Limits To Diversity?
Few today would argue that diversity is not a good thing, but are we making claims for it that it cannot support?

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Diversity is an intimidating subject to take on. Just mention the word and most people have the same knee-jerk reaction that they would to, say, world peace: "Oh, yes, I support that. Everyone is in favor of diversity." And to their credit, most people really do see benefit in having a diverse organization: increased innovation, connection to a wider customer base, better community relations.

If it's difficult to quantify diversity's contributions--well, it's difficult to quantify the effectiveness of many things, such as training, that are undoubtedly a boon for companies. And then, less discussed but still present, there's a small, nagging fear among skeptics of any color: If I so much as question diversity's benefit to the organization, will I be perceived as racist? Sexist? Hopelessly backward?

For many people, the easy thing to do is smile widely, nod enthusiastically, and climb on the bandwagon. But Thomas Kochan had to go and make things complicated.

Kochan, a professor of management at MIT's Sloan School of Management, is the coordinator of a study sponsored by the Diversity Research Network, which is composed of Business Opportunities for Leadership Diversity, a group of CEOs and HR professionals; the Society for Human Resource Management Foundation; and the Alfred P. Sloan Foundation. The study sent researchers from top business schools into four companies, all widely acclaimed for their diversity initiatives, to quantify the connection between diversity and performance.

The purpose of the study was to find evidence supporting the sponsors' view that "a more diverse workforce will increase organizational effectiveness." It's a lofty goal, and it's clear from the researchers' analysis of their results that they really did want to offer the conclusive proof that the Network was looking for.

The trouble was, they couldn't.

The researchers' first challenge was convincing companies to participate in the study; they approached more than 20 Fortune 500 companies before finding the four that agreed. Part of the problem was a simple matter of logistics, since the study would require collecting large amounts of data. "In some companies, the diversity advocates lacked sufficient influence or support to convince line managers to spend the time required," says Katerina Bezrukova, a Wharton professor and researcher for the study. "Another problem is that this type of research raises politically and emotionally charged issues, as well as legal concerns. Managers can be very reluctant to share their experiences or data, given the potential for litigation."

In the end, the four companies that participated were identified only as a large information-processing firm; a financial-services firm; another information-processing firm; and a large retail company. The measures of performance that the researchers used varied somewhat from company to company, as did the results. The overall conclusion, however, was striking: "There is no reason to believe diversity will naturally translate into better or worse results."

Keep in mind that these were not companies in which diversity initiatives were limited to inspirational posters and cultural-cuisine days. One had had active women's and minority resource groups for over 15 years; another had a companywide diversity council and had integrated diversity goals into every aspect of business growth; another had received several national awards for its diversity program.

So what did the researchers find within these paragons? In the large information-processing firm, for example, researchers Bezrukova and Karen Jehn, another Wharton professor, looked at two measures of success within teams: average performance-appraisal ratings and the average bonuses of team members. They also looked at how well the teams worked together, based on the company's own measures, such as commitment, group spirit, innovation, and exploring new perspectives. They found that race or gender diversity within teams had no effect on those team members' performance appraisals or bonuses, and that while gender diversity in teams actually did improve how the teams functioned together, racial diversity inhibited the teams' functions.

At the financial-services firm, Harvard Business School professors Robin Ely and David Thomas looked at the company's retail branches and examined how diversity within the branches affected six measures: revenue from new sales, revenue from growing the customer portfolio, revenue from growing the business portfolio, customer satisfaction, number of qualified referrals to bank services, and sales productivity.

Their results? Gender diversity had no effect on any of those performance measures; racial diversity was positively associated only with growth in branches' business portfolios.

Results from the large retail company undermine that part of diversity's business case that says it's important for your employees to look like your customer base. Researchers looked at sales for the company--a national chain with retail stores in every major U.S. market--and found that communities with more whites, blacks, Hispanics, or Asians did not buy more from stores with similar employees. They found "no consistent evidence
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that most customers care whether the salespeople who serve them are of the same race or gender," though they did concede that those elements might be more important in sectors with closer and longer-standing relationships between customers and service providers.

"Basically, our research shows that the simplistic ‘business case’ for diversity of the past does not work," Bezrukova says. "There is no strong evidence to support that race or gender diversity will automatically create better--or worse--effects."

Right Idea, Wrong Reason

In their analysis of the results, the researchers look well beyond the numbers and conclude that corporate diversity efforts do in fact deserve support--but that only well-managed support pays off. Kochan counsels that "one has to manage diversity very consciously and very creatively to produce the potential positive results that it offers. That means focusing on communication, leadership, and conflict resolution--the very nuts and bolts of group behavior. We have to focus training efforts around actual skills and behaviors, not attitudes and sensitivity issues."

Harvard Business School's David Thomas suggests that before you can even proceed to managing diverse groups, you must first look at why you've chosen to embrace the cause. He points out that there are three perspectives that a company can bring to diversity. In the first, which he calls the discrimination-and-fairness approach, a company will try to increase its level of demographic diversity in order to show--to employees, customers, or whomever else is looking--that the organization is not discriminatory. In this case, he says, the company generally brings in a range of people but ends up ignoring and homogenizing their differences and then being baffled by the cultural conflicts that arise.

The second perspective, which he calls the access-and-legitimacy perspective, contains elements of the traditional business case for diversity: it involves looking at your customer base or available labor market and working to make your employee population demographically representative of those groups. However, this perspective has its downsides as well. "A major problem often emerges with people who were brought in because they were representative of, let's say, a particular customer base," Thomas says. "For example, when a Hispanic person who is a super bank manager in a Hispanic area puts his hat in the ring for several banks that aren't in Latino communities, he's often told, 'Well, you're not really qualified--you don't really have experience with this broader market.' And he'll feel resentful, because he feels like he's of value only as long as he's talking to another person who looks like him or shares a language with him. Nobody's looking at the fact that he's also a stellar banker."

The third perspective--and the one that Thomas advocates--is the integration-and-learning perspective, in which companies truly believe that the "insights, skills, and experiences" that employees have developed as a part of their cultural identity are valuable to the firm and can contribute to business growth. The branches he studied that emphasized this approach, he points out, performed better than those whose motivation for embracing diversity was one of the other two perspectives.

Apparently, doing the right thing for the wrong reasons can be worse than not doing the right thing at all.

The Difficult Question

The study has garnered mixed reactions from diversity practitioners. "The consultants and academics who reviewed the study were very positive," Bezrukova says. "We haven't heard much from corporate executives, but we expect less optimistic reactions from them. Some of our findings diverge from the popular rhetoric, and this may cause some disappointment."

That indeed seems to be the case for those who feel that diversity is often under attack, despite the researchers' best intentions. "Why do we have to keep proving that this is an airtight business case?" asks Deborah Dagit, executive director of diversity and work environment for Merck. "They put the burden of proof on diversity having to prove that it makes a difference. Why put all that effort into trying to prove the opposite?"

That burden is particularly heavy since diversity's contributions are so difficult to measure; many companies take an approach similar to Dagit's. She explains, "We anecdotally believe that diversity leads to innovation, but we haven't done a research study of that nature."

That's a common theme in conversations with diversity practitioners, and it's a sticky question: If companies don't have metrics in place that tie diversity to performance, how do they justify their spending on diversity initiatives? Is diversity the sacred cow that no one is willing to touch?

Telling the Stories

But if hard numbers are in short supply, the anecdotal evidence is unlimited--and, in many cases, quite convincing. Just ask Emilio Egea, vice president of human resources at Prudential Financial. For him, diversity goes far beyond different faces in the employee cafeteria. One of his best examples of how diversity benefits Prudential occurred during the company's IPO in December 2001, when he asked what
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the company was doing with firms in the underwriting community owned by women and people of color. The end result of his query was that 27 percent of Prudential's underwriters were minority-owned firms; the Williams Capital Group, which has been one of Black Enterprise's top investment banks for the last several years, was at the senior co-manager level for the first time.

"That's the kind of thing that typically people in the business community wouldn't think of as an implication of diversity," Egea says. "But all of a sudden, they're seeing the connections, and I think everybody benefits. Our people benefit because as they start building authentic relationships with people who are different, the lightbulb goes off relative to tapping the creativity of the resources we have at the company.

May Snowden, chief diversity officer at Eastman Kodak Co., agrees that diversity has implications far beyond those that are usually discussed. She offers the example of mergers and acquisitions, noting, "Guess what? That's bringing two different types of cultures together. That's diversity. Most mergers and acquisitions don't live up to expectations because they have not addressed the diversity between the two companies and how they're going to work together and engage those issues."

For other companies, customers are a key consideration in making diversity a part of the business. That's the case for Deloitte & Touche. Redia Anderson, national principal for the company's diversity and inclusion initiative, explains, "We quite often get requests for our diversity and inclusion information when we're proposing on a particular client's work. We know it's been a key factor in several of our client wins because they have come back and said to us, 'We like the way you've come to the table with a very diverse team.'" For Anderson, a diverse team goes beyond visible diversity, such as race and gender; Deloitte & Touche takes a wide approach to diversity, taking elements such as education, thinking style, previous employment, and industry specialization into account when putting together a picture of a diverse workforce. "Where we have visible diversity and where we can match the client, we always try and do it, but sometimes that's not possible," Anderson says. "But we always try and make sure that we have the diversity of thought and perspective."

For most companies, though, the most pressing diversity issues still center around employees, and that's where companies really focus their efforts. There are a number of plausible reasons to do so, but the most convincing is always, of course, the bottom line. Simply put, increasing retention reduces costs; for Deloitte & Touche, for example, a 1 percent reduction in turnover translates to a savings of $22 million. That's a major reason for the consultancy to monitor what Anderson calls the "turnover gap"--i.e., the gap in turnover rates between women and men, or between minority and white employees.

For Williams Co., a pipeline engineering and construction firm based in Tulsa, Okla., eliminating problems related to diversity is essential because the company has enough other problems to worry about: In the last three years, Williams has reduced its workforce from 26,000 people to just 4,000. Companies less committed to diversity might have used these problems as an excuse to back off from diversity initiatives, but Williams sees diversity as a key element of its recovery and future growth, linking it--anecdotally--to retention of talent, acquisition of talent, and increasing efficiency and effectiveness. Eric Watson, the company's executive director of diversity and workforce capability, explains, "The critical business case for us is maintaining productivity throughout all the change. We still have to be able to get the job done, working through that muck and mire, which requires that we know each other and understand each other better. Diversity helps us do that."

The Inevitable Initiative

Does all of that evidence add up to a strong case for diversity? A better question might be: Does it matter? Simple demographics show that the diverse workplace is a corporate reality, one with which American companies are coping with varying degrees of success. The most important finding of the Diversity Research Network's study was not that diverse teams do not have an automatic advantage--it was that diverse teams, managed correctly, could have certain advantages. It's the companies that recognize this that will succeed as the United States grows ever more diverse.

"Most companies have accepted diversity as a good thing to do on a good day, but I don't think they feel that it is something they have to do in order to have a good day," says Harvard Business School's Thomas. "Companies will have to get there, or we will be living in a much more fractured society than we live in today."

Of course, societal needs have traditionally held little weight when it comes down to the bottom line. In the case of diversity, however, that may be changing--as indicated by corporations' rush to publicly reaffirm their commitment in the wake of the Supreme Court's recent split decision on affirmative action at the University of Michigan.

"The companies that are serious about cultural transformation often have leaders who first and foremost believe diversity is the right thing to do. It burns in their bellies," says William Guillory, founder of consultancy Innovations International. "It's a moral violation of their ethics as a human being to come to work every day and preside over an organization where..."
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they know systemic discrimination occurs."

No other corporate initiative inspires such personal emotion or has such sweeping societal implications. And that, in the end, may really be what makes diversity different.

Still an Issue?
It's tempting to think we've come so far on matters of race and gender that we can begin to relax a little. After all, we're enlightened people, aren't we? Companies wouldn't still willfully discriminate, would they? We don't still have ingrained biases, do we?

Apparently, at least some companies still do. This point was driven forcefully home by a recent study from MIT and the University of Chicago, which found that résumés topped by the names Brendan, Gregg, Anne, and Emily were 50 percent more likely to generate responses than identical résumés with the names Tyrone, Aisha, Rasheed, and Tamika. Researchers submitted 5,000 résumés to 1,250 help-wanted ads in Boston and Chicago and found that the résumés with "white" names got one response for every 10 résumés sent out, compared to one in 15 for the résumés with African-American names.

Some people aren't surprised. William Guillory, founder of consultancy Innovations International, says, "That's not news. The survey confirmed what everybody already knows. But if we needed the data to say that this exists, because people are still in denial, then we can use it for that." The important thing, as far as Guillory is concerned, is to make sure that it doesn't happen anymore. His recommendation? Representation of women and minorities in strategically located positions in the organization.

That corresponds with the conclusion reached by Sendhil Mullainathan, an associate professor of economics at MIT who worked on the study. "It doesn't seem like the problem is that they're sitting there saying, 'Well, I really don't want Tamika here,'" he says. His perception is that as people read through hundreds of résumés, they form brief mental impressions of each candidate, and a name like Tamika will form a different overall impression to a white reader than that of, say, Emily. "It's going to cue all of the negative stereotypes you might have implicitly," he says. "I think that's hard to challenge."

--M.M.