerful. Top-quartile firms for gender diversity were "27% more likely to have superior value creation."⁵ Beyond gender, "companies in the top-quartile for ethnic/cultural diversity on executive teams were 33% more likely to have industry-leading profitability." McKinsey resoundingly suggests that "inclusion of highly diverse individuals ... can be a key differentiator."

³ M. Noland, T. Morn, and B. Kotschwar, "Is Gender Diversity Profitable? Evidence from a Global Survey," Peterson Institute for International Economics, February 2016.

⁴ Nordea Bank, "Investing in Female CEOs Pays Off," press release, September 8, 2017.

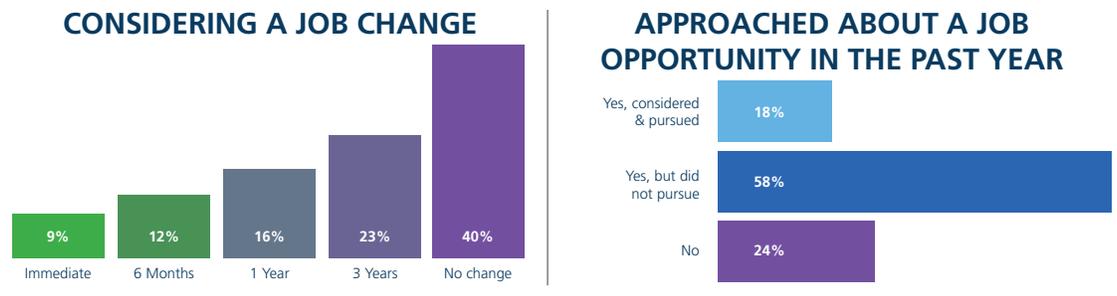
FIGURE 1

COMPLEXITY OF DIVERSITY IN HEALTHCARE



Pay Equity in Diverse Workforce Promotes Productivity and Retention

A Gartner CEB study tackled the concern that increased workforce diversity creates more employees “affected by potential pay inequities.” The results showed that perceive pay gaps can lead to a 16% decrease in intent to remain at the organization.⁶ Turnover can be costly for hospitals, so anything that contributes to it has a financial impact. The B.E. Smith Leadership Intelligence Report found that 40% of respondents are considering a job change in 2018, and 75% were approached about a new position in 2017. Thus, pay equity should be monitored. On the other hand, employees believing their organizations pay fairly were “20% more likely to put in extra effort”—a substantial productivity boost.⁷



Clinical Benefits

Clinical benefits represent the other half of the cost/care quality equation. Many hospitals seek to “reflect the communities they serve,”⁸ and to pursue “culturally competent care.” Demographic trends make this emphasis important, since minorities will exceed half the U.S. population by 2044 and already represent one-third of patients. This industry report highlights three significant clinical benefits for diversity.

Better Patient Outreach and Targeting of Care

Culturally competent care is frequently proactive with patients. As one diversity officer states, “The idea is to really meet people where they are.”⁹ Targeting care improves an organization’s understanding of how they are viewed within the community and improves efforts to address any negative perceptions. Removing inequities is critical to quality outcomes, and “an inclusive professional workforce that reflects the communities being served together with policies and practices...are essential underpinnings of any sincere effort to eliminate disparities.”¹⁰

Improved Analytics

Effective care increasingly rests on data analytics. Here again, studies indicate that strong cultural diversity and sensitivity enrich the collection and interpretation of data. A leading diversity organization claims that stratifying outcomes information by race, ethnicity, and language helps organizations “better understand and address the unique needs and health challenges of various sub-populations.”¹¹ Further, diverse leadership is able to use that understanding to attack root causes and “influence social determinants of health that place vulnerable communities at risk.”

⁵ V. Hunt, S. Prince, S. Dixon-Fyle, and L. Yee, “Delivering Through Diversity,” *McKinsey & Company*, January 2018.

⁶ Gartner CEB, “Addressing Pay Equity,” webpost and infographic, <http://www.cebglobal.com>.

⁷ Ibid.

⁸ Foundation of the American College of Healthcare Executives, “A Racial/Ethnic Comparison of Career Alternatives in Healthcare Management,” *ACHE*, January 2015.

⁹ M. Castellucci, “Chief Diversity Officers Lead Charge for More Inclusive Workforces,” *Modern Healthcare*, September 25, 2017.

¹⁰ F. Hobby and J. Dreachslin, “Diversity and Disparities: Parallel Challenges for 21st-Century Health Care,” *Institute for Diversity and Health Equity*, web post, <http://www.diversityconnection.org>.

¹¹ K. Coltman, J. Thomas-Hall, and C. Blassingame, “Policy Brief: How Focusing on Diversity Can Help Organizations Achieve the Triple Aim,” *American Leadership Council for Diversity in Healthcare*, web post, <http://www.diversityconnection.org>.

Optimized Navigation and Utilization of Healthcare

Many patient populations do not know how best to consume health resources, and many mistrust or avoid the system. One analysis concluded that workforce diversity is one of the many tools that can help the frequency in which patient populations engage with the healthcare system at the appropriate time.¹² Importantly, diversity was found to be as critical at the leadership level as the front line, “when patients walk into an institution and they see from top to bottom there are people who look like them, that helps promote trust and confidence.”¹³

Strategies for Advancing Diversity

B.E. Smith helps organizations improve diversity through recruiting, compensation, and leadership development. These essential initiatives must be supported by strong executive commitment. Figure 2 from McKinsey helpfully summarizes this comprehensive approach to making inclusion and diversity strategic, effective, and enduring.

FIGURE 2 **4 IMPERATIVES FOR BUILDING A SUCCESSFUL I&D STRATEGY**



Conclusion

While challenging, the rewards of achieving robust leadership diversity and culturally competent care are significant. As this report highlighted, the financial and clinical benefits demonstrate a strong business case exists and the upside considerable.

New data will be released later this year from organizations like AHA’s Institute for Diversity and Health Equity. B.E. Smith will continue to monitor these latest reports as they are released and will provide a more in-depth and detailed analysis via a white paper later this year.

¹² L. Esposito, “Diversity in Health Care Providers Helps Patients Feel More Included,” *U.S. News & World Report*, October 12, 2016.

¹³ Ibid.

B.E. Smith: Integrated Healthcare Leadership Solutions

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