Business-Case Arguments for Diversity and Diversity Programs and Their Impact in the Workplace

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Abstract

Business executives and researchers have argued for workforce diversity as a way to increase effectiveness, performance, and innovation in organizations and businesses. This issue paper summarizes the research on the impact of diversity in regard to the military workforce. The research shows that workplace diversity affects *individuals* in ways that influence organizational performance through retention and turnover. Its impact on the organization through *work groups* is mixed. Potential benefits include higher-quality decisions, increased innovation, and improved overall performance, but low cohesion and increased conflict are potential threats. At the *organization* level, the impact of diversity is inconclusive. Although the evidence suggests there is not a strong business case for diversity per se, the evidence also suggests what is necessary to mitigate its potential costs or reap the desired benefits: Diversity must be managed, diversity management tools must be provided, and there must be agreement that the benefits are worth the investment. Senior leadership is the most important determinant in this regard.

There are two general classes of arguments about the benefits of diversity. One class of arguments focuses on social and individual outcomes, arguing that it is important that populations in organizations or businesses reflect the population as a whole or that there is a need to redress or eliminate discrimination and promote fairness. This is the original basis behind the arguments for diversity in the military, an organization founded mostly on democratic ideals. It has been frequently argued that a diverse military force is more likely to uphold the values of and protect the diverse nation from which it comes. Indeed, the law requires equal access to, and equal treatment in, the military.[1]

The second class of arguments makes a business case for diversity, asserting that diversity can increase effectiveness, performance, and innovation (Metzler, 2008; Thomas, 2005). Researchers of nonmilitary organizations are interested in how diversity might improve organizational outcomes, such as lowered costs, increased revenue and market share, and greater creativity and innovativeness. The military is also interested in improving its bottom line, but it focuses on different organizational outcomes, such as enhanced efficiency and readiness.[2]

This issue paper (IP) discusses the arguments underlying the business case for diversity, what the research shows about how diversity in organizations and businesses affects organizational and business outcomes, and what can be done to improve the chances that diversity will have positive, rather than negative, outcomes. Because the literature is extensive and wide-ranging, we summarize the research here and provide a separate annotated bibliography for those interested in reading studies in this area.

Two Types of Business-Case Arguments About Workforce Diversity

Most of the business-case literature on diversity uses the term *diversity* in a very general sense—that is, to indicate the presence of differences among members of a social unit. In addition to gender and racial/ethnic differences, these differences include such characteristics as age, job type, and time spent with the organization.

Although early research focused on how employees in businesses and organizations *reacted* to growing demographic diversity,

interest in how such diversity might *contribute* to the bottom lines of businesses and organizations is increasing. Current thinking is also influenced by work on group dynamics, which recognizes how traditional hierarchies in business have become somewhat flattened as managers make use of work groups for important tasks.

The business-case arguments cited by academic and management specialists about diversity fall into two broad groups: (1) demographic business-case arguments and (2) superior-outcomes business-case arguments. We discuss the two in more detail in this section.

Demographic Business-Case Arguments. Demographic business-case arguments essentially argue that, given trends in labor supply, workplace diversity is inevitable—that is, it is already the rule rather than the exception in the workplace. Such arguments suggest that diversity is becoming more prevalent both *inside* organizations and businesses—both in the executive suite and on the shop floor—and *outside* organizations and businesses—among customers, suppliers and competitors.

Given that diversity is already here, pervasive, and growing, those making this business-case argument stress the importance of leveraging diversity to achieve desired organization and business outcomes. According to these arguments, an organization can leverage diversity in one of two ways: (1) a cost argument and (2) a resource-acquisition argument.

The *cost argument* suggests that ineffectively managing the growing presence of women and minorities in the labor force is costly. Such costs can be direct (i.e., produced by turnover and absenteeism among employees who are the minority in their work group) or indirect (i.e., the result of conflict or reduced communication between employees who are different). In theory, organizations that are successful in leveraging and retaining employees from different backgrounds will avoid these costs and gain a competitive advantage, thus making a business case for diversity management.

The *resource-acquisition argument* extends the cost argument into the future. It suggests that businesses and organizations that successfully attract and retain women and minorities—and engage them fully in meeting the organization's goals—will gain a competitive advantage because those groups are increasing their share of the workforce.

Because women and minorities are also consumers and stakeholders—that is, they have an active role outside of businesses and organizations—many proponents of the resource-acquisition argument believe that businesses and organizations will also be more successful if they are equally diverse. In other words, a workforce that mirrors the consumer marketplace should (1) improve marketing capability, (2) be better able to meet the particular needs of diverse consumers by understanding those needs, and (3) positively represent the company in a marketplace that increasingly values diversity.

Persuasive demographic arguments have led many corporations to become more effective in hiring and retaining women and minorities. However, although many businesses and organizations have achieved broad gender and racial/ethnic representation, such representation has not occurred at the leadership level. Across industry as a whole, white men still hold a disproportionate share of management positions. For instance, in 2008, over 75 percent of the nation's chief executive officers were men, and 90 percent were white non-Hispanics (U.S. Department of Labor, 2008).

Some researchers have found that practices based on demographic arguments also perpetuate stereotyping and racial profiling. In particular, addressing demographic representation alone has led to the unanticipated effect of "racializing" certain job functions. This finding extends to the military: A 2005 Department of Defense study on career progression among women and minority officers found that black officers have been hampered by their frequent "removal" to recruiting and other diversity-related specialties.[3]

Superior-Outcomes Business-Case Arguments. This set of arguments stresses the importance of not only *managing* (*leading*, in military terminology) a diverse workforce effectively but also *harnessing* the positive aspects of that diversity.

According to these arguments, businesses and organizations can successfully leverage increasing workplace diversity by making the most out of what diverse individuals bring to the table. These positive aspects of diversity fall into two categories: (1) diverse perspectives and attitudes and (2) cultural competencies.

In terms of *diverse perspectives and attitudes*, some researchers have argued that diverse groups bring a greater array of perspectives to bear on problems and, thus, can suggest answers to problems that groups made up of homogeneous members may not think of. In other words, diversity helps avoid "groupthink" by forcing the group into a process that may yield a wider selection of alternatives (Cox & Blake, 1991).

This argument has been widely studied, and the evidence pertaining to it relates mostly to the impact of diversity on work-group productivity rather than on individual or organizational productivity A key feature of this research is that it studies the impact of many kinds of diversity, not just gender and race/ethnicity. This is because, until recently, the work groups studied, especially management groups, were overwhelmingly white and male. Other kinds of diversity include age, occupation or skill set, organizational tenure, and position in the organization.

As for *cultural competencies*, a few researchers have suggested that some demographic groups have different capabilities than others and that, because a culturally "different" group has to live in two cultures simultaneously, members of such a group will tend to be more flexible and have a greater propensity for creative thinking.[4] Thus, whereas the diverse-perspectives argument applies to multiple dimensions of diversity, the cultural-competencies argument is specifically predicated on gender and race/ethnicity.

There is little empirical support for the cultural-competencies argument. First, there is mixed evidence that cognitive abilities and personality traits vary by gender and race/ethnicity. A separate IP (Military Leadership Diversity Commission, 2009) on the relationship between demographics and personality types shows that average differences in personality traits across gender and racial/ethnic groups are small-to-moderate in size and that, more importantly, differences in personality are larger *within* demographic groups than between them. Second, most of the research on this topic has been done in experimental settings rather than in real work settings. The few field studies on demographic differences in managerial and communication styles find little or no work impact.

The Impact of Business-Case Arguments for Diversity

Testing the impact of diversity on business and organizational outcomes requires examining organizational performance at the individual level, the work-group level, and the level of the business or organization as a whole.

Individual Level. *The effects of workplace diversity on the performance of individual workers are predominantly negative.* Table 1 summarizes the ways in which being in a minority can affect individual workers' work effort.

Table 1. How Being "Different" Can Affect Individuals' Work Effort

Diversity Trait	Impact of Being "Different"
Gender	Increases absences Decreases psychological commitment Increases intent to leave Worsens social relations with senior-level and peer women
Race	Increases absences Decreases psychological commitment Increases intent to leave Decreases interpersonal communication
Age	Increases intent to leave
Company tenure	Increases turnover
Educational level	Increases turnover

SOURCE: Tsui & Gutek, 1999, p. 113.

Retention and turnover of personnel are fundamental concerns for both the military Services and businesses. There are significant costs associated with recruiting for replacements, and organizations make considerable investments in training each individual. As Table 1 suggests, research finds that the retention and turnover effects brought about by diversity occur not just for women and racial/ethnic minorities but also for any group with low representation, whether characterized by age, functional specialty, or time of entry into the organization as a whole or into a specific work group.

At the individual level, research has shown that diversity leads to such negative consequences as increased job dissatisfaction and lower engagement (Brickson, 2000; Milliken & Martins, 1996). On an encouraging note (and one related directly to the military), researchers found that a pro-diversity climate is positively related to job satisfaction and organizational commitment among active-duty Hispanic women (Parks, Knouse, Crepeau, & McDonald, 2008).

It is also clear from business-case literature that the effect of empowering traditionally excluded groups is asymmetrical: The traditional majority finds it disturbing to be in the minority. In this sense, such individual-level effects as satisfaction and cohesion, as well as absenteeism and turnover, are greatest for white men, especially if the organization has an explicit diversity culture that prevents them from showing their discomfort overtly. However, according to research, attentive diversity management can reverse these effects.

In sum, being "different" from the majority of the work group causes individuals to reduce their work effort unless work-group leaders manage not just the nature but also the simple presence of diversity. In this sense, unmanaged diversity can have a significant business cost for an organization.

Work-Group Level. *The measured effects of workplace diversity on work groups are primarily mixed.* Specifically, how diversity affects team performance remains an open question. Researchers have found abundant evidence that dissimilarity in terms of gender, race/ethnicity, and functional experience is valuable for cognitive, creative tasks. However, research is not extensive enough to permit conclusions about other tasks. Similarly, there is not yet enough evidence to make firm statements about the impact of particular kinds of diversity on work groups.

One study found substantial evidence that variations in work-group composition have important damaging effects on group functioning. Increased diversity, particularly of age, tenure, and race/ethnicity, "typically has negative effects on social integration, communication, and conflict," with functional diversity or diversity in educational background being an exception (Williams & O'Reilly, 1998, p. 115). That is, the potential increase in productivity from variations in work-group composition is vulnerable to process losses that result from misunderstandings or other communication problems, a failure to confront or resolve conflicting points of view, or lack of attention to motivational issues (Thompson & Gooler, 1996). Williams and O'Reilly (1998) did find evidence that such variables as organizational culture, technology, and task design can moderate these negative effects.

On the positive side, Nemeth (1992) found in an experiment that groups that included minority views were more creative than more-homogeneous groups and that they identified more potential solutions.[5] She also found that, regardless of whether the minority views prevailed, they improved

the group's performance by intensifying its examination of assumptions and implications of alternative solutions.

On the mixed side, a meta-analysis conducted by Horwitz and Horwitz (2007) that examined 35 peer-reviewed articles on the effectiveness of work-group diversity published between 1985 and 2006 found that only task-related diversity (i.e., expertise, education, and organizational tenure) was connected to team performance. Horwitz and Horwitz were unable to detect a relationship between demographic diversity within work groups and team performance.

Organization Level. *The effects of diversity on the organization are inconclusive.* Empirical work into the business impact of diversity is relatively scarce at the organization level, and what research there is does not show much in the way of direct benefits from diversity. Inconclusive results seem to be due mainly to measurement issues, a lack of data, and the lack of any real theory about how diversity should work at the organization level. In particular, researchers are finding it hard to model how diversity matters across groups or people who do not have contact with each other, especially when diversity can be very different in different parts of an organization.

Early organizational research (some of which is referenced in U.S. Air Force, 2004) found that organizations with diverse workforces had superior bottom-line outcomes. Financial performance, sales, and market shares in particular did well in these studies. However, there is no direct evidence that diversity played a part in producing superior performance. The presence of diversity in high-performing organizations may simply mean that good managers manage well, whether they are managing human resources or other business aspects of an organization.

Improving the Impact of Diversity in Businesses and Organizations

Although the impact of diversity on organizational performance at the individual, workgroup, and organization levels tends to be negative, mixed, and inconclusive, respectively, a thread running through the research suggests how businesses and organizations can improve such impacts: Effective diversity management policies and leadership practices (such as an organizational commitment to diversity) can mitigate these effects at all levels and enable companies and businesses to reap positive benefits. Here, we summarize some of the research findings at each level.

Individual Level. At the individual level, Estrada and Harbke (2008) extended the extensive literature on the significant relationships between diversity perceptions on the one hand and job satisfaction and organizational commitment on the other in a sample of U.S. Army reservists. They found that, even when individuals are not working full-time, people from different demographic groups are attentive to specific (but different) facets of the diversity climate, as they perceive it. These findings are of critical importance because both job satisfaction and organizational commitment affect turnover (McKay et al., 2007).

In a recent study, McKay, Avery, and Morris (2008) found that a strong pro-diversity climate—defined as perceived fair treatment, respect for different views, and a visible commitment from top management—increased sales performance among blacks and Hispanics. Another recent model by McKay et al. (2007) looked at the influence of diversity-climate perceptions on turnover intentions among managers in a national retail organization. The authors found that such perceptions were significantly and negatively related to turnover intentions among all groups studied—whites, blacks, Hispanics, men, and women. They conclude that "enhancing employees' diversity climate perceptions may have real bottom-line financial implications for firms by helping to reduce avoidable turnover costs" (p. 54).

Work-Group Level. The performance effects of work groups consisting of diverse members are not yet clear. It seems that capturing the creative potential of diversity is conditional on whether groups are able to resolve their differences, which means that the *group process matters*. In other words, having valuable information to contribute is one thing; communicating it successfully and incorporating it effectively in problem-solving and other work tasks is another.

There is some evidence that organizations can overcome the negative impact diversity may have on work groups. Evidence suggests that businesses and organizations may be able to reap the potential positive effects of diversity if they encourage (1) early and diversity-friendly socialization; (2) effective conflict management; (3) increased familiarity with the "other" group members; (4) larger, work-orientated collective norms and culture; and (5) formation of positive social categories based on common goals and identities (Riche et al., 2005).

Whether planned or unplanned, these strategies essentially exploit the psychology of self-categorization to help employees identify with an inclusive culture rather than with other kinds of groups that are not relevant to the job at hand. These strategies suggest that leaders can use the growing body of evidence about the impact of diversity to leverage diversity itself.

Organization Level. At the organization level, research suggests that some of the negative impacts of diversity can be ameliorated by incorporating the moderating impact of organizational strategy (Richard, 2000; Richard, McMillan, Chadwick, & Dwyer, 2003;Richard, Barnett, Dwyer, & Chadwick, 2004). These studies suggest that diversity adds value in the context of a growth or transformation strategy, especially when organizations are seeking new skills, new products, or new markets. In this context, flexibility is more important than efficiency. However, in many of these cases, when research has found a positive impact of diversity, achieving such an effect depends, as it does at the individual

and work-group levels, on explicit and effective diversity management.

Indeed, the organizational diversity climate is another important moderating factor. There is a definite downside to increasing diversity without fostering a culture to support it; the most notable effects are increased absenteeism and turnover. In contrast, a strong organizational culture, especially a collective (i.e., participatory and collaborative) culture, provides a favorable context for obtaining a performance dividend from diversity in the workforce (Chatman, Polzer, Barsade, & Neale, 1998; Chatman & Spataro, 2005).

Finally, there is some evidence that diversity is most likely to enhance organizational effectiveness when organizations specifically promote organizational learning from diversity (Kochan et al., 2003). This requires giving managers the skills to facilitate the constructive conflict and effective communication that translate diversity into value.

Conclusions

When it comes to business-case arguments for promoting diversity in businesses and organizations, the research shows that promoting such diversity has a predominately negative impact on the performance of *individuals*, especially in relation to retention and turnover. On *work groups*, the impact is mixed. The potential benefits include better decisions, increased innovation, and improved overall performance; the potential threats include low cohesion, poor communication, and more conflict. The positive impacts at the work-group level tend to occur at specific levels (e.g., among senior leadership) or within specific tasks (e.g., creative, innovative, or decision-making tasks). At the *organizational* level, the impact of diversity is still inconclusive.

Although the evidence suggests that there is not a strong business case for diversity per se, the evidence also reveals what is necessary to help mitigate its potential costs or reap the desired benefits: Diversity must be managed (i.e., led), diversity tools must be provided, and there must be agreement that the benefits are worth the investment. Senior leadership is the most important determinant in this regard.

Notes

[1]A forthcoming IP addresses the laws governing equal access to and equal treatment in the military.

[2]Strong and/or empirically supported arguments from both classes could also form the basis of a compelling legal case to defend policies and initiatives designed to increase workforce diversity. This is addressed in a forthcoming IP.

[3]Forthcoming IPs address issues related to the demographic-diversity impact of occupational field and specific assignments in more detail.

[4]Linguistic research about people who speak more than one language fluently is the source of this argument, especially the influential work by Lambert on bilingual education in Quebec.

[5]Here, *minority* simply meant holding views that were different from the majority, not minority demographic or work characteristics.

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