

Diversity and Its Impact on Companies

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WHAT'S COVERED

In this lesson, you will learn how diversity impacts companies and the workforce. Specifically, this lesson will cover:

1. Reaping the Advantages of Diversity

1a. Cost Advantages

1b. Resource Acquisition

1c. Marketing

1d. System Flexibility

1e. Creativity and Problem Solving

2. Aligning Diversity Programs With an Organization's Mission and Strategic Goals

3. Using Human Resources Tools Strategically

4. Diversity and Organizational Performance

4a. Contemporary Examples

4b. Impact of Valuing Diversity

1. Reaping the Advantages of Diversity

Due to trends in globalization and increasing ethnic and gender diversity, it is imperative that employers learn how to manage cultural differences and individual work attitudes. As the labor force becomes more diverse, there are both opportunities and challenges to managing employees in a diverse work climate. Opportunities include gaining a competitive edge by embracing change in the marketplace and the labor force. Challenges include effectively managing employees with different attitudes, values, and beliefs, in addition to avoiding liability when leadership handles various work situations improperly.

The business case for diversity introduced by Taylor Cox and Stacy Blake outlines how companies may obtain a competitive advantage by embracing workplace diversity (Cox & Cox, 1991). Six opportunities that companies may benefit from when pursuing a strategy that values diversity include cost advantages, improved resource acquisition, greater marketing ability, system flexibility, and enhanced creativity and better problem solving.



1a. Cost Advantages

Traits such as race, gender, age, and religion are protected by federal legislation against various forms of discrimination (covered later in this challenge). Organizations that have policies and procedures in place that encourage tolerance for a work climate of diversity and protect female and minority employees and applicants from discrimination may reduce their likelihood of being sued due to workplace discrimination. Cox and Blake identify this decreased liability as an opportunity for organizations to reduce potential expenses in lawsuit damages compared to other organizations that do not have such policies in place.

Additionally, organizations with a more visible climate of diversity experience lower turnover among women and minorities compared to companies that are perceived to not value diversity (Williams & O'Reilly, 1998). Turnover costs can be substantial for companies over time, and diverse companies may ameliorate turnover by retaining their female and minority employees. Although there is also research showing that organizations that value diversity experience a higher turnover of White employees and male employees compared to companies that are less diverse, some experts believe this is due to a lack of understanding of how to effectively manage diversity (Tsui et al., 1992). Also, some research shows that Whites with a strong ethnic identity are attracted to diverse organizations similarly to non-Whites (Kim & Gelfand, 2003).

1b. Resource Acquisition

Human capital is an important resource of organizations, and it is acquired through the knowledge, skills, and abilities of employees. Organizations perceived to value diversity attract more women and minority job applicants to hire as employees. Studies show that women and minorities have greater job-pursuit intentions and higher attraction toward organizations that promote workplace diversity in their recruitment materials compared to organizations that do not (Perkins et al., 2000; Thomas & Wise, 1999). When employers attract minority applicants, their labor pool increases in size compared to organizations that are not attractive to them. As organizations attract more job candidates, the chance of hiring quality employees increases, especially for jobs that demand highly skilled labor. In summary, organizations gain a competitive advantage by enlarging their labor pool by attracting women and minorities.

1c. Marketing

When organizations employ individuals from different backgrounds, they gain broad perspectives regarding consumer preferences of different cultures. Organizations can gain insightful knowledge and feedback from diverse demographic markets about the products and services they provide. Additionally, organizations that value diversity enhance their reputation with the market they serve, thereby attracting new customers.

1d. System Flexibility

When employees are placed in a culturally diverse work environment, they learn to interact effectively with individuals who possess different attitudes, values, and beliefs. Cox and Blake contend that the ability to effectively interact with individuals who differ from oneself builds cognitive flexibility, the ability to think about things differently and adapt one's perspective. When employees possess cognitive flexibility, system flexibility develops at the organizational level. Employees learn from each other how to tolerate differences in opinions and ideas, which allows communication to flow more freely and group interaction to be more effective.

1e. Creativity and Problem Solving

Teams from diverse backgrounds produce multiple points of view, which can lead to innovative ideas. Different perspectives lead to a greater number of choices to select from when addressing a problem or issue.

Life experience varies from person to person, sometimes based on race, age, or sex. Creativity has the opportunity to flourish when those experiences are shared. Diverse teams not only produce more alternatives but also generate a broader range of perspectives to address tasks and problems. One way in which diverse teams enhance problem-solving ability is by preventing **groupthink**, a dysfunction in decision-making that occurs in homogeneous groups as a result of group pressures and group members' desire for conformity and

consensus (Janis, 1972). Diverse group membership prevents groupthink because individuals from varied backgrounds with different values, attitudes, and beliefs can test the assumptions and reasoning of group members' ideas.



REFLECT

What are the challenges and opportunities that diversity provides to companies?



TERM TO KNOW

Groupthink

A dysfunction in decision-making that is common in homogeneous groups due to group pressures and group members' desire for conformity and consensus.

2. Aligning Diversity Programs With an Organization's Mission and Strategic Goals

Diversity helps organizations perform best when it is aligned with a specific business strategy. For example, when companies use heterogeneous management teams that are directed by an entrepreneurial strategy focusing on innovation, the companies' productivity increases.

When an entrepreneurial strategy is not present, however, team diversity has little effect on productivity (Richard et al., 2004). An entrepreneurial strategy includes innovation that reflects a company's commitment to being creative, supporting new ideas and experimentation as a way to gain a competitive advantage. In other words, managers may properly utilize the multiple perspectives that emerge from heterogeneous teams by integrating them as a resource for pursuing the overall strategy of the organization.

3. Using Human Resources Tools Strategically

To effectively align diversity with an organization's strategy, the human resources function must be able to engage employees at dynamic levels. Using a strategic human resources management approach to an organization can successfully integrate diversity with the organization's goals and objectives (McMahan et al., 1998). **Strategic human resources management (SHRM)** is a system of activities arranged to engage employees in a manner that assists the organization in achieving a sustainable competitive advantage. SHRM practices vertically integrate with the mission and strategy of the organization while horizontally integrating human resources activities across its functional areas. By doing so, a unique set of resources can be made available specific to the needs of the organization. Furthermore, when human resources becomes a part of the strategic planning process instead of just providing ancillary services, improved communication, knowledge sharing, and greater synergy between decision makers can occur within the organization to improve organizational functioning.

The **resource-based view** of the firm has been used to support the argument for diversity because it demonstrates how a diverse workforce can create a sustainable competitive advantage for organizations. Based on the resource-based view of the firm, when companies possess resources that are rare, valuable, difficult to imitate, and non-substitutable, a sustained competitive advantage can be attained (Barney, 1991). The SHRM approach assumes that human capital—the current and potential knowledge, skills, and abilities of employees—is instrumental to every organization’s success and sustainability and longevity.

If a diverse composition of employees within organizations is rare, employing minorities in positions of leadership is even rarer. One exception is Northern Trust, an investment management firm that was recently listed on *Forbes Magazine’s* 2018 Best Employers for Diversity list (Kauflin, 2018). Thirty-eight percent of Northern Trust’s top executives are women, which is impressive because it matches the average percentage of women in full-time, one-year MBA programs over the past five years (Graduate Management Admission Council, 2016). The average for S&P 500 companies is just 27%. In addition, African Americans make up 23% of Northern Trust’s board, which also demonstrates the commitment Northern Trust has to diversity. This rare degree of diversity helps Northern Trust become an employer of choice for minorities and women. In turn, attracting minority applicants increases the labor pool available to Northern Trust and increases its ability to find good talent.

Diverse companies may capitalize on the multiple perspectives that employees from different backgrounds contribute to problem solving and idea generation. In group settings, members from collectivist cultures from Asia and South America, for example, engage with others on tasks differently than members from North America. Similarly, Asians, Blacks, and Hispanics usually act more collectively and engage more interdependently than Whites, who are generally more individualistic. More harmonious working interactions benefit group cohesion and team performance, and employees can grasp better ways of doing things when there is a diverse population to learn from (Cox et al., 1991).

For a company to attain a sustained competitive advantage, its human resources practices must be difficult to copy or imitate. As we will see later in the challenge, companies may hold one of three perspectives on workplace diversity. The integration and learning perspective results in the best outcomes for employees and the organization. However, it is not easy to become an employer that can effectively manage diversity and avoid the challenges we learned about earlier. Historical conditions and often complex interplay between various organizational units over time can contribute to a company’s ability to perform effectively as a diverse organization. Best practices for targeting diverse applicants or resolving conflicts based on cultural differences between employees may occur organically and later become codified into the organizational culture. Sometimes, however, the origin of diversity practices is unknown because they arose from cooperation among different functional areas (e.g., marketing and human resources working strategically with leadership to develop recruitment ideas) that occurred so long ago that not even the company itself, let alone other companies, could replicate the process.



REFLECT

What are the responsibilities of human resources regarding diversity?



TERMS TO KNOW

Strategic Human Resources Management (SHRM)

System of activities arranged to engage employees in a manner that assists the organization in achieving a sustainable competitive advantage.

Resource-Based View

Demonstrates how a diverse workforce can create a sustainable competitive advantage for organizations.

4. Diversity and Organizational Performance

Research indicates that having diversity in an organization produces mixed results for its success. Some studies show a positive relationship, some show a negative relationship, and others show no relationship between diversity and performance. Some researchers believe that although findings regarding a direct relationship between diversity and success in the marketplace may be inconsistent, the relationship may be due to other variables not taken into account.

Taking the resource-based view perspective, Richard and colleagues demonstrated that racially diverse banking institutions focused on innovation experienced greater performance than did racially diverse banks with a low focus on innovation (Richard et al., 2004). These findings suggest that for the potential of racial diversity to be fully realized, companies should properly manage the system flexibility, creativity, and problem-solving abilities used in an innovative strategy. Other studies show that when top management includes female leadership, firm performance improves when organizations are innovation driven (Dezso & Ross, 2012).

4a. Contemporary Examples

In today's competitive landscape, embracing diversity is not only a moral imperative but also a strategic advantage for organizations seeking sustainable growth. Leading businesses are weaving diversity into their core fabric, reaping benefits like enhanced innovation, improved decision-making, and stronger talent acquisition.

Examples of strategic implementation include:

- **Diverse Leadership Teams:** Accenture prioritizes diverse leadership, reflecting their customer demographics and fostering broader perspectives. This results in more informed decision-making and improved responsiveness to market trends.
- **Inclusive Marketing and Product Development:** Unilever actively involves diverse customer segments in product development, leading to innovative solutions resonating with wider audiences. Similarly, Nike's inclusive marketing campaigns connect with diverse consumer segments, boosting brand loyalty and sales.
- **Unconscious Bias Training and Mentorship Programs:** Intel implements mandatory unconscious bias training, while Salesforce offers mentorship programs for underrepresented groups. These initiatives mitigate biases in hiring and promotion, fostering a fairer and more meritocratic environment.
- **Supplier Diversity Programs:** Johnson & Johnson actively sources from diverse suppliers, expanding their supply chain resilience and tapping into new markets. This also empowers disadvantaged communities and fosters broader economic inclusion.

- Employee Resource Groups (ERGs): Companies like IBM and Google actively support ERGs, fostering inclusive communities and amplifying diverse voices within the organization. This enhances employee engagement, retention, and sense of belonging.

4b. Impact of Valuing Diversity

Investing in diversity is the right thing to do. It's a smart business decision that fuels innovation, strengthens brand image, and unlocks talent potential. By strategically investing in and integrating diversity, organizations can gain a competitive edge and achieve sustainable success in the global marketplace.

The impact of valuing diversity is measurable:

- McKinsey & Company found that companies with diverse executive boards have 21% higher profitability on average (Hunt et al, 2018).
- A diverse workforce at Boston Consulting Group led to a 19% increase in revenue attributed to innovation (Lorenzo et al, 2018).
- Great Place to Work studies show (Bush, 2023) that companies with strong DEI practices have higher employee retention rates and attract top talent more effectively, including:
 - 9.8 times more likely to look forward to going to work
 - 6.3 times more likely to have pride in their work
 - 5.4 times more likely to want to stay a long time at their company



REFLECT

Can diversity be a strategic advantage to organizations?



SUMMARY

In this lesson, you learned how diversity impacts companies and the workforce. As the labor force becomes more diverse, there are both opportunities and challenges to managing employees in a diverse work climate. Six **advantages of diversity** in the workplace include **cost advantages**, improved **resource acquisition**, greater **marketing** ability, **system flexibility**, and enhanced **creativity and problem solving**. You also learned that diversity helps organizations perform best when they **align their diversity programs with their mission and strategic goals**, such as an entrepreneurial strategy focusing on innovation. You learned that to effectively align diversity with an organization's strategy, it must **use its human resources tools strategically**, using a strategic human resources management (SHRM) approach to engage employees at dynamic levels. This resource-based view of the firm supports the argument for diversity because it demonstrates how a diverse workforce can create a sustainable competitive advantage for organizations. Lastly, you explored the link between **diversity and organizational performance**, noting that research indicates varying results, with some studies showing a positive relationship, some showing a negative relationship, and others showing no relationship.

Best of luck in your learning!

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TERMS TO KNOW

Resource-Based View

Demonstrates how a diverse workforce can create a sustainable competitive advantage for organizations.

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