

UNLOCKING THE POWER OF DEI

DIVERSITY, EQUITY, AND INCLUSION
as a Strategic Imperative for Business Success and Social Harmony



Unlocking the Power of DEI: Diversity, Equity, and Inclusion as a strategic imperative for business success and social harmony

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Published March 2024

This study was conducted by The European Chamber of Commerce of Sri Lanka (ECCSL) in partnership with the Strengthening Social Cohesion and Peace in Sri Lanka (SCOPE) programme. SCOPE is co-financed by the European Union and the German Federal Foreign Office and implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), in partnership with the Ministry of Justice, Prison Affairs and Constitutional Reforms.

This publication was produced with the financial support of the European Union and German Federal Foreign Office. Its contents are the sole responsibility of ECCSL and do not necessarily reflect the views of the European Union, German Federal Foreign Office, GIZ and the Ministry of Justice, Prison Affairs and Constitutional Reforms.

Design & Layout: Fold Media Collective
Printing & Binding: Leaf Digital Printing

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ACRONYMS

CSR	Corporate social responsibility
DEI	Diversity, equity, and inclusion
ECCSL	The European Chamber of Commerce of Sri Lanka
ESG	Environmental, social, and corporate governance
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
JVP	Janatha Vimukthi Peramuna
LTTE	Liberation Tigers of Tamil Eelam
MSME	Micro, small, and medium enterprises
OECD	Organisation for Economic Co-operation and Development
SCOPE	Strengthening Social Cohesion and Peace in Sri Lanka

EXECUTIVE SUMMARY

Throughout Sri Lanka's history, the country has seen both periods of tension and harmony between different communities. Economic disparities have often been one of the root causes of social conflicts – and vice versa, social conflicts have often had lasting economic impacts.

This study recognises the transformative power of the private sector in shaping social dynamics and explores the status of diversity, equity, and inclusion (DEI) initiatives in Sri Lankan businesses. In the absence of broader research on this topic in Sri Lanka, this study should be understood as an initial, exploratory exercise. It is based on an extensive literature review as well as interviews with 41 diverse businesses in all nine provinces of Sri Lanka.

By reflecting on the study's findings and implementing its recommendations below, businesses can harness the potential of DEI to realise tangible, commercial benefits and make an important contribution to social harmony and economic stability in Sri Lanka.

THE BUSINESS CASE FOR DEI

FINDING 1

DEI can provide significant commercial advantages, including reduced personnel costs, improved resource acquisition, more effective marketing, and enhanced organisational flexibility. However, DEI does not automatically create business benefits. Successful implementation requires careful, long-term planning, broad input, and ongoing evaluation. Poor development and implementation can be costly and see businesses forego the potential benefits of DEI.

RECOMMENDATION 1

Sri Lankan businesses should explore opportunities to harness the attractive commercial advantages of DEI. DEI should not be viewed as a quick win though, rather as a long-term investment that requires careful design and consideration of contextual factors.

INTERNATIONAL BEST DEI PRACTICES

FINDING 2

International best practices for DEI include a strong commitment from leadership, data-driven measuring and assessment of impact, employee involvement, cultural competency and training, and supplier and community engagement.

RECOMMENDATION 2

Sri Lankan businesses should continue to use international best practices as a roadmap for effectively implementing DEI, while recognising the importance of adapting practices to local contexts.

BUSINESS ATTITUDES TOWARDS DEI IN SRI LANKA

FINDING 3

Conceptualisations of DEI among Sri Lankan businesses are varied. Some businesses exhibit a sophisticated understanding of the nuance and complexity of these issues and their implementation, while other businesses appear hesitant to go beyond a narrow approach that focuses only on preventing negative interactions between staff.

FINDING 4

Many Sri Lankan businesses have sophisticated approaches to DEI in areas such as gender, age, and disability, and meaningfully implement these into their business activities. In contrast, most businesses are more hesitant to discuss and engage with other sensitive dimensions of DEI such as ethnicity and religion, and few businesses have programs specifically addressing these topics.

RECOMMENDATION 3

Sri Lankan businesses should ensure their approach to DEI acknowledges that: DEI goes beyond mere instances of discrimination, harassment, and abuse; DEI issues are complex, subjective, and challenging to measure; and all businesses are on a continual improvement journey. This nuanced approach is a necessary starting point for businesses to embrace DEI in their organisations.

RECOMMENDATION 4

Sri Lankan businesses should use their sophisticated understanding and experience of DEI in relation to areas such as gender, age, and disability as stepping stones to broaden their approach to also address other sensitive dimensions relating to ethnicity and religion.

COMMON DEI PRACTICES IN SRI LANKA

FINDING 5

Common practices of Sri Lankan businesses in relation to the less frequently addressed DEI dimensions of ethnicity and religion include no tolerance for discriminatory behaviour, promoting cultural and language exchange through events and diverse teams, and providing flexibility and facilities for religious practices.

RECOMMENDATION 5

Sri Lankan businesses should continually assess whether their activities align with common DEI practices that include dimensions such as ethnicity and religion, and, where possible, explore opportunities to enhance and expand these activities.

LESS COMMON DEI PRACTICES & OPPORTUNITIES

FINDING 6

Few Sri Lankan businesses collect and analyse data on the ethnic and religious makeup of their workforce.

RECOMMENDATION 6

Sri Lankan businesses should collect and analyse data on all aspects of diversity in their workforce, including dimensions such as ethnicity and religion. Collecting such data is necessary to meaningfully implement and assess DEI programs. Businesses should be mindful to ensure sensitivity and transparency, receive consent from employees, and comply with relevant privacy regulations (such as the Personal Data Protection Act). This analysis should consider diversity across the entire workforce, within specific teams, and for employees at different levels. It should help plan, develop, and inform businesses' DEI programs.

FINDING 7

Other less common DEI business practices that can contribute to social cohesion in Sri Lanka include conducting ongoing DEI training for all staff, promoting multilingualism, and facilitating employee mobility across different locations.

RECOMMENDATION 7

Sri Lankan businesses are encouraged to explore, design, and implement less common and novel DEI practices. This positions businesses as first-movers, gaining a competitive advantage by showcasing adaptability to evolving workplace dynamics and a commitment to a more inclusive and united workforce.

LANGUAGE BARRIERS

FINDING 8

Language barriers pose a challenge for businesses as they dampen the positive effect of DEI practices (such as cultural exchanges in diverse teams) and impede effective communication and integration into the wider Sri Lankan market.

RECOMMENDATION 8

Businesses should assess to what extent language barriers exist within all levels of their business. Where barriers exist, businesses should support employees to improve their language skills. In this way, businesses can both enhance their organisational efficiency through employees' improved communication abilities, as well as contribute to inter-ethnic and inter-religious trust and understanding.

ECONOMIC CHALLENGES

FINDING 9

Many Sri Lankan businesses are currently experiencing challenging economic conditions, facing difficulties such as rising operational and financing costs and decreased buyer demand, which deters some businesses from investing in DEI.

RECOMMENDATION 9

Sri Lankan businesses should consider the long-term benefits of investing in DEI, as these programs enhance employee satisfaction and productivity, while also making businesses more resilient when facing future crises. Businesses should view DEI as a key component of their long-term success and should ensure that this is a part of their business DNA rather than an occasional, ad-hoc investment.



1 |

INTRODUCTION

In recent years, increasing societal fragmentation has emerged as a pressing issue in many countries around the world. Sri Lanka, too, has historically experienced periods of tension and division between its diverse ethnic and religious communities, with lasting social and economic impacts. While the relationship between social fragmentation and economic developments was often overlooked in the past, there is now a growing recognition of the interconnection of these two dimensions.

There is also increasing consensus that the private sector has not only the opportunity and capacity, but also the responsibility to bring communities closer together. In fact, acting on this responsibility can benefit both businesses and society as a whole. Specifically, business practices that promote diversity, equity, and inclusion (DEI) have become one of the main vehicles to advance social cohesion, while simultaneously enhancing businesses' commercial success.

Recognising the transformative power of the private sector in shaping social dynamics, this study makes the case that businesses in Sri Lanka should embrace DEI practices to advance their business endeavours, while at the same time fostering inclusivity and harmony across wider Sri Lankan society.

The subsequent sections of this introduction outline the study's focus (chapter 1.1) as well as applied methods, scope, and limitations (chapter 1.2) and define key concepts (chapter 1.3). After this, the study provides an overview of the Sri Lankan context (chapter 2) and illustrates the transformative power of businesses in shaping society (chapter 3). The study then makes the business case for DEI (chapter 4), followed by an exploration of existing DEI practices in Sri Lanka, opportunities for further engagement, and challenges (chapter 5). Key findings and recommendations are highlighted throughout before some concluding remarks.

1.1. FOCUS OF THIS STUDY

This study is an explorative account of how Sri Lankan businesses can and already are harnessing their transformative potential to benefit broader Sri Lankan society, while at the same time furthering their business interests. The study explores these elements within the diversity, equity, and inclusion (DEI) framework (see chapter 1.3).

The study was guided by the following research questions:

- What attitudes and beliefs do Sri Lankan businesses have in relation to social cohesion and DEI?
- What existing DEI practices of Sri Lankan businesses promote social cohesion?
- What opportunities exist for Sri Lankan businesses to further invest in DEI practices that promote social cohesion?
- What challenges or structural issues hinder/prevent Sri Lankan businesses from promoting social cohesion through DEI?

The study also considers whether answers to the above questions differ depending on contextual factors, such as the size of the business or its location within Sri Lanka.

By exploring these questions, the study intends to:

- provide an exploratory account of the status of DEI in Sri Lanka,
- share successful practices and learnings with other businesses,
- encourage other businesses to take up these positive practices by reporting them publicly,
- identify barriers and challenges for businesses, and
- promote discussion within businesses, government, and other stakeholders on how to further promote social cohesion through the private sector.

1.2. METHODS, SCOPE, AND LIMITATIONS

This study is based on research conducted in Sri Lanka from May to October 2023. It combines findings from an extensive literature review on the business case for DEI and exploratory interviews with representatives from 41 businesses operating in Sri Lanka. Businesses were selected from ECCSL's existing member network, recommendations, and online research.

To include a wide variety of perspectives, interviews were conducted with businesses in different locations, industries, and with business representatives in a variety of roles.

Interviews were held in all nine provinces of Sri Lanka; eleven meetings were held in the Western Province, 29 meetings were held across Sri Lanka's other eight provinces, and one meeting was held online (see Figure 1).

The businesses represented industries including apparel, coconut products, tea, food and beverage, gems, telecommunications, tourism, and aviation. In total, ECCSL spoke with 132 business representatives, including owners, CEOs, directors, HR professionals, general managers, supervisors, and factory-floor staff.

Interviews were predominantly conducted in English. Some interviews or parts of interviews were conducted in Sinhala or Tamil. ECCSL informed all interviewees of the purpose of the interview, how the information would be used, and received verbal consent before interviewing. No remuneration or inducements were provided.

A limitation of the study is that its sample may not fully represent the perspectives of all businesses in Sri Lanka. Further, existing literature on DEI in Sri Lankan businesses and their transformative potential for social change is limited, which is why the literature review draws extensively on international examples. Due to its explorative nature, the study should be understood as an initial step in understanding relevant dynamics of DEI in Sri Lanka, focusing on larger companies whose social responsibility as well as impact tends to be more pronounced. Inherently, this study highlights the need for further research in this area.

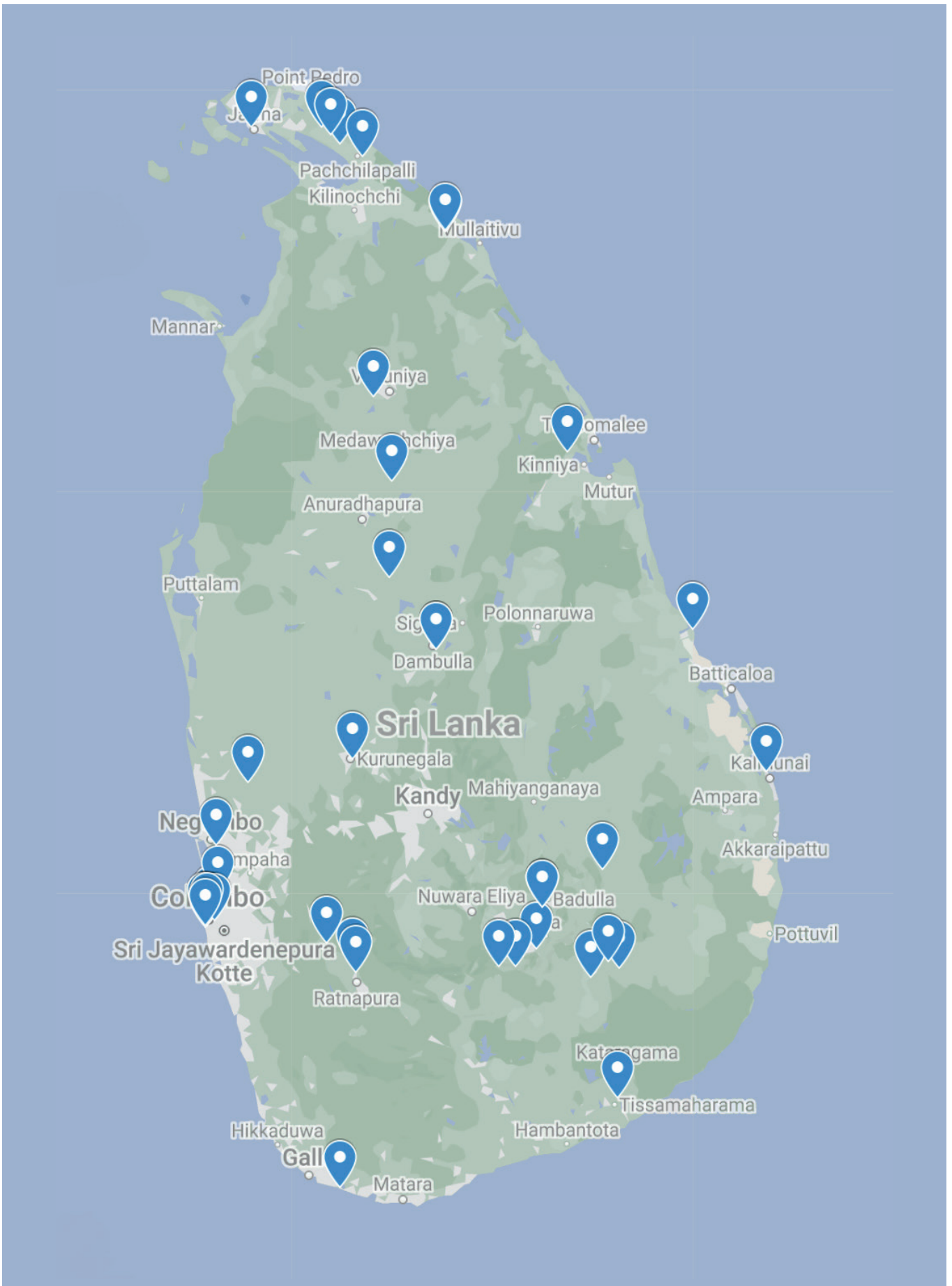


Figure 1: Map of interview locations

1.3. RELEVANT CONCEPTS

Two interrelated concepts discussed in this report are social cohesion and diversity, equity, and inclusion (DEI). These are briefly outlined below.

SOCIAL COHESION

Social cohesion refers to the level of connectedness and solidarity within a society. Social cohesion fosters a sense of belonging, trust, and cooperation within and between different communities. It is crucial for creating inclusive and supportive communities that can effectively address social challenges and promote positive social outcomes. Terms such as 'social harmony' and 'social unity' are often used interchangeably with social cohesion.

DIVERSITY, EQUITY, AND INCLUSION (DEI)

The diversity, equity, and inclusion (DEI) framework is widely used internationally and serves as a theoretical framework in this study to make sense of existing business practices that contribute to social cohesion in Sri Lanka. DEI are interconnected concepts that aim to promote fairness, representation, and equal opportunities for all individuals within a society or organisation. DEI involves specific strategies and practices to ensure equal opportunities and respectful treatment for individuals of varying backgrounds.

Diversity refers to the range of identities, perspectives, and experiences within a group. It encompasses various dimensions (also referred to as identity markers) such as race, ethnicity, religion, gender, sexual orientation, socioeconomic status, age, disability, and more. Embracing diversity recognises the value of these different backgrounds and perspectives.

Equity focuses on ensuring fairness and impartiality in the distribution of resources, opportunities, and benefits. Equity does not mean equality in the sense of treating all people the same. Rather, it recognises that different people have different circumstances and require different resources and opportunities to achieve equal outcomes. Equity addresses systemic barriers and disadvantages, aiming to create a level playing field for all.

Inclusion refers to an environment where all individuals feel valued, respected, and included. It involves actively including individuals from diverse backgrounds in decision-making processes, policies, and practices. Inclusion goes beyond mere representation and aims to foster a sense of belonging, where all perspectives and contributions are included, valued, and respected.

In this report, DEI is used as a framework to explore businesses' contributions to social cohesion in Sri Lanka.





2

ECONOMIC AND SOCIAL CONTEXT

Throughout Sri Lanka's history, the country has seen both periods of tension and harmony between different ethnic and religious communities. Economic disparities have often been one of the root causes of social conflicts – and vice versa, social conflicts have often had lasting economic impacts. This intricate interplay of economic and social dimensions was recently underscored by a public opinion survey showing that over a third of Sri Lankans see economic status as the main basis for discrimination.¹

Looking at the history of Sri Lanka's economy, some industries have been primarily practised by particular ethnic groups. The Sinhalese have traditionally been prominent in agriculture and crafts; both Muslims and Sri Lankan Tamils have a strong presence in trade and commerce; and Up-Country Tamils are highly overrepresented as plantation workers in the tea industry.² These historical divisions of labour reflect the unique contributions of each community but have also contributed to inter-community tensions by at times fostering economic resentment along ethnic and religious lines.

This was seen in the colonial period when the relative success of Sri Lankan coastal Tamils (due to their early exposure to the colonial authorities and their emphasis on education) led to economic resentment amongst the Sinhala Buddhist majority.³ Colonialism also led to the emergence of new ethnic groups in Sri Lanka, such as Burghers⁴ and Up-Country Tamils,⁵ creating demographic shifts that contribute to present-day ethnic complexities.

Following independence in 1948, Sri Lanka initially pursued a closed economy characterised by government control over key industries and import substitution. In 1977, economic stagnation prompted the opening of the economy with efforts to reduce government intervention and liberalise trade. While the reforms had widespread benefits for trade, investment, and employment patterns, some benefits were unevenly distributed, resulting in welfare losses for the poor that were not compensated by increased incomes.⁶

Economic frustrations among youth fuelled the 1971 and 1987-1989 Janatha Vimukthi Peramuna (JVP) uprisings. The uprisings sought to address socioeconomic inequalities and challenge established political structures, leading to significant political instability and violent conflict.

1. Sri Lanka Barometer (2023) National Public Opinion Survey on Reconciliation 2021. Online <https://www.srilanka-barometer.lk/publications>.

2. Nazliben, Renneboog and Uduwalage (2021) Social Diversity on Corporate Boards in a Country Torn by Civil War, European Corporate Governance Institute, 3.

3. Christoph, T. (2019) Sri Lanka: the dark side of social cohesion, Routledge, 199.

4. Manorathna, E., Sagar, H. K., and Silva I. C. L. (2021) Social Impacts of Colonialism in Sri Lanka, FDSS IR Student Research Forum-2021.

5. Anandakugan, N. (2020) The Sri Lankan Civil War and Its History, Revisited in 2020, Harvard International Review.

6. Dunham, D. and Kelegama, S. (1994) Economic Liberalization and Structural Reforms: The Experience of Sri Lanka, 1977-93, Working Paper Series No. 163, Institute of Social Studies, The Hague, 15.

This period of unrest overlapped with the beginning of the Sri Lankan civil war from 1983-2009, where ethnic and religious tensions played a key role in the escalation of conflict between the Liberation Tigers of Tamil Eelam (LTTE) and government forces. The resulting displacement of civilians and significant loss of life left deep scars, polarising the population along ethnic lines and fostering mistrust between communities. The conflict also had lasting negative effects on the economy, such as the destruction of infrastructure and a lack of foreign investment in the North and East.⁷

Ethnic and religious relations were again significantly strained by the 2019 Easter Sunday Attacks, in which the extremist Islamist militant group National Thowheeth Jama'ath killed 250 people and injured 500 more. Following the attacks, rising anti-Muslim sentiments erupted into mobs looting and burning Muslim-owned properties as well as calls for boycotts of Muslim-owned businesses.⁸ The attacks not only disrupted social harmony but also dealt a severe blow to the economy due to a substantial decline in tourist arrivals.

This drop in business conditions was made worse by the onset of the COVID-19 pandemic in early 2020, which, combined with other factors, contributed to a severe economic downturn. Currency devaluation, high inflation, and shortages of essential goods affected individuals across diverse ethnic and religious communities, culminating in the worst economic crisis in Sri Lanka's post-independence history in 2022. The crisis has exacerbated poverty,⁹ led to widespread public protests that came to be known as the Aragalaya, and continues to leave many Sri Lankans struggling economically. At the same time, roughly a third of Sri Lankans felt that the crisis and the feeling of a shared struggle had a positive impact on inter-ethnic relations,¹⁰ highlighting once again the complex interrelationship between economic and social developments.

Despite these challenges, many Sri Lankan businesses continue to provide spaces for both customers and workers to have positive interactions with members of different communities, which can inherently contribute to increased trust and, with that, stronger social cohesion. However, there is also anecdotal evidence of movements encouraging consumers and businesses to conduct business on ethnic lines, such as the Sinha Le movement.¹¹

7. Ganegodage K. R. and Rambaldi, A. N. (2014) Economic consequences of war: Evidence from Sri Lanka, *Journal of Asian Economics*, Vol. 30, February 2014, pp. 42-53.

8. Amnesty International (2021) *From Burning Houses to Burning Bodies: Anti-Muslim Violence, Discrimination and Harassment in Sri Lanka*.

9. LirneAsia (2023) *Social Safety Nets and the State of Poverty in Sri Lanka*.

10. Sri Lanka Barometer (2023) *Sri Lanka's 2022 Crisis and Social Cohesion. A Snapshot Survey*. Online <https://www.srilankabarometer.lk/publications>.

11. Minority Rights Group International (2016): *Confronting intolerance: Continued violations against religious minorities in Sri Lanka*.

In this regard, there are also important differences between urban and rural areas. In urban areas like Colombo, where diverse communities coexist in close proximity, businesses may naturally encounter a more varied customer and employee base, fostering an environment that promotes diversity. In contrast, rural areas may face distinct challenges, such as limited exposure to diverse communities and fewer economic opportunities.

Sri Lankan businesses have demonstrated resilience and adaptability in navigating these challenging periods and events. As a nation, Sri Lanka has taken important steps towards fostering an inclusive and harmonious society, showcasing a collective commitment to unity and diversity. The pivotal role played by Sri Lankan businesses is crucial in advancing these efforts to build a united, harmonious, and prosperous nation. Businesses' efforts to promote an inclusive, stable, and resilient society make potential future conflicts and upheavals less likely, thus creating favourable conditions for sustained growth.

This dual benefit for both society and business serves as a compelling incentive for the Sri Lankan private sector to actively engage in business practices that promote DEI, enhancing collaborative efforts to promote social cohesion overall.



3

**THE TRANSFORMATIVE
POWER OF THE
PRIVATE SECTOR**

One of the most influential actors shaping any society is the private sector. Comprising numerous stakeholders, it is often characterised as a competitive realm where each individual or business is driven by their own self-interest. But the private sector is also a community that has an undeniable effect on society, influencing social norms, fostering a sense of national unity and pride, managing its environmental impact, and responding to crises.

Some researchers have gone as far as to say that businesses are one of the four ‘pillars’ that support social cohesion, alongside political, social, and educational organisations.¹² Not including private sector actors in collaborative efforts to advance social cohesion could in fact have the reverse effect, with for example economic inequalities contributing to increasing social dissatisfaction and unrest.¹³

The private sector has not only the opportunity and the capability to play a positive role, but also a responsibility towards society. Social consensus has long moved away from Nobel laureate Milton Friedman’s seminal statement that the sole responsibility of a business is “to increase profits so long as it stays within the rules of the game.”¹⁴ As an integral part of society, businesses have responsibilities other than simply maximising their own profits. Many companies have accepted this assumption of social responsibility, often expressed as corporate social responsibility (CSR) or environmental, social, and corporate governance (ESG) standards. Businesses have increasingly embraced these concepts to not only reflect their stated values of contributing to societal goals, but also as a profit-driven strategy.

Different examples illustrate the way in which the private sector can promote social cohesion, for instance, small businesses and local retailers contribute to community cohesion and wellbeing by serving as spaces for diverse communities to interact, leading to better mutual understanding.¹⁵ In its World Development Report 2013,¹⁶ the World Bank highlighted that the private sector’s provision of inclusive employment opportunities can also contribute to social cohesion by empowering marginalised groups, promoting upward mobility based on meritocracy, and facilitating trust-building among individuals from diverse backgrounds.

12. See Heynemann, S. (2002): Education, Social Cohesion, and the Future Role of International Organizations, in: Peabody Journal of Education, 78(3), 25-38.

13. Ibid.

14. Friedman, M. (1970) A Friedman Doctrine: The Social Responsibility of Business is to Increase Its Profits, p. 5.

15. Cabras, I. and Mount, M. (2017) How third places foster and shape community cohesion, economic development and social capital: The case of pubs in rural Ireland, Vol. 55, pp. 71-82.

16. World Bank Development Report 2013 (2012) World Bank, Washington.

This relationship runs in both directions; not only can businesses positively impact social cohesion, but social cohesion also has many benefits for private sector. A 2011 report from the Organisation for Economic Co-operation and Development (OECD)¹⁷ highlighted that social cohesion creates the necessary conditions for continued economic growth and business development. Other studies support this finding, showing that a harmonious and inclusive society stimulates economic growth, attracts foreign investment, and creates a stable environment for businesses to flourish.¹⁸ In this sense, the relationship between businesses and social cohesion is a mutually reinforcing virtuous cycle.

In this context, supporting social cohesion can be seen as both a moral and strategic imperative for the business community. One way for businesses to do this is by implementing DEI practices.

17. OECD (2011) Perspectives on global development 2012: Social cohesion in a shifting world.

18. Chaudhary, A. R. and Pervaiz, Z. (2015) Social Cohesion and Economic Growth: An Empirical Investigation, The Australian Economic Review, Vol. 48(4), pp. 269-381.





4 |

THE BUSINESS CASE FOR DEI

ECCSL conducted a literature review to determine whether a business case for DEI exists for Sri Lankan companies. Additionally, the review explores international companies' best practices for implementing DEI.

4.1. BENEFITS OF DEI

Many studies report the business benefits of DEI. McKinsey & Company's 2020 report *Diversity wins: How inclusion matters* claims that "the business case for gender and ethnic diversity in top teams is stronger than ever."¹⁹ This report considered a sample of 1,000 companies in 15 countries, and found that companies with ethnically and culturally diverse executive teams were more likely to outperform industry peers on profitability.²⁰ The McKinsey report describes diversity as a competitive advantage for companies and that the most diverse companies see this as a core enabler of their growth and value creation.²¹

These findings on the correlation between diversity and financial performance have been reproduced in many studies across the world. A 2009 sample of USA firms revealed that racial diversity is associated with increased sales revenue, more customers, greater market share, and greater relative profits;²² a 2014 Malaysian study found a significant positive relationship between ethnic diversity and firm financial performance;²³ and in Sub-Saharan Africa, a 2018 study found a positive correlation between firms' ethnic and linguistic diversity and their revenue, return on assets, and productivity.²⁴

The business benefits of DEI have also been observed in Sri Lanka. A 2021 paper from the European Corporate Governance Institute found that Sri Lankan companies with more diverse boards had stronger financial performance and better financial stability.²⁵ The paper noted that some firms may nonetheless experience costs of diversity in communication and interpersonal conflicts, but that these are outweighed by the overall business benefits.

19. McKinsey & Company (2020) *Diversity wins: How inclusion matters*, 3.

20. *Ibid*, 20.

21. *Ibid*, 13.

22. Herring, C. (2009) Does Diversity Pay?: Race, Gender, and the Business Case for Diversity, *American Sociological Review*, Vol. 74(2), pp. 208-224.

23. Cheong, C. and Sinnakkannu, J. (2014) Ethnic Diversity and Firm Financial Performance: Evidence From Malaysia, *Journal of Asia-Pacific Business*, vol. 15(1), pp. 73-100.

24. Awaworyi Churchill, S. (2019) Firm financial performance in Sub-Saharan Africa: The role of ethnic diversity, *Empirical Economics*, vol. 57.

25. Nazliben, Renneboog and Uduwalage (2021) Social Diversity on Corporate Boards in a Country Torn by Civil War, European Corporate Governance Institute.

The main ways in which DEI can benefit an organisation were already summarised in 1991 by Cox and Blake²⁶ and have since been substantiated by further evidence:

- 1. Cost: poor diversity management is costly for businesses, so businesses with good diversity management reduce their costs.** Costs and savings can manifest in many areas of a business, but this is most prominently seen in the retention of employees. For example, a pharmaceutical company referred to in the Cox and Blake study estimated it saved \$500,000 from reduced turnover of women and ethnic minorities as a result of its diversity programs.²⁷
- 2. Resource-acquisition: businesses with better DEI will develop good reputations and be able to hire better employees.** For example, Forbes publishes an annual list of 'America's Best Employers for Diversity', reflecting jobseeker demand to work for businesses that align with their values.²⁸
- 3. Marketing: enhanced insight and cultural sensitivity from having a diverse workforce improves marketing to diverse audiences.** Global e-commerce giant Amazon successfully employed this approach, as explained by its Global Director of Inclusion, Diversity, and Strategic Partnerships Modupé Congleton: "DEI can improve your marketing team's performance by understanding the importance of representation in every aspect of marketing from research and analysis to imagery and campaigns, understanding market segments and demographics while having a deep appreciation for culture drivers and motivators from under-represented audiences."²⁹
- 4. Creativity: a diversity of opinions and experiences leads to new ideas.** As the Harvard Business Review explains, "diversity unlocks innovation by creating an environment where 'outside the box' ideas are heard. When minorities form a critical mass and leaders value differences, all employees can find senior people to go to bat for compelling ideas and can persuade those in charge of budgets to deploy resources to develop those ideas."³⁰

26. Cox, T. H. and Blake, S. (1991), Managing cultural diversity: implications for organizational competitiveness, *Academy of Management Executive*, Vol. 5(3), pp 45-56.

27. *Ibid*, 48.

28. Forbes (2023) America's Best Employers For Diversity, Online <<https://www.forbes.com/lists/best-employers-diversity/?sh=41887b046468>>.

29. LinkedIn, How can diversity and inclusion improve your marketing team?, Online <https://www.linkedin.com/advice/3/how-can-diversity-inclusion-improve-your-marketing-wxjsf>, last accessed February 2024.

30. Hewlett, S., Marshall, M. and Sherbin, L. (2013) How Diversity Can Drive Innovation, *Harvard Business Review*, December 2013, Online <https://hbr.org/2013/12/how-diversity-can-drive-innovation>.

5. **Problem-solving: a wider range of perspectives produces a wider range of potential solutions to problems.** Research supports the idea that diverse groups tend to outperform homogeneous groups in problem-solving tasks due to a broader range of perspectives and ideas.³¹ This could be imagined in the simplified context of a trivia game, in which diverse teams can draw on a wider range of knowledge and experience to outperform more homogenous teams.
6. **System flexibility: by embracing diversity, the company becomes more flexible and resilient, and is better prepared to respond to external shocks.** Diversity improves a company's problem-solving capabilities and in turn enhances its capacity to adapt to unforeseen challenges. This facilitates more effective navigation through disruptions, emphasising the broader resilience that diversity brings to businesses.³²

4.2. POTENTIAL RISKS AND COSTS OF POOR IMPLEMENTATION

Studies also show that DEI does not always automatically lead to business benefits. A 2013 literature review from the UK government's Department for Business Innovation and Skills considered 64 academic studies, which overall showed "evidence that firms have reaped business benefits from equality & diversity."³³ However, it noted that not all businesses saw benefits, and that the benefits of equality and diversity were affected by important contextual factors, such as the industry the business operates in, its labour market, and the business's strategies and actions. The review also noted that diversity could bring benefits when managed well but could also incur costs when managed poorly.

Companies with equal opportunity policies were shown to experience increased productivity in a 2000 UK study.³⁴ Again though, the findings showed that this is not a simple, linear relationship. The study showed that for non-diverse businesses, the short-term costs of equal opportunity policies did not outweigh the short-term benefits. A net business benefit was only observed once the business had made significant improvements on its diversity journey. Similarly, a 2007 study showed that small increases in racial diversity of top managers initially decreased firm performance, but that large increases led to increases in performance.³⁵

31. Phillips, K. (2014) How Diversity Makes Us Smarter, *Scientific American*; Page, S. (2007) The Benefits of Diversity in Problem Solving, *Chronicle of Higher Education*.

32. Cox, T. H. and Blake, S. (1991), Managing cultural diversity: implications for organizational competitiveness, *Academy of Management Executive*, Vol. 5(3), pp 45-56.

33. UK Government Department for Business Innovation and Skills (2013) *The Business Case for Equality and Diversity: A survey of the academic literature*, BIS Occasional paper no. 4, vi.

34. Pérotin, V. and Robinson, A. (2000) Employee participation and Equal Opportunity Practices: Productivity Effects and Potential Complementarities, *British Journal of Industrial relations*, Vol. 38(4), pp 557-584.

35. Park, H. J. and Roberson, Q. M. (2007) Examining the link between diversity and firm performance: The effects of diversity reputation and leader racial diversity, *Group and Organization Management*, Vol. 32(5), 548-568.

This implies that business actions to advance DEI may require substantial investment before realising benefits. These perceived high initial costs could prevent non-diverse businesses from embracing DEI programs, despite the long-term benefits these programs could bring.

These findings suggest that the business case for DEI is not a clear-cut proposition. DEI provides a range of potential benefits for businesses, including improved profitability, cost reduction, enhanced resource acquisition, more effective marketing, increased creativity, problem-solving abilities, and organisational flexibility. Findings on improved financial performance and stability have also been confirmed in the Sri Lankan business context, highlighting the tangible advantages of DEI within the local business landscape. However, businesses should not expect that any program to increase DEI will immediately result in improved company performance. To reap the benefits of DEI, businesses need to thoughtfully design long-term programs, seek broad input from employees, communities, and experts, and critically reflect on the successes and failures of implementation.

FINDING 1

DEI can provide significant commercial advantages, including reduced personnel costs, improved resource acquisition, more effective marketing, and enhanced organisational flexibility. However, DEI does not automatically create business benefits. Successful implementation requires careful, long-term planning, broad input, and ongoing evaluation. Poor development and implementation can be costly and see businesses forego the potential benefits of DEI.

The wider social benefits of social cohesion are uncontroversial, but most companies require a compelling business case to justify the investment in DEI initiatives. This is especially so in Sri Lanka given current economic challenges (see chapter 5.4.2). To be successful, DEI programs require a nuanced approach that considers the business context and the potential costs involved. It is clear that DEI can enhance business outcomes, but the implementation of DEI initiatives is far from straightforward.

Businesses that ignore this inherent complexity may create misguided programs leading to heightened costs without the anticipated benefits. Successful DEI implementation requires thoughtful program design, extensive stakeholder input, and critical reflection on successes and challenges. Sri Lankan businesses that recognise both these benefits and complexities are best placed to secure the long-term advantages of DEI for both their business and society.

RECOMMENDATION 1

Sri Lankan businesses should explore opportunities to harness the attractive commercial advantages of DEI. DEI should not be viewed as a quick win though, rather as a long-term investment that requires careful design and consideration of contextual factors.

4.3. INTERNATIONAL BEST PRACTICES

Having outlined the business case for DEI, this chapter highlights key international best practices regarding its implementation.

COMMITMENT FROM LEADERSHIP

Leadership plays a critical role in fostering social cohesion and DEI within organisations. Successful businesses across the globe demonstrate a commitment from the highest levels of management. Leadership sets the tone for a company's culture, signalling to employees and stakeholders that DEI is a top priority. International companies such as Unilever, General Motors, and Standard Chartered have all appointed leaders responsible for advancing DEI in their organisation.³⁶

MEASURING AND ASSESSING IMPACT

The most effective DEI programs incorporate regular measurement and assessment of their impact, where businesses use key performance indicators and data-driven approaches to gauge their progress. Many international companies publish their internal DEI progress in reports, such as Microsoft's annual Diversity & Inclusion Report.³⁷ By disclosing their progress, challenges, and achievements, companies promote a culture of accountability and continuous improvement. Even when not published, collecting data on DEI metrics can still trigger action, as this allows companies to identify areas of concern and make data-informed decisions to rectify them.

EMPLOYEE ENGAGEMENT AND INVOLVEMENT

International best practices emphasise that promoting social cohesion and DEI is not solely the responsibility of the HR department.³⁸ Businesses should encourage active participation and involvement from all employees. This can take the form of employee resource groups, diversity councils, or regular surveys to gauge employee perceptions and identify areas for improvement. Engaging employees empowers them to take ownership of the company's DEI initiatives and encourages a sense of belonging and responsibility. For instance, Google's approach to DEI includes employee resource groups, diversity councils, and regular surveys, encouraging active employee participation and ownership in the company's DEI initiatives.³⁹

36. Microsoft, Diversity and Inclusion, Online <<https://www.microsoft.com/en-us/diversity/default.aspx>>; Cadia, Telva McGruder, Online <https://www.cadia.org/telva-mcgruder/>; Standard Chartered, Diversity and Inclusion, Online <https://www.sc.com/en/about/diversity-and-inclusion/>, last accessed February 2024.

37. Microsoft, Diversity & Inclusion Report, Online < <https://www.microsoft.com/en-us/diversity/inside-microsoft/annual-report?activetab=innovation-spotlights:primaryr4>>, last accessed February 2024.

38. Tsedale, M. and Winkler, C. (2022) Are your organization's DEI efforts superficial or structural?, Harvard Business Review, Online <<https://hbr.org/2022/06/are-your-organizations-dei-efforts-superficial-or-structural>>.

39. Google, 2023 Diversity Annual Report, Online <<https://about.google/belonging/at-work/>>.

CULTURAL COMPETENCY AND TRAINING

Cultural competency and training programs help employees understand the significance of diverse perspectives and backgrounds, challenging stereotypes and prejudices. Moreover, they equip staff with the tools to navigate sensitive DEI dimensions such as ethnicity and religion, promoting open and respectful dialogue. These programs include education on foundational DEI topics as well as topics some employees may be less familiar with, such as unconscious bias, micro-aggressions, and intersectionality.

Demand for expert trainings has led to many management consulting firms offering services to improve DEI in clients' businesses. In the USA, management consultant firm Korn Ferry has incorporated DEI into its service offering, offering to help businesses "build inclusive organizations by design, not default" and to "hire and nurture inclusive leaders who can bring together diverse knowledge, perspectives, and experiences."⁴⁰ Other consulting firms across the globe also providing DEI services include EW Group in the UK, Aperian in France and Germany, and Interweave Consulting in India.⁴¹

SUPPLIER AND COMMUNITY ENGAGEMENT

Beyond internal practices, international best practices advocate for engaging with suppliers and the broader community. Businesses can enhance social cohesion by fostering relationships with suppliers and partners that share their commitment to DEI. This commitment to supply chain diversity is evidenced by the creation of databases that facilitate diverse supply chains. For example, in Australia Supply Nation⁴² provides a database of verified Indigenous businesses, and Singapore-based Givvable⁴³ offers a similar database that allows businesses to find suppliers with verified sustainability credentials.

FINDING 2

International best practices for DEI include a strong commitment from leadership, data-driven measuring and assessment of impact, employee involvement, cultural competency and training, and supplier and community engagement.

40. Korn Ferry, Diversity, Equity and Inclusion, Online <https://www.kornferry.com/insights/featured-topics/diversity-equity-inclusion>, last accessed February 2024.

41. E W Group, Online <<https://theewgroup.com>>, Aperian, Online <<https://aperian.com/>>; Interweave Consulting, Online <https://aperian.com/>, last accessed February 2024.

42. Supply Nation, Online <https://supplynation.org.au/>, last accessed February 2024.

43. Givvable, Online <https://www.givvable.com/>, last accessed February 2024.

Recognising the potential competitive advantages derived from aligning with these practices, Sri Lankan businesses can strategically adapt and implement these global standards to the unique context of the Sri Lankan business landscape. By doing so, businesses can foster a workplace culture that not only captures the commercial advantages of such DEI practices, but also use these to foster social cohesion within their local communities. The following chapter gives insights into how Sri Lankan businesses already implement these international best practices and which additional practices exist in the Sri Lankan context.

RECOMMENDATION 2

Sri Lankan businesses should continue to use international best practices as a roadmap for effectively implementing DEI, while recognising the importance of adapting practices to local contexts.



5

**DEI IN SRI
LANKAN
BUSINESSES**

This chapter explores DEI in the Sri Lankan private sector, detailing both the commendable progress made and areas presenting opportunities for further attention and development. Based on ECCSL's exploratory interviews with business representatives across Sri Lanka, it explores businesses' attitudes towards DEI, outlines common DEI practices as well as less common practices and opportunities, before finally discussing challenges faced by businesses when implementing DEI initiatives.

5.1. BUSINESS ATTITUDES TOWARDS DEI IN SRI LANKA

A key objective of ECCSL's research was to determine the attitudes and beliefs of Sri Lankan businesses towards social cohesion and DEI. Almost all businesses expressed support for DEI principles and social cohesion more broadly, however, differences emerged in how each business conceptualised and implemented DEI.

This variance highlighted two main approaches to DEI among businesses: a narrow approach, which primarily aimed at preventing negative incidents and was hesitant to discuss more sensitive aspects of DEI; and a more sophisticated approach, which recognised the nuance of DEI, embraced a variety of implementation methods, and showed openness to address sensitive topics.

Many of the businesses interviewed had DEI programs, and some had staff dedicated to implementing these programs. These businesses were eager to speak about their DEI work, progress, and goals. Common priority areas for Sri Lankan businesses' DEI programs were gender, disability, and age. The work done by businesses in these areas showed a sophisticated approach that engaged directors and higher-level management, analysed data to set ambitious targets, used root-cause analysis to design strategies to achieve these targets, and involved appropriate accountability procedures (in line with international best practices, see chapter 4.3).

The DEI work done by businesses in these areas is highly commendable. Few businesses, however, explicitly addressed other dimensions of DEI, such as ethnicity and religion – identity markers that continue to be relevant in Sri Lanka – in their DEI programs. Some businesses stated that issues relating to ethnicity and religion were not problems within their organisations. These businesses stated that no issues had been reported internally, and that the business did not tolerate discrimination, harassment, or abuse of any kind. Other businesses acknowledged the importance of ethnic and religious dimensions of DEI, but stated that they had focussed their DEI strategy on the highest priority areas, which (based on research that included employee surveys) did not include ethnicity and religion. These businesses also noted their zero-tolerance policy for discrimination, harassment or abuse (see chapter 5.2.1).

Some businesses appeared hesitant to discuss other sensitive dimensions of DEI, such as ethnicity and religion. This could be due to one or a combination of different factors, such as the sensitive nature of these issues in Sri Lanka, the effect of the social desirability bias to give uncontroversial answers, or not being confident speaking about these dimensions of DEI due to a (perceived) lack of knowledge.

These findings highlight two different conceptualisations of DEI in Sri Lankan businesses.

The first conceptualisation is narrowly construed and focuses on preventing negative events. When asked about DEI in their workplaces, specifically related to dimensions of ethnicity and religion, these companies' answers focussed on the absence of recorded negative events. They felt that this absence was evidence that their organisation did not have problems in relation to ethnic and religious issues, and that this meant the organisation did not need to specifically address these issues in a formal DEI program.

The second conceptualisation that has emerged is more nuanced. It recognises that DEI goes beyond preventing overt discrimination, abuse, or harassment, also focussing on creating workplaces where all employees feel comfortable, included, and respected. Businesses with this conceptualisation showed an understanding that DEI issues can be complex, subjective, and difficult to measure, and that DEI may include dimensions that they are less informed of and do not currently prioritise. They appreciated that some issues may go unreported, that employees may not be comfortable speaking about very sensitive issues, or that possible improvements to company culture may not be readily apparent to those within the culture.

These businesses also showed an openness to discussing more sensitive dimensions of DEI. They were willing to constructively discuss sensitive topics such as ethnicity and religion without needing to show that their organisation had no issues in these areas. In this way, these businesses acknowledged that they were on a journey of continual improvement to be the best business they could be. Such openness is crucial for reflecting on and advancing any organisation's DEI initiatives, as it fosters a culture of curiosity, learning, and growth – necessary traits for progress in any area of a business, not just DEI.

FINDING 3:

Conceptualisations of DEI among Sri Lankan businesses are varied. Some businesses exhibit a sophisticated understanding of the nuance and complexity of these issues and their implementation, while other businesses appear hesitant to go beyond a narrow approach that focuses only on preventing negative interactions between staff.

To successfully implement DEI practices, businesses must first establish a comprehensive understanding of what DEI is. This fulsome understanding is crucial as it lays the groundwork for nuanced and effective implementation. By acknowledging the complexity of DEI issues and the subjective nature of their measurement, businesses can approach DEI with a continuous improvement mindset.

RECOMMENDATION 3:

Sri Lankan businesses should ensure their approach to DEI acknowledges that: DEI goes beyond mere instances of discrimination, harassment, and abuse; DEI issues are complex, subjective, and challenging to measure; and all businesses are on a continual improvement journey. This nuanced approach is a necessary starting point for businesses to embrace DEI in their organisations.

When speaking to businesses about their DEI programs related to gender, many businesses showed a sophisticated conceptualisation of DEI in this area. Businesses noted that they had made progress but that there was still much work to be done, that programs included empowering the capabilities of women in the company (i.e. not just towards preventing instances of discrimination, harassment, or abuse), and that the business's approach to implementing DEI programs related to gender had evolved over time through review and reflection.

FINDING 4:

Many Sri Lankan businesses have sophisticated approaches to DEI in areas such as gender, age, and disability, and meaningfully implement these into their business activities. In contrast, most businesses are more hesitant to discuss and engage with other sensitive dimensions of DEI such as ethnicity and religion, and few businesses have programs specifically addressing these topics.

Sri Lankan businesses are well-positioned to make use of their proven experience in areas such as gender, age, and disability as a stepping stone to broaden their DEI approaches to include less commonly addressed dimensions such as ethnicity and religion.

This stepping stone metaphor echoes DEI movements in other countries, such as the USA, where the race-focussed civil rights movement sparked broader conversations about civil rights in other areas. As societal awareness grew, the public's experience and understanding of race-based issues informed conversations on gender, sexual orientation, disability, and other dimensions of identity. The struggles for racial justice acted as a stepping stone, inspiring subsequent movements and initiatives that aimed to address various forms of discrimination and promote a more inclusive and equitable society. Sri Lankan businesses can similarly build upon the successes of existing initiatives in gender, age, and disability inclusion to expand their DEI approach to encompass other dimensions like ethnicity and religion.

RECOMMENDATION 4:

Sri Lankan businesses should use their sophisticated understanding and experience of DEI in relation to areas such as gender, age, and disability as stepping stones to broaden their approach to also address other sensitive dimensions such as ethnicity and religion.

5.2. COMMON DEI PRACTICES IN SRI LANKA

As Sri Lankan businesses' approaches to DEI in dimensions such as gender, age, and disability are already quite sophisticated, this chapter focuses on common DEI practices relating to the less frequently addressed dimensions of ethnicity and religion.

5.2.1 ZERO TOLERANCE FOR DISCRIMINATION, HARASSMENT, AND ABUSE

Almost all businesses stated that they did not tolerate discrimination, harassment, or abuse for any reason, including on the basis of ethnicity or religion. Many businesses emphasised that they had policies and procedures in place in relation to preventing and dealing with cases of discrimination, harassment, or abuse. Policies and procedures appeared to mostly refer to discrimination, harassment, or abuse in general terms, and did not make specific reference to ethnicity or religion.

5.2.2. RELIGIOUS AND CULTURAL EVENTS

Almost all businesses held religious and cultural events throughout the year. Many businesses noted that they celebrated all religious and cultural events that were represented by their staff. For example, if a business had staff who were Buddhist, Hindu, Muslim, and Christian, the business would hold celebrations for all four religions. Another business noted that it did not have any Christian or Muslim staff, so it did not hold celebrations for these religions, but that it would if its workforce diversity were to change. Businesses reported that religious celebrations were attended by staff from all religions, not just the religion belonging to the celebration. These events were viewed very positively by staff and management, with many interviewees expressing that this provided enjoyable opportunities for cultural exchange, building trust, and employee bonding.

Many businesses also held an event on January 1st to celebrate the new year. These events were usually attended by all staff (sometimes bringing staff from multiple locations to the business's headquarters). Businesses reported that religious leaders were often present at these events, and that they provided blessings for the beginning of the new year. Some larger companies were proud to report that religious leaders from all four major religions attend their January 1st events.

5.2.3. CULTURAL AND LANGUAGE EXCHANGE THROUGH DIVERSE TEAMS

Many businesses reported that cultural and language exchange was primarily driven by employees working closely together. The diverse backgrounds of staff naturally lead to conversations, shared traditions, and language exchange during work hours, mealtimes, and breaks. Employees from one company in the North Western Province reported that colleagues from different ethnic and religious communities often shared lunch together. Each employee would contribute a lunch packet, which would be shared between the group. The employees greatly enjoyed this practice, as they said it allowed them to learn about their colleagues' cultures by exposing them to different cuisines. This also served as an opportunity to actively appreciate each other's cultural traditions.

These interactions occurred even more frequently among employees living in employer-provided accommodation. Businesses and employees reported that these informal interactions created a rich blend of cultures and languages within the workplace, fostering mutual respect, trust, and understanding. Several employees even commented that they viewed their work friends as family.

The extent of diversity within businesses was, unsurprisingly, highly dependent on the demographic makeup of the local population. In regions where diverse ethnic and religious communities coexist, businesses tend to reflect this diversity, bringing together employees from different backgrounds to create a workforce characterised by a wide range of cultures and languages. Conversely, in areas with more homogenous communities, employees are presented with fewer opportunities for cultural and language exchange.

Some businesses offered accommodation for staff who lived a long distance from the business location. Offering accommodation to employees allowed these businesses to recruit staff from a much wider geographic range, which, in turn, made it more likely that the business employed staff from diverse communities.

5.2.4. FACILITIES AND FLEXIBILITY FOR RELIGIOUS OBSERVANCE

Several companies proactively cater to religious practices within their workplace. Some organisations offer dedicated facilities, such as prayer rooms, to accommodate the diverse religious needs of their workforce. These prayer rooms are designed to be inclusive and serve as a place for employees to practice their respective religions in an environment of respect and understanding.

In addition to providing onsite religious facilities, many companies allow employees to observe religious holidays without having to compromise their work commitments. This includes providing flexibility for employees to attend religious observances, such as Friday prayers for Muslim employees. Several businesses noted that they prioritised leave applications for religious holidays, thereby acknowledging the significance of these events for employees.

Some businesses noted that it was important for the business to have an overview of its workforce diversity to effectively plan their operational activities and staff scheduling in consideration of major religious events. This provides an inherent argument from the businesses themselves for data collection around religion, a so far less common practice in Sri Lankan businesses (see chapter 5.3.1), but an international best practice to advance DEI (see chapter 4.3). Some of these businesses also commented that a diverse workforce offered advantages for ensuring an uninterrupted flow of business operations. This was attributed to the availability of staff members from different religions, meaning there were almost always staff available to work during holidays not celebrated by their religion.

FINDING 5:

Common practices of Sri Lankan businesses in relation to the less frequently addressed DEI dimensions of ethnicity and religion include no tolerance for discriminatory behaviour, promoting cultural and language exchange through events and diverse teams, and providing flexibility and facilities for religious practices.

These established practices are considered uncontroversial, proven, and aligned with the Sri Lankan business context. For businesses not currently implementing these practices, adopting them presents a practical and efficient way to enhance DEI within their organisation. And for all businesses, regularly evaluating alignment with these common practices and identifying avenues for further improvement ensures sustained positive progress.

RECOMMENDATION 5:

Sri Lankan businesses should continually assess whether their activities align with common DEI practices that include dimensions such as ethnicity and religion, and, where possible, explore opportunities to enhance and expand these activities.



5.3. LESS COMMON DEI PRACTICES & OPPORTUNITIES

In addition to the above common practices, several additional opportunities exist for embracing DEI in the Sri Lankan business landscape, specifically in relation to ethnic and religious dimensions.

5.3.1. DATA COLLECTION

Despite having at least a broad overview of the religious makeup of their employees in order to celebrate different religious festivals and organise schedules (see chapter 5.2.2 and 5.2.4), few businesses systematically collected and analysed data on the ethnic and religious makeup of their workforce. Some businesses that did not collect this data explained that they treated all employees equally, so they did not believe that collecting this data was necessary.

FINDING 6: Few Sri Lankan businesses collect and analyse data on the ethnic/religious makeup of their workforce.

The intention of businesses to treat each employee equally is commendable, and some hesitancy to collect data on potentially sensitive identity markers such as ethnicity and religion is understandable. It is possible though for businesses to treat employees fairly while also collecting information on the ethnic and religious makeup of their workforce. This allows businesses to implement meaningful DEI practices that go beyond a preventative approach and actively encourage and promote diversity (see chapter 5.2.4). However, businesses must be mindful of potential sensitivities and ensure that any data collection is transparent, collected with the consent of employees, and adheres to all applicable data protection regulations, including compliance with Sri Lanka's Personal Data Protection Act.

To have an accurate picture of and address ethnic and religious diversity in the workforce, businesses need to systematically (and sensitively) collect data on ethnicity and religion. One business summed this up well when it mentioned that its approach to DEI was informed by a saying the business also used for improving its manufacturing processes: "What gets measured, gets done." This focus on measurement and assessment is also commonly seen in international companies' DEI strategies (see chapter 4.3). By collecting this data, businesses are equipped with the necessary information to identify potential issues not only relating to gender, age, and disability, but also other dimensions of DEI such as ethnicity or religion and to design strategies to address these issues.

RECOMMENDATION 6:

Sri Lankan businesses should collect and analyse data on all aspects of diversity in their workforce, including dimensions such as ethnicity and religion. Collecting such data is necessary to meaningfully implement and assess DEI programs. Businesses should be mindful to ensure sensitivity and transparency, receive consent from employees, and comply with relevant privacy regulations (such as the Personal Data Protection Act). This analysis should consider diversity across the entire workforce, within specific teams, and for employees at different levels. It should help plan, develop, and inform businesses' DEI programs.

5.3.2. DEI TRAINING

Some businesses provide DEI training to employees, which is another avenue for businesses to promote social cohesion (this is also a common international best practice, see chapter 4.3). Trainings can cover various topics, such as the fundamentals of DEI, cultural understanding, unconscious bias, intersectionality, etc. Companies can collaborate with professional trainers or consultants with expertise in these areas to ensure that the training is effective and engaging. These programs can be designed to raise awareness and facilitate dialogue among employees, fostering mutual respect and understanding of different cultures, ethnicities, and religions.

It is important that businesses do not see DEI trainings as a 'tick-box' initiative. Trainings should be ongoing, with regular refresher sessions and exploration of different themes and aspects within DEI. This ensures that employees internalise and develop their understanding of DEI concepts and practices. Trainings should also be tailored to different employee levels and delivered in local languages.

5.3.3. SUPPORT FOR MULTILINGUALISM

Promoting multilingualism within the workplace is a significant opportunity for businesses to further foster cultural diversity and inclusion. Sri Lankan businesses can actively contribute to this objective by offering language courses, resources, and incentives to encourage employee proficiency in Sinhala, Tamil, and English. By doing so, businesses also realise benefits from improved communication and cultural understanding between employees, its supply chain, and customers.

Language classes were common among businesses in the hospitality industry, where English language skills are required for many positions. Businesses offering language courses reported that participating employees showed not only improved language skills but were also more confident in other aspects of their work. Businesses also reported that employees were able to communicate with more of their colleagues using English as a link language. Furthermore, proficiency in English was viewed by staff at all levels as a key factor unlocking future career opportunities, given English language skills are often required for senior-level positions. This was confirmed by many larger businesses, who noted that work at their main office was predominantly conducted in English.

5.3.4 WORKING AND TRAINING ACROSS MULTIPLE LOCATIONS

Businesses operating across multiple locations in Sri Lanka are more likely to employ a workforce that represents Sri Lanka's diverse ethnic and religious communities. Nonetheless, the majority of employees typically only work at their respective local branch, where employees are more likely to belong to the same community. This localised work environment may limit opportunities for day-to-day cultural and language exchange at each specific business location (see chapter 5.2.3).

Some multi-location businesses highlighted how the movement of employees across different sites for training and work assignments had spurred cultural and language exchanges. While this mobility is typically associated with upper management roles, it had also sometimes included other positions, including factory-floor staff. These exchanges took on various forms, including short-term assignments, inter-office training sessions, and collaborative project teams. Through these initiatives, businesses noted that they had inadvertently facilitated opportunities for cultural and language learning that would not have otherwise been accessible to many employees. This approach not only enhanced interpersonal understanding and collaboration but also enriched the corporate culture with diverse perspectives.

Although not widely reported among the businesses interviewed, a few businesses shared stories highlighting the positive impacts of this practice.

One employee shared her experience at a large business in the Northern Province. Before opening the new business location, approximately 40 new Tamil employees from the local community travelled to the Western Province for six months of training. The employee recalled that at first she could not speak Sinhala or English, but was treated no differently by her trainers. After three months, she could understand Sinhala, and after the full 6 months her Sinhala language skills had vastly improved.

Another Tamil employee from the Northern Province shared a similar experience receiving training in the Western Province. He commented that during his training he had made friends with colleagues from different communities across the country and his Sinhala and English language skills had improved greatly. He said that this training period was a very enjoyable time for him, and that he still kept in touch with the friends he had made through this experience.

These exchanges not only contribute to cultural and language diversity, they also serve to break down geographical barriers and strengthen national unity. By adopting this collaborative approach, businesses can create a more inclusive and culturally vibrant work environment that reflects the diversity of Sri Lanka.

FINDING 7:

Other less common DEI business practices that can contribute to social cohesion in Sri Lanka include conducting ongoing DEI training for all staff, promoting multilingualism, and facilitating employee mobility across different locations.

These less common practices, while not as widespread among Sri Lankan businesses, illustrate the potential for innovative approaches to DEI. Businesses adopting such forward-thinking strategies position themselves as first-movers, gaining a competitive advantage by showcasing adaptability to evolving workforce dynamics and a commitment to a more inclusive and united workforce. Embracing novel DEI methods not only contributes to a positive work environment but also positions businesses as leaders in fostering progressive workplace cultures.

RECOMMENDATION 7:

Sri Lankan businesses are encouraged to explore, design, and implement less common and novel DEI practices. This positions businesses as first-movers, gaining a competitive advantage by showcasing adaptability to evolving workplace dynamics and a commitment to a more inclusive and united workforce.

5.4. CHALLENGES

ECCSL also asked companies about the challenges they encounter in both their general business operations and their implementation of DEI. Consideration of these challenges is necessary to ensure this report's findings and recommendations are context-specific and practical for businesses. This section discusses these challenges, notably language barriers that hinder communication and social cohesion, and prevailing economic difficulties that affect the affordability and prioritisation of DEI initiatives. These challenges underscore structural issues that cannot be resolved by businesses alone, but are nonetheless highly relevant to implementing DEI.

5.4.1. LANGUAGE BARRIERS

Language barriers were identified by several businesses as a significant challenge, affecting not only everyday operations but also efforts towards fostering social cohesion. This sentiment was most common in areas where Tamil was the primary language, such as the Northern Province and Eastern Province. In these areas, the desire to integrate into the broader Sri Lankan market, where Sinhala is more commonly spoken, presents a distinct challenge. Some smaller enterprises in the Northern Province reported missing out on opportunities in the south due to the lack of Sinhala language skills within their teams.

In all provinces except the Northern Province, interviewees noted that it was common for employees whose first language was Tamil to also speak Sinhala, but that it was less common for native Sinhala speakers to also speak Tamil. In the Northern Province, businesses reported that most employees only spoke Tamil.

Despite these challenges, many businesses and employees remarked that there were few fundamental differences between people from different communities. This perspective was particularly common in regions where diverse communities coexisted and where widespread multilingualism allowed almost all employees to communicate with each other in at least one shared language. A common phrase mentioned in these interviews was “We are all Sri Lankans.” Others mentioned that while there some differences in aspects of everyday life like language, food, and traditions, people from different communities shared important fundamental values relating to family, work, and their communities, and that these fundamental similarities became obvious when working and interacting with people from other communities every day. One employee used the phrase “All five fingers are not the same” to acknowledge that differences exist between people (including differences based on ethnicity and religion), but that all these people still had a common goal that they worked together to achieve.

Businesses reporting such positive interactions noted that social cohesion was promoted organically simply by creating diverse teams who worked together towards a common goal. This positive dynamic was most evident in regions where language barriers were minimal. Businesses were less likely to report this phenomenon, however, in areas where employees from different communities could not communicate through a shared language. Some businesses with language barriers in their workforce nonetheless noted the positive effects of creating diverse teams. However, they also reported that this organic effect of increased understanding and appreciation developed more slowly, as employee interactions were partially limited by language barriers.

FINDING 8:

Language barriers pose a challenge for businesses as they dampen the positive effect of DEI practices (such as cultural exchanges in diverse teams) and impede effective communication and integration into the wider Sri Lankan market.

Language barriers are a complex challenge, but they are not insurmountable. Businesses must acknowledge the tangible and practical impacts of language barriers on communication, particularly in the context of diverse teams that contribute to increased productivity and inter-community understanding. By proactively addressing this challenge, businesses can not only amplify the impact of cultural exchanges in these diverse teams but also realise benefits for their general business operations.

RECOMMENDATION 8:

Businesses should assess to what extent language barriers exist within all levels of their business. Where barriers exist, businesses should support employees to improve their language skills. In this way, businesses can both enhance their organisational efficiency through employees' improved communication abilities, as well as contribute to inter-ethnic and inter-religious trust and understanding.

5.4.2. ECONOMIC CHALLENGES

Many businesses noted that current economic conditions were very poor. Interviewees commonly referenced several factors negatively affecting their businesses:

- **Fuel/transport costs:** Many businesses mentioned that the increased cost of fuel was a major difficulty for their business. This was especially the case for businesses that had to transport their products long distances, or who were exporting.
- **General cost increases:** Many businesses also mentioned that the costs of running their business had risen in all areas.
- **Decreased buyer demand:** Both exporting and domestic businesses commented that Sri Lanka's recent crises had caused a decrease in buyer demand. This was experienced both by businesses selling to consumers as well as businesses selling to other businesses.
- **Financing costs:** Many micro, small, and medium enterprises (MSMEs) expressed their frustration at high finance costs. These MSMEs explained that they could deal with economic challenges if they had access to capital, as they could, for example, invest in new machinery to increase output/reduce costs. MSMEs noted that interest rates of over 20% made obtaining credit almost impossible.

The above are only some of the economic challenges that businesses mentioned in ECCSL's interviews. These difficulties make DEI programs seem like a noble yet unaffordable expense for some businesses.

FINDING 9:

Many Sri Lankan businesses are currently experiencing challenging economic conditions, facing difficulties such as rising operational and financing costs and decreased buyer demand, which deters some businesses from investing in DEI.

DEI programs can be initially costly for businesses that have previously underinvested in these areas, however, there are many long-term benefits to businesses for profit, productivity, employee satisfaction, and turnover (see chapter 4.1). Most importantly, investment in DEI can make businesses more resilient to possible future crises, which are both highly unpredictable yet also certain to occur at some point in the future. Sri Lanka's economic situation appears to be improving, so businesses should use this opportunity to invest in DEI programs to reap the long-term business benefits and ensure they are more prepared for the next crisis.

RECOMMENDATION 9:

Sri Lankan businesses should consider the long-term benefits of investing in DEI, as these programs enhance employee satisfaction and productivity, while also making businesses more resilient when facing future crises. Businesses should view DEI as a key component of their long-term success and should ensure that this is a part of their business DNA rather than an occasional, ad-hoc investment.



CONCLUSION

The Sri Lankan business community has the opportunity, capacity, and responsibility to contribute to social harmony and economic stability in Sri Lanka. By implementing the recommendations outlined in this report, businesses can unlock the power of DEI to create far-reaching societal benefits as well as sustainable commercial advantages.

Existing literature highlights the potential business benefits of DEI, emphasising improved profitability, resilience, marketing, and creativity. To realise these advantages, businesses should frame DEI as a long-term investment necessary for sustainable business success. DEI initiatives should be thoughtfully designed by recognising that DEI extends beyond preventing negative incidents, can be complex and challenging to measure, and represents a continuous improvement journey.

Businesses are recommended to leverage their existing DEI successes in areas like gender, age, and disability to broaden their approach to other sensitive dimensions such as ethnicity and religion. Businesses are also encouraged to align with and improve upon existing common practices in the Sri Lankan business landscape, such as promoting cultural exchange and flexibility for religious practices.

Businesses wishing to deepen their commitment to social cohesion are encouraged to explore opportunities to implement less common and novel DEI practices, including collecting and analysing data on workforce diversity, conducting ongoing DEI training, promoting multilingualism, and facilitating employee mobility.

Crucially, faced with language barriers and economic challenges, businesses are reminded to view DEI as an indispensable component of long-term success. Investments in these programs not only enhance employee satisfaction and productivity but also prepare businesses for future crises.

In conclusion, this study should be understood as an initial effort to highlight the pivotal role of the private sector in leveraging DEI practices as a catalyst for both social harmony and economic prosperity. It calls for a proactive, nuanced, and strategic integration of DEI practices, emphasising the long-term advantages of weaving DEI into all aspects of everyday business. By drawing on lessons of the past and embracing opportunities of the present, this approach not only aligns with international best practices but also positions businesses at the forefront of societal transformation, contributing to a more unified, prosperous, and resilient Sri Lanka.

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ANNEX: LIST OF BUSINESSES INTERVIEWED

Business name	Sector	Where interviewed
Adamjee Lukmanjee	Coconut products	Western Province
Aitken Spence	Logistics	Western Province
Aqua N Green	Fisheries	Eastern Province
Bogawantalawa Tea	Tea	Western Province
Brandix	Apparel	Southern Province
Brilliant Cuts	Gems	Sabaragamuwa
Chaarya Resort & Spa	Tourism	Southern Province
Control Union	Certification	Western Province
Dialog Axiata	Telecommunications	Western Province
Great Place to Work Lanka	Certification	Western Province
GS Lanka Export	Coconut products	North Western Province
Hayleys Advantis	Logistics	Western Province
Handloom City	Apparel	Eastern Province
Hirdaramani	Apparel	Northern Province
Ind-Expo Certification Ltd	Certification	Western Province
Jetwing Hotels	Tourism	Northern Province
Laknamira Fashion	Apparel	Uva
Lakshan Dairy Product	Dairy	Uva
Lanka Eco Products	Food and beverage	Sabaragamuwa
MAS Holdings	Apparel	Online
MA's Kitchen	Food and beverage	Central Province
Mount Fresh / STY Products	Food and beverage	Uva
NDC Export	Coconut products	North Western Province
Nestle Lanka	Food and beverage	Western Province
Nimsara Bags	Apparel	Uva
North Lanka Family Foods	Food and beverage	Northern Province
Omega Line	Apparel	Northern Province
Orzone Mineral Water Exports	Food and beverage	Uva
Queen Production	Food and beverage	Northern Province
Rambewa Free Range Eggs	Food and beverage	North Central Province
RTS Holdings	Tea	Sabaragamuwa
Sehani Deshiya Dushada	Food and beverage	Uva
Selyn	Apparel	North Western Province
Shashikala Cane Products	Cane products	Uva
Sirisara Farms	Mushrooms	Uva
Sri Lankan Airlines	Aviation	Western Province
TEG	Coconut products	Northern Province
Thema Collection	Tourism	Eastern Province
Tropical Green Exports	Coconut products	Northern Province
Ulankulama Dairies	Dairy	North Central Province



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