

Executive Summary

Final Question

Is there a correlation between diversity in the workforce and diversity in the leadership and business results and if so, how can organizations leverage diversity for optimal business results?

Introduction

Diversity is often measured, particularly in the U.S., on the basis of demographic categories. However, diversity can be measured across dimensions of expertise, status, location, and demographics categories (exhibit 1). Exhibit 1 provides a high level view of how different types of diversity produce different challenges and opportunities in a team setting. For example, demographic differences within a team creates challenges in biases or implied assumptions team members may have for each other. In order to promote collaboration in this environment individuals should be encouraged to share their perspectives. Variation in types of team diversity present an equally various set of challenges, and potential solutions to those challenges.⁶

Business Value

Globalization, legal statutes, and macro-population trends have made teams more diverse. Failure to effectively manage a diverse workforce can lead to decreased engagement and higher levels of conflict. Therefore, it is incumbent on leaders to manage for diversity. On the flipside, well managed diversity and leadership initiatives are associated with successful organizational outcomes (exhibit 2). Exhibit 2 visualizes the relationship between diversity, leadership, and organizational outcome. It is through transformation leadership, where the leadership exploits the opportunities diversity presents, improved results such as productivity can be achieved.

Financial outcomes: There is significant evidence, in a limited number of studies, to support a correlation between diverse workforces and positive business outcomes.

1. Research across 1500 major corporations found diverse senior leadership was correlated on average with firm values of \$42 million over their non-diverse counterparts.⁴
2. Study of innovation oriented financial institutions found the presence of ethnic diversity was correlated to positive financial outcomes.⁹
3. Companies with women on the board yielded higher returns, higher growth, and more positive net debt to equity ratios than those without women on the board.²

Non-Financial Outcomes: Significant research exists, both in quantity and quality of findings, demonstrating positive effects on workforce performance in the context of a diverse team.

1. Stanford study of university students found that when a black student presented a dissenting perspective to a group of white students, that perspective was perceived as novel and led to a broader conversation of alternatives. When a white student introduced the same dissenting perspective, the reaction was significantly less productive than with the black student.¹
2. Diversity enhances creativity. It has been shown to encourage the search for new information and perspectives which lead to better decision making and problem solving.⁸
3. Socially diverse groups are more innovative than homogenous groups. The simple introduction of social diversity leads people to believe that differences of perspectives might exist which leads to changes in their behavior. In contrast, members of a homogenous group are more assured that they will agree with one another and that they will easily come to a consensus.⁸

Best practices

The business value section outlined the evidence for positive business outcomes from diversity in the workplace and diversity in leadership. The following best practices are guidelines to leverage diversity to achieve business results.

Safety First: Create an environment of psychological safety, free from rejection or humiliation that allows diverse team members to feel safe contributing their thoughts on a given topic.

Case Study: Google's project Aristotle was a concerted effort to use data to investigate teams and isolate the conditions that have strong correlations to positive team outcomes. Aristotle controlled for team member combination, task types and team contexts. Aristotle found that team contexts with high "psychological safety" had higher team performance over longer periods than any other factor.⁵

Create "Buy in": It is critical to communicate that diversity is not a "zero sum" game. The benefits of a well-managed diverse workforce lead to financial outcomes benefiting all stakeholders. Policies that cultivate internal competition, particularly "rank and yank" and "up or out", may lead to destructive forms of competition and compromise collaboration.

Remove/Limit obstacles: Leadership should focus efforts on equity rather than equality. The circumstances of work may be fraught with conditions compatible with some segments of the workforce but problematic for others (exhibit 3). To summarize exhibit 3, equity is to give everyone what they need to be successful while equality is to treat everyone the same.

Case Study: A uniform vendor change resulted in one manufacturing facility offering uniforms in men's sizes adjustable for women. Unfortunately, they did a poor job of fitting the women at the facility. The uniform inequity was interpreted as a signal indicating men as the priority group and women as a secondary group, and caused conflict within the facility. Ultimately, two sets of uniforms had to be made available in order to signal equal worth to both genders.

Create Alternatives: Leading a diverse team requires a flexible management style. A manager's ability to assess and accommodate the employee's needs in order to create the optimal conditions of work is critical to garnering engagement and unlocking their potential. Policies like "flex-time" and "flex-place" have broken with traditional conditions of work and provide workers the ability to manage role conflicts without compromising their professional contributions.

Ask questions: Do current policies match the workforce of today or of yesterday? Employee resource groups can be a vital source of information on the needs of the workforce.

Case Study: Frito-Lay engaged Latino employee resource groups to identify new markets to introduce new products and marketing techniques contributing to a successful product launch.

Recommendations

Diverse workforces are more likely to increase business outcomes in terms of productivity, financial outcomes (profit), and shareholder value. However, the mere presence of diversity in a workforce is not a guarantee of positive results. In fact, diversity can lead to negative outcomes, in the form of conflict and withdrawal. Context management is critical to the success of diverse teams and workforces. Introducing diversity into the workforce is a paradigm similar to introducing technology into the workforce. In order to realize the potential of their investments firms must learn how it works and how to adapt themselves in order to capitalize on that potential or lose their initial investment and fall behind the competition.

References

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- 4) Dizso, C. (2011). Does Female Representation in Top Management Improve Firm Performance? *Social Science Research Network*. Retrieved from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1088182
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- 6) Edmondson, A. C., & Roloff, K. S. (2009, September 1). Leveraging Diversity through psychological safety. *Harvard Business Review*. Retrieved from <https://hbr.org/product/a/an/ROT093-PDF-ENG>
- 7) Measuring Up: Assessing Ourselves on Equity. (n.d.). Retrieved from <http://uwpdx.blogspot.com/2013/07/measuring-up-assessing-ourselves-on.html>
- 8) Phillips, K. W. (2014). How Diversity Makes Us Smarter. Retrieved October 03, 2016, from <http://www.scientificamerican.com/article/how-diversity-makes-us-smarter/>
- 9) Richard, O., Barnett, T., Dwyer, S., & Chadwick, K. (2004). Cultural Diversity in Management, Firm Performance, and the moderating role of entrepreneurial orientation dimensions. *Academy of Management Journal*, 47(2), 255-266. Retrieved from <https://misweb.cbi.msstate.edu/~COBI/faculty/users/tbarnett/AMJ2004.pdf>

Appendix
Exhibit 1

Examples of Team Diversity				Figure One
	Demographic	Expertise	Location	Status
Type of Diversity:	Variety and/or disparity	Variety	Separation	Disparity
Composition of Team:	Multiple identity groups based on demographic origins	Multiple sets of skills and expertise based on education and work experience	Geographically dispersed team members	More than one status level
Team Challenges:	Tacit knowledge based on culture, gender, race, age or other salient identity	Team members who identify with expertise-related subgroups over team identity	Creating a team goal adapted to multiple local needs	Social norms of deference to authority
Collaboration Enabled By:	<ul style="list-style-type: none"> ▪ Sharing individual perspectives ▪ Creating an orientation towards valuing cultural differences 	<ul style="list-style-type: none"> ▪ Sharing expertise-based knowledge as possible ▪ Fostering a collective group identity 	<ul style="list-style-type: none"> ▪ Periodic visits to other sites ▪ Attention to unique local knowledge and focus on shared goal 	Leadership inclusiveness to minimize experienced status gaps

Edmondson, A. C., & Roloff, K. S. (2009, September 1). Leveraging Diversity through psychological safety. *Harvard Business Review*. Retrieved from <https://hbr.org/product/a/an/ROT093-PDF-ENG>

Exhibit 2

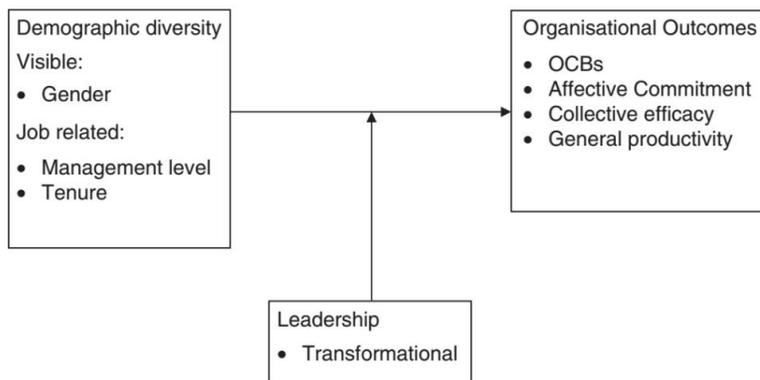
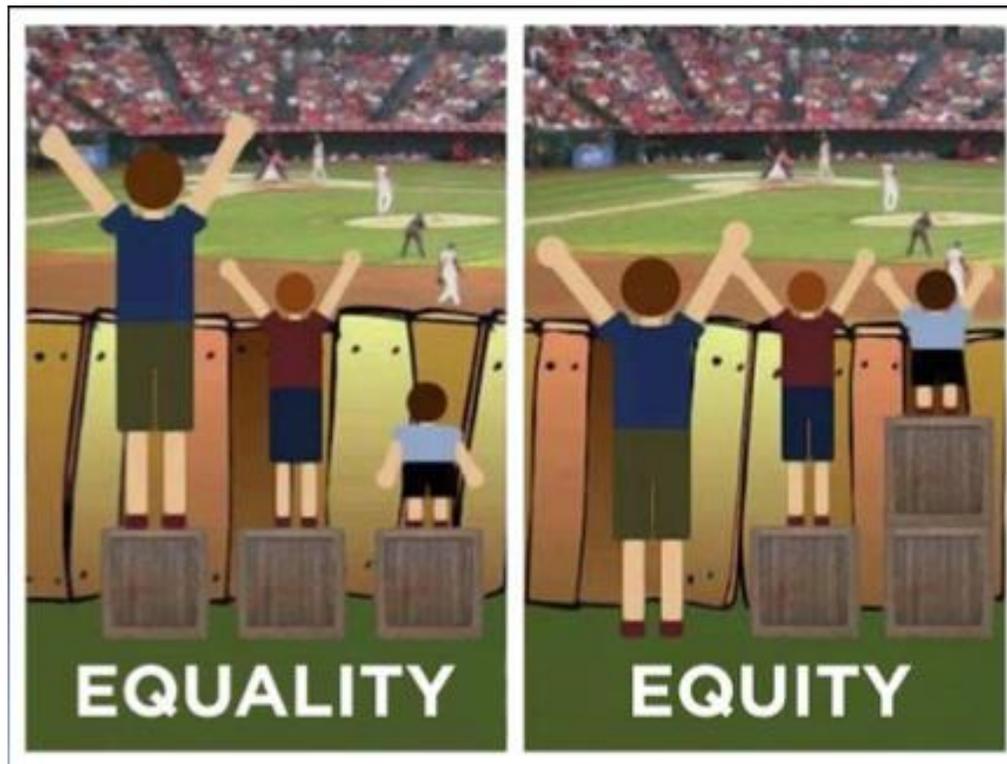


Figure 1.
The model of the moderating effects of transformational leadership on the link between demographic diversity and organisational outcomes

DeLancey, R. M. (2013). Employees' Perceptions of Multiculturalism and Diversity in Multinational Corporations. *African Journal of Business Management*.

Exhibit 3



Measuring Up: Assessing Ourselves on Equity. (n.d.). Retrieved from <http://uwpdx.blogspot.com/2013/07/measuring-up-assessing-ourselves-on.html>

Additional Reading

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