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Keeping DEI Strong in Volatile Times

Introduction

Just three years after the killing of George Floyd set off a slew of corporate pledges in the United States to prioritize diversity, equity, and inclusion (DEI), especially around representational goals, organizational programming around DEI is facing legal and political threats.

Some companies are doubling down on their DEI efforts while most are adopting a wait-and-see attitude. Some Chief Diversity Officers (CDOs) are nervous that their efforts may be diminished or even eradicated.

> "DEI has become central to a lot of rhetorical attacks. It seems like a race to the bottom on portraying DEI as the enemy rather than the solution.
>
> Says one CDO interviewed for this project.

And political pushback is only one of the current threats to DEI. CDOs also operate within an environment of global economic uncertainty, where their work can be marginalized. In the absence of a clear connection to business outcomes, DEI work is particularly vulnerable to economic and sociocultural upheaval.

Research Methodology

This research grew out of efforts within Seramount's Chief Diversity Officers Collaborative, a community of committed leaders dedicated to creating authentic and sustained engagement with DEI both within and across their organizations, most of which are global. The goal was to understand the major obstacles they faced in uncertain times and demonstrate solutions with proven results. In addition to reviewing best practices from about 100 organizations across sectors and geographies, Seramount's research team reviewed over 200 articles culled from academic journals, industry trade publications, and general news sources, and conducted more than 30 interviews with CDOs, subject-matter experts, and other corporate leaders.

Executive Summary

When this research started in December 2022, the focus was on the impact of the projected economic downturn on DEI resources. While that has played out, especially in the tech sector, it has become apparent that the threats to DEI are larger and more complicated.

DEI teams and their programming are vulnerable to 4 unique elements of volatility:

1. The Fight to Dismantle DEI
2. Economic Downturns
3. New Leadership
4. Mergers and Acquisitions

For all four elements, there is a clear solution, as this research demonstrates. This study illustrates that linking DEI to urgent business outcomes can safeguard the DEI team's work and bolster DEI's value to the company. Leveraging the learnings of case studies of leading companies from a variety of industries, the research demonstrates how companies can tie DEI efforts to high-priority organizational business objectives, mitigating cutbacks and avoiding being shunted aside. This research explains not only how to go about making strong connections to business outcomes, but also how fulfilling the mission of creating a diverse, equitable, and inclusive workplace works in tandem with increasing profits.

Crucially, this study demonstrates the importance of moving beyond the conventional understanding of "the business case" for diversity. The traditional DEI business case relies on broad statements about population demographics, such as "The United States will be majority-minority soon," or "The LGBTQ+ population is growing with every generation." In its more advanced forms, the business case may even point to research demonstrating that more diverse teams are more innovative and more productive. All of these statements are true, broadly speaking. But just because they're true doesn't mean they're sufficient.

In today's turbulent and ever-changing world, generalized assertions that are assumed to be applicable to all businesses are no longer enough. The new business case requires making the connection between DEI goals and the work of a specific organization. To sustain their efforts, contemporary CDOs must navigate dual roles as DEI change agents and business leaders.

This report will show how to help your business succeed and fulfill your DEI mission at the same time—and in doing so, how to protect DEI work from all elements of volatility.

1 The Most Imminent Element of Volatility: The Fight to Dismantle DEI

The classic business case for DEI relied on the perceived conventional wisdom that representing a variety of identities and opinions was an objectively good practice. But in recent years, the battle against perceived "woke" ideas, identity politics, and special treatment for historically excluded talent (HET) has divided the world's population. Anti-LGBTQ measures are cropping up across the US, creating a hostile environment for some of those same groups. Higher education has been a target of legislation that undermines the core tenets of this work, with both Texas and Florida passing measures that effectively end DEI efforts in higher education.

Example 1: Florida's anti-LGBTQ+ Measures: Corporations are just starting to feel the effects of the political fight to dismantle DEI. Gov. Ron DeSantis fought to remove Disney World's special district tax status in the wake of Disney's denunciation of Florida's anti-LGBTQ+ measures—a move that led directly to that district ending its DEI programs. But the less organized denigration of "woke" corporations is also a threat to DEI efforts. One study estimated that corporations like Target and Anheuser Busch lost $28 billion in market value to backlash against their 2023 Pride Month efforts.

Example 2: SFFA v. Harvard and SFFA v. UNC: Perhaps the most significant sociopolitical threat to US corporations came on June 29, 2023, when the US Supreme Court issued a joint decision in the cases of SFFA v. Harvard and SFFA v. UNC. The ruling decreed that colleges and universities can no longer use race as a factor in admissions, thus abolishing affirmative action in higher education. Beyond undermining a key pipeline upon which corporate recruitment efforts often rely, the affirmative action ruling has left corporations vulnerable to litigation and has created a chilling effect around representational goals.

Example 3: Affirmative Action Rulings: The affirmative action ruling applies only in the US. But the fight to dismantle DEI is global. The decision of voters in the United Kingdom to leave the European Union, or "Brexit," was driven in part by a backlash against multiculturalism and a rejection of migrants. Brexit has had significant ramifications for EU multinational organizations, including higher business and administrative costs. It has also created a new barrier to hiring a diverse workforce. Beyond the UK, right-wing parties have become formidable political opponents in Spain and Italy. Meanwhile, Russia, China, and many other countries have rolled back the legal rights of members of HET groups, particularly the LGBTQ+ population.

The movement toward downplaying diversity creates numerous risks for DEI leaders. Their work may be weakened, sidelined, or under-resourced. Legal confusion emerges around goal setting, just as it did in the aftermath of the affirmative action ruling. And when companies quietly scale back their commitments, they risk appearing insincere about advancing DEI goals. This can lead to flight risk for employees, especially HET.

2 The Next Element of Volatility: Economic Downturn

Deprioritizing of DEI

While the fallout of the Supreme Court outlawing affirmative action at colleges and universities may not be realized for years, economic downturns can lead to the abrupt deprioritizing of DEI. Research has attributed some recent stalls in DEI progress to economic fluctuations. In one 2023 survey, 62 percent of tech companies surveyed admitted that the current economic environment was slowing their DEI initiatives. Another 2023 survey found 11 percent of employers indicated that DEI spending was among the first categories to be decreased when introducing cost-cutting measures, second only to corporate events and bonuses. This is often because DEI is perceived as a "soft" issue—nice to have but not crucial to the business.

Layoffs

Layoffs also disproportionately affect HET. According to data from the Bureau of Labor Statistics, members of these groups experienced the largest increases in unemployment in the first year of the financial crisis and the Great Recession. In the wake of the Great Recession, employment rates for men rebounded more quickly than those for women. More recently, massive layoffs occurred in the tech industry from 2022–2023, with 164,709 employees laid off in 2022 and over 200,000 employees laid off in the first half of 2023. One study of laid-off employees found that 56 percent of those laid off were women, despite the workforce overall being majority male. Twitter is currently facing a lawsuit that alleges their layoff processes targeted women, and accusations have been levied against Netflix that the company disproportionately laid off members of HET groups in 2022. The tech layoffs also disproportionately hit DEI teams, with one study revealing that the largest proportions of employees laid off by Amazon, Meta, and Microsoft were in the HR and Talent Sourcing functions, where DEI often resides.

Performance Reviews

The processes behind layoffs may be biased. Performance reviews often contain unconscious bias, which in turn introduces an element of bias into any layoff decision that relies on them. Even so-called "neutral layoffs," which eliminate positions and/or utilize tenure as the deciding factor rather than evaluating individual workers, have been shown to disproportionately impact HET groups. For example, a 2014 study of more than 800 companies revealed that organizations experience up to a 22 percent reduction in Black, Hispanic, and Asian men on their management teams when they utilize neutral layoff processes. The Equal Employment Opportunity Commission (EEOC) recommends proactively assessing how layoffs will affect HET groups, which many companies committed to DEI already do. Seramount's Inclusion Index, which helps organizations map their DEI trends and opportunities, finds that 99 percent of US Inclusion Index companies audit their performance management processes for bias.

On the other hand, executives at some companies less committed to DEI may prefer to bury their heads in the sand when it comes to the inequitable effects of layoffs. One CDO interviewed for this research shared, "In the past, I've had leaders and legal departments tell me they don't want to know the number of layoffs broken down by demographics. Because if you know and you find a problem, then you're forced to address it. They take the ostrich approach."

3 Another Element of Volatility: New Leadership

Not all elements of volatility arise from external forces. They can emerge from within organizations as well. Specifically, a new CEO or other senior leader may threaten DEI efforts.

While many CDOs interviewed said their current CEO was a major supporter of their work and "gets it," they recognized how lucky they were. A new CEO may not prioritize DEI or view it as important. One CDO knew this from personal experience, recalling, "When the CEO changed at my former company, DEI became a new program where the CEO didn't care or understand. And if the CEO and senior leaders aren't with you, you're out there by yourself and not much can happen." She ultimately left when the new CEO failed to recognize her or her position at all.

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A new CEO may even see DEI priorities as a threat to their business goals or client base. This diminished support can be deadly for DEI efforts that hinge on buy-in from senior stakeholders; one recent study found that 51 percent of DEI leaders identified their top challenge as "business leaders failing to take ownership for driving DEI outcomes."

Beyond subtly undermining DEI, a new CEO may not trust or even communicate with the existing DEI team, further sidelining the CDO. They may actively reduce the power and autonomy given to DEI leaders by their previous CEO. They may even alter DEI reporting structures so that the CDO no longer reports directly to the CEO and instead to the CHRO, thus giving them even less time to interact with the CEO and exacerbating the tendency to view DEI as an HR function rather than a business function

Example: Twitter, now renamed X: Ultimately, a new CEO may contribute to turnover within the DEI team. When Elon Musk took over as CEO of Twitter, now renamed X, Chief of People and Diversity Dalana Brand resigned shortly after. Musk ultimately dissolved not only the DEI team but many DEI-related programs, including the organization's employee resource groups.

Even in-seat CEOs may waver in their support of DEI. Seramount's previous research has found that while 95 percent of corporate executives say they are committed to helping their organizations fight racism, a third of those say they feel forced into supporting anti-racism efforts, and 79 percent believe corporate efforts on DEI are overblown.

4 The Final Element of Volatility: Mergers and Acquisitions

The final element of volatility, mergers and acquisitions, represents another threat coming from inside the house. One study finds that 95 percent of executives see cultural fit as critical to the success of a merger. But in fact, DEI is often ignored or sidelined during the integration process: 58 percent of companies say they don't have a specific approach to assess and integrate culture during an M&A. In the absence of a preliminary diversity audit, the combined companies may discover that they have misaligned DEI values and priorities.

DEI concerns unearthed during the due diligence process have been identified as a factor in many M&A failures. In one survey, **25 percent of executives cite a lack of cultural alignment as the primary reason integrations fail. Another study estimates that 75 percent of integrations have cultural issues that lead to program delays, personnel changes, or deal failure.**

Example 1: ExxonMobil: Even when it doesn't lead to deal failure, misalignment can harm both DEI goals and employees. A well-known example of this occurred in 1999, after the merger of ExxonMobil, when ExxonMobil revoked Mobil's policy of providing health-care coverage to same-sex partners of employees. More recently, critics have argued that the merger of Warner Bros. and Discovery had negative ramifications for DEI within the entertainment industry.

Example 2: Broadcom and VMware: This year, the announcement of the merger between tech companies Broadcom and VMware raised immediate concerns of a culture clash. According to Business Insider, the potential erosion of VMware's DEI commitments is a major concern for their employees: "Employees worry that under Broadcom, VMware will lose much of what they believe makes it special—specifically, a culture that values innovation, diversity, and flexible working styles above a stone-cold focus on profits…For VMware employees, the company's focus on diversity, equity, and inclusion has been a point of pride. Broadcom doesn't seem to share those values, one employee said."

Employee engagement and retention may also suffer in the culture clash of an M&A. One study of tech companies found that employee attrition nearly doubled in the two years after a merger announcement. Maximizing employee engagement and minimizing retention in the face of the existential threat of an M&A is a significant challenge for a CDO, even in the absence of other elements of volatility.

How Did We Get Here?

As the fight to dismantle DEI illustrates, this work is uniquely vulnerable to political and social headwinds. Long-time CDOs say they feel like they're straddling a pendulum that swings back and forth between strong support for DEI and strong headwinds against it. Prior to 2020, there was a minimal corporate focus on DEI; it was often viewed as a "nice to have" rather than a business imperative. Leaders relied on the traditional business case to sell DEI, invoking broad statements about population demographics, statements like "The United States will be majority-minority soon."

Then, in the summer and fall of 2020, public outcry around the killing of George Floyd generated an unprecedented explosion of DEI work, attention, and spending. Between June and August 2020, there was a 55 percent increase in corporate DEI roles. Leading corporations pledged $12.3 billion to fight racism.

But the focus on DEI didn't last. By 2022, organizations were quietly dropping their DEI pledges. DEI roles vanished just as quickly as they had been created. Between 2021 and 2023, there was an 18 percent decline in C-suite support for company-wide DEI efforts. Facing the threat of a recession, corporations began talking less and less about ESG and DEI efforts on earnings calls and instead emphasizing their bottom lines. The *Wall Street Journal* reports that executives at US-listed companies mentioned "environmental, social and governance," "ESG," "diversity, equity and inclusion," "DEI" and "sustainability" on 575 earnings calls from April 1 to June 5, 2023, a 31 percent decline from the same period last year and the fifth consecutive quarter of year-over-year drops. This decline also reflects a pervasive understanding of DEI as an auxiliary function of the business, not an integral component of it.

Faced with strong headwinds, this research finds that companies have responded in three different ways.

1. Most—about 80 percent—are taking a "wait and see" approach to DEI. As one CDO said, "We're trying to prepare for the external factors that may impact the company."
2. Roughly 10 percent of organizations are regressing. "Change is happening to reverse DEI efforts," another CDO told us.
3. And an additional 10 percent are continuing forward, even doubling down on DEI. In the words of yet another CDO, "We're doing incredibly well financially, so there hasn't been much thought to cutbacks."

Moving Forward: Simply making the business case is no longer enough.

Driving business requires specificity and measurable outcomes.

As Figure 1 shows, reviewing and revising a few example statements reveals the distinction between the two:

Figure 1: Driving Business Outcomes

Making the DEI Business Case	Driving Business Outcomes
"The United States will be majority-minority in 50 years."	"We increased our market share by 5% through selling more Black-owned beauty brands."
"Diverse teams come up with more innovative ideas."	"Collaborating with our employees with disabilities helped us develop a new product."
"Our employees should represent our customer base."	"One-third of our prospective clients ask about and use diversity on our team as a factor in their selection decision."
"The LGBTQ+ market is underrecognized."	"Our PRIDE ERG's research on LGBTQ+ homeowners has helped us to serve them better."
"Our suppliers should represent our customers."	"We increased our profit margin by 2 percent after instituting a supplier diversity program."

While irrefutably true, the conventional business case statements are all abstract in their connections to corporate profits. Even more concerningly, they are not sufficient to convince stakeholders that DEI is worth investing in amid the threats of political attacks, economic downturns, new leadership, or mergers and acquisitions. They all leave themselves open to the skeptical So what? question. A DEI skeptic may simply ask, "Well, what innovative idea has a diverse team come up with at this company? If you're going to make that argument, you need to have the evidence." They may even say, "Sure, our employees should represent our customer base, but I'm not so convinced that affects our bottom line." Driving business outcomes cuts this interrogation off at the pass. It allows the results of DEI work to speak for themselves.

So what are business outcomes, exactly? One CDO shared that his process of driving business outcomes starts by honing his own understanding of how the business works. "You need to work backwards, not from the inside out, but from the outside in," he said. "Who are the consumers, the talent, the suppliers? Who's in the ecosystem that is critical to this company, whether it be regulators or policymakers? Where is DEI for them? What's important to them, and how can DEI bring value to them? Then think about, so who do we need to be working with to create that value?"

As Figure 2 shows, some critical business outcomes for CDOs to measure and report include metrics related to sales, finance, customers, employees, talent acquisition, and productivity. Of course, not all of these will be relevant to each business. As this CDO explained, the most important thing is that you can point to a specific outcome that is connected to your business.

Figure 2: Some Critical Business Outcomes for CDOs to Measure and Report

Sales	Finance	Customer	Employee	Talent Acquisition	Productivity
Win rate	Total revenue	Number of customers	Turnover	Time to hire	Milestones achieved
Conversion rate	Overhead costs	Retention/ churn rate	Engagement	Cost per hire	Cycle time
Customer acquisition cost	Variable costs	Net Promoter Score	Career path ratio	Critical roles filled	Schedule variance
Qualified leads	Gross profit margin		Training spend		Revenue per employee
Average deal size	Cash flow		Absenteeism		Cost variance

To identify business priorities to support, a CDO must intentionally scan the environment both systemically and opportunistically. Following Figure 3, approach driving business outcomes at the right time, the right level, and by asking the right questions. Asking the right questions can help understand the priorities and challenges other leaders are addressing and lead to identify the role DEI can play.

Figure 3: Identifying Business Priorities to Support

Right Time	Right Level	Right Questions
• Annual budgeting and goal setting • Strategic plan development • Launch of new initiative or campaign • Significant change in performance • New leadership • Restructuring / M&A • Any significant disruption or pivot	• Enterprise • Regional • Divisional • Functional • Location/ Facility-based • Team-based	• What are your goals and priorities? • What do you need to help accomplish these? • What barriers will get in your way? • What are your biggest challenges right now? • How do you measure success? • Would you like a partner in DEI?

The right time could be a milestone in the organization's regular planning cycles, like annual budgeting or strategic plan development. But key moments of change and volatility—like a merger or a new CEO—are also ideal opportunities for collaboration. Opportunities for supporting the business present at every level, from enterprise-wide initiatives to pilots with a single region, division, location, or even team.

And it isn't enough to think about the business outcomes to which the work is linked. CDOs must communicate what they're doing and ensure that their leaders and colleagues understand what they're doing. It helps to have specific numbers and results that are tied to business outcomes, in addition to DEI outcomes. Maybe the program created to increase the percentage of Black women in management positions not only increased diversity in leadership, but also bolstered the retention of junior employees, or decreased time to hire. These are crucial business metrics to include in framing the program's success.

Struggling with how to get started? A CDO might:

- Start by launching new workstreams to support the business and collaborating with other business leaders to develop or enhance their efforts on pressing business needs with the added power of DEI.
- Add a business lens to one of the existing DEI initiatives.
- Examine the existing DEI workstreams; are any having a business impact that needs to be measured and communicated?

In crafting their own narrative, CDOs likely will realize that many of their DEI initiatives are already having business impact. They just aren't being framed that way. By applying some of the business metrics suggested above to existing work, and by adding further value to organizational business initiatives with the added power of a DEI lens, they'll be able to weld DEI into their organizations in such a way that it will secure work from future volatility.

Conclusion

Today's CDO faces what can feel like a morass of challenges. From external forces like political attacks on DEI or an economic downturn to internal risks of new leadership, a merger, or an acquisition, the threats to the already difficult work of fostering workplace inclusion have never been greater. But CDOs have to accept volatility. The political, social, and economic pressures will not abate, whichever way the pendulum swings.

The best way for a CDO to navigate volatility and make DEI integral to their organization is to weld DEI to their organization's core strategic goals. They must carefully design their DEI efforts to directly impact the organization's core strategic business goals and priorities. And CDOs need to take credit for the change they're making. Take ownership of DEI initiatives in the organization and ensure their colleagues see their results. Don't be afraid to step in and make additional impact where you can. And when crafting the narrative, keep in mind that it is no longer enough to make a generic business case for DEI. CDOs must show organization-specific business outcomes, in addition to DEI outcomes, with impact data from your own organization. This is the way to ensure that DEI efforts thrive no matter which way the pendulum swings.

Interested in learning more about how **Seramount can help** you maneuver corporate complexities and safeguard DEI?

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