

Diversity in the workforce – A research analysis

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Abstract:

Diversity in the workforce is thought to be an HR slogan with no measurable impacts on long term profits. This mentality in turn transforms any diversity initiative set forth by a firm as a fixed cost rather than an investment in its operations. This paper shows that there is a positive linear relationship with diversity on higher rates of return on financial assets between 15 to 35 percent and lowers employee attrition rates by 20%. These claims are asserted and validated through a variety of 3rd party research reports, case study examples, and published white papers. Using this information, this paper illustrates why diversity initiatives fail and how to correctly implement a working diversity initiative.



Introduction:

A heterogeneous work force is shown to have many net economic benefits when implemented correctly. Social diversity is defined as “variations and differences in individual backgrounds, personal identities, intellectual approaches and demographics.”ⁱ In accordance to this, “social diversity sees a level playing field and thus its recommendations re-devoted to increasing and driving the numbers of the [organization’s] population, where all are expected to assimilate to an existing mainstream culture.”ⁱⁱ Promoting individuals who hold diverse backgrounds a range of input to be put forth for consideration to meet company goals. When implemented correctly, employees of organization feel more connected which further retains employment.ⁱⁱⁱ The impacts for a firm to have a diverse set of input have time and time again shown to have a positive impacts on long term decision making that result in higher returns on

equity, operating result, and stock price growth.^{iv} Organizations that leverage diversity can see benefits in employee morale, performance, and retention.^v

The importance of Diversity:

With these impacts it’s understandable to see why firms are increasingly making efforts to assimilate a more diverse workforce. Today, most large corporations employ diversity consultants in order to further promote variance in their staff by identifying the cultural and structural barriers that hinder diverse people to succeed.^{vi} The modern world is far more intermingled than ever before due to increased efficiency in transportation and global communication. This brings to light modern issues that corporations are now facing. For example, “In the U.S. alone, the wide range of people involved in both the making and the consuming of products could include [an] Indian automotive engineer who is helping to take Ford to the next level; the African American statistician at a Silicon Valley startup; the 65-year-old disabled man who, instead of retiring, has just been promoted; the Gen Y child of immigrants from Central America who excels in Web marketing at Procter & Gamble; the gay woman who is the mother of two; and so on.”^{vii} Many prominent corporations have taken official positions on why they value diversity to better clarify how they are addressing this obstacle of globalization. One such example is General Electric, an American multinational conglomerate corporation, which has taken the official stance that “as a global company, our talent must reflect the communities we serve and with whom we do business.”^{viii}

Net Impacts:

With the proliferation of organizations becoming more immersed in the global community a heterogeneous workforce is showing to be the next step in meeting the demands that come with globalization. It is imperative not to forget the bottom line; how does diversity affect our organizations performance in terms of sales, return on investment, and customer gains? If having a multifarious staff is not showing a positive impact on these variables then it’s highly likely that the organization in question has mishandled how to correctly implement a diverse workforce. When utilized correctly the impacts of a heterogeneous workforce are transparent. The net impacts are as follows:

- “In 1988, only 4% of the 134 firms that went public in the U.S. had women in top management positions. Of 2009’s 19 high-tech IPOs, all but two had at least one woman officer.”^{ix}
- “Embracing diversity and inclusion (D&I) bring[s] a broader range of mindsets and backgrounds into the organization, leading to more effective decision-making or drawing in a wider customer base.”^x
- “Women-operated, venture-backed high tech companies average 12 percent higher annual revenues.”^{xi}
- “Companies in the top quartile for racial and ethnic diversity are 35 percent more likely to have financial returns above their respective national industry medians.”^{xii}
- “Companies in the top quartile for gender diversity are 15 percent more likely to have financial returns above their respective national industry medians.”^{xiii}
- “In the United States, there is a linear relationship between racial and ethnic diversity and better financial performance: for every 10 percent increase in racial and ethnic diversity on the senior-executive team, earnings before interest and taxes (EBIT) rise 0.8 percent.”^{xiv}
- “In the United Kingdom, greater gender diversity on the senior-executive team corresponded to the highest performance uplift in our data set: for every 10 percent increase in gender diversity, EBIT rose by 3.5 percent.”^{xv}
- “CEB research found that in a more diverse and inclusive workforce, individual discretionary effort improves by 12% and intent to stay improves by 20%. Team collaboration and commitment improve by approximately 50%.”^{xvi}

Why Diversity Initiatives Fail:

Firms often meet resistance when implementing diversity measures. This resistance stems from the miscommunication that the main driving force for diversity initiatives is for mandated compliance with equal employment opportunity (EEO) laws and Affirmative Action regulations.^{xvii,xviii} One such example can be seen when a consumer goods executive states his views on diversity, “Diversity is another way of saying affirmative action and we are forced to support it in order to protect our brand in the trade and amongst our consumer audience. Diversity has no real value tangible to the growth of our business.”^{xix}

This demonstrates how an organizations entire diversity implementation can be undermined by this mentality. When upper management views diversity as a mandated requirement rather than an economic incentive then all investment in promoting diversity becomes an expenditure to the firm which then acts as a fixed cost rather than a return on investment.

Two major problems arise when a firm views diversity as a mandated requirement. The first being that white males feel excluded which breeds bad employee morale and encourages the notion that diversity is “a new, politically correct term for special treatment.”^{xx} This resistance is destructive to the firm’s homogenous work culture as diversity initiatives set out to unify employees with different backgrounds. Second, “framing a diversity initiative only in terms of legal or regulatory compliance tends to focus the firm’s attention improperly. Instead of combating institutional racism and sexism or maximizing employee output, equating the plan to legal guidelines signals that the firm is only interested in meeting a metric objective associated with hiring or retaining diverse people.”^{xxi} These policies only exacerbate division within the firm and need to be addressed first and foremost before any progress can be made.

S.C. Johnson, a manufacturer of household cleaning supplies and other consumer chemicals, reorganized its internal affairs committee by making it more autonomous over daily operations.^{xxii} The intentions of this initiative were to more efficiently respond to internal problems such as diversity issues.^{xxiii} However this shift in self-governance resulted in less collaboration when regarding race and gender issues.^{xxiv} The end impacts of this initiative that was set out to identify and rectify any systematic errors in diversity led to four black employees suing the company on the premise of team-based systematic discrimination towards black employees in opportunities for advancement, wage increase, and daily work conditions.^{xxv} However this case is non-unique as team-leadership initiatives require transparent communication on a regular basis. Susan Sturm, a Columbia Professor of Law and Social Responsibility, has found that interactions regarding racial and gender relationships and perceptions can be shaped by preconceived biases within the firm. This in turn will bleed into the relationships of a newly set committee.^{xxvi}

Another pitfall to be wary of is that firm’s too often parallel worthiness to competence without giving serious consideration to how a potential candidate will succeed in a new role.^{xxvii} For example Alcoa, a leading corporation in aluminum manufacturing,

actively sought to promote women into upper management positions without due consideration to their qualifications. This in turn was decreed by the Southern District of Indiana as a discriminatory policy as Alcoa was “ignor[ing] candidate information and neglected the importance of a fair interview process.”^{xxviii} Holding a candidate’s minority status should never overshadow other true qualifications for a position. A firm must always make an effort to clearly demonstrate why one candidate was selected over another.

Implementing a Working Diversity Initiative:

There are many pitfalls to be aware of when considering how to effectively optimize a diverse workforce. First and foremost the executive committee of any organization that sets out on this endeavor must be in agreement on how to implement a diverse workforce and why it is important. Otherwise these investments diminish to fixed costs to the firm. As with any project, the leaders hold the most influence in its success as they are the ones who drive the finances, support, and influence. Furthermore leadership involvement largely influences how a diversity initiative will be received by the firm. As Pat Harris, the Global Chief Diversity Officer at McDonald’s says, “the first requirement [in formulating a diversity strategy] is a commitment from senior leadership to diversity as a core value of the organization. Top management must be determined that diversity [is] a cornerstone of how you do business.”^{xxix}

Before a plan is implemented, it’s necessary to understand how a firm’s workforce will receive changes in its workforce composition. One method would consist of open ended questionnaires aimed at gathering opinions on diversification. It is important to give due consideration to these inputs and give equal consideration to what they mean and whether or not it is in the company’s best interest to diversify.^{xxx}

Additionally it would be advisable to make these questionnaires non-mandatory as a means of gauging how concerned its workforce is with diversity. As a final precaution when implementing diversity questionnaires it is necessary to carefully design the polling process as to not imply favoritism. When attempting to gather viewpoints on diversity within a firm it should be noted that upper management is largely homogenous and thus not

representative of how those of other denominations may choose to express their concerns when discussing the importance of diversity. To avoid this equal weight should be considered to all employees.^{xxxi}

When assessing the success of corporate diversity policies there is a constant factor: dedicated resources to a diverse committee or task force. The composition of this team is critical to its ability to perform with successful teams being composed of different departments, professional backgrounds and managerial levels.^{xxxi}^{xxxiii} This conduit of diverse opinions affords the committee to conduct inquiries across multiple departments which increases transparency within the firm. However, its ability to act plays a pivotal role in its success. The committee itself may be charged with designing the initiative in addition to being tasked to perform other functions such as brainstorming remedies and monitoring progress.^{xxxiv}

Despite all these precautions having a reliable conflict resolution and diversity training will help resolve any issues that may arise during this transition. “It is important to keep in mind that issues of discrimination and harassment are sensitive subjects, and many victims may be unwilling to file formal complaints because of fear of stigma or retaliation.”^{xxxv} When drafting policies to deal with conflict resolution it’s important to keep these issues in mind.

A two-tracked method of informal mediation followed by a more formal stage when the prior method fails is seen to be an effective and popular method of addressing these issues.^{xxxvi} The first approach is to conduct an informal meeting between the alleged abuser and the victim with a mediator present. This in turn treats the situation as an isolated scenario and in turn addresses the conflict as a private matter between the two which leads to confidential resolutions if they can be reached. “Overall workplace culture, institutional policies and general patterns of discrimination are not considered a focal point of the mediation. Rather, the emphasis is placed on working out a solution that is acceptable by both parties and obviates the need for intervention by other actors.^{xxxvii}

If however a situation cannot find solution during the first stage then the conflict should be managed in more formal manner.^{xxxviii} At this stage of conflict resolution firms conduct formal investigations and adversarial hearings in the presence of authority figures. These investigations treat the conflict more broadly bringing in witnesses, supervisors, and other firsthand accounts that can be kept on record in the event of a court hearing. Furthermore, “part of the

investigation should inquire about whether the firm's conflict resolution procedure was accessible, if the investigation was thorough, and if any sanctions imposed on the abusive party are appropriate given their behavior."^{xxxix}Expanding on preventative measures of disunity as a byproduct of diversification it is logical to conclude that not all employees have the skillset to deal with a diverse group setting and that the responsibility to educate these employees falls on the organization. One resolution that would be proposed for someone convicted of intolerance of a multicultural workforce, in the first informal stage of conflict resolution, would be to attend diversity training.

A firm should take an official stance on what it defines diversity as to better address issues when and if they arise. Once an organization establishes its definition of how it quantifies diversity the next step would be to identify what needs need to be addressed. "Organizations can differ greatly depending on location, workforce composition, function, and size. For example, a multinational corporation with employees from all around the world, such as Microsoft, will likely have different needs and concerns than a small, regional law firm. Similarly, an office located in a heavily diverse area like Sacramento, California may need a different program than an office in Lincoln, Nebraska."

Case Study Analysis:

To illustrate what methodologies have been successful this paper will examine multiple case study examples. Using these examples firms will be able to "mitigate transaction and start-up costs associated with implementing a new or amended initiative."^{xl}

The Hewlett-Packard Company [HP], an American global information technology company, took multiple initiatives in an effort to diversify. This tech corporation began actively recruiting at historically black colleges, hosting diversity leadership summits in India, Costa Rica, and Bulgaria, holding annual talent reviews, and succession planning.^{xli}

Home Depot, an American retailer of home improvement and construction products and services, took similar initiatives to meet its consumer needs as it marketed itself as a family-oriented company.^{xlii} To better address their recruiting methods, Home Depot implemented an automated hiring and promotion system dubbed the Job

Preference Process [JPP].^{xliii} The JPP controlled for hiring biases by filtering candidates through a neutral process. "The individualized information is used to assist in matching candidates to positions they favor, identify race and gender gaps and increase the overall effectiveness of the personnel system."^{xliv}

Banco Bilbao Vizcaya Argentaria [BBVA] a Spanish bank consisting of over 107,000 employees, made forward progress for developing women's careers within the organization by supporting women returning from maternity leave and through establishing a mentorship program for women. However, the company took notice that in 2010 only 20% of senior leadership positions were women. BBVA implemented a very simple mechanism to control for possible discrimination when considering candidates for senior level positions. BBVA omitted information such as age, gender, and name from all assessment of candidates being considered for promotion. After one year after this method was introduced there was an increase of female executive level staffing.^{xlv}

"McDonalds, who serves 56 million customers a day across 118 countries, is considered a leader in diversity hiring and retention."^{xlvi} During the early 2000's McDonalds was under intense scrutiny over America's obesity epidemic and underwent a cultural overhaul in response to its heated criticism. The company implemented a diversity training a development program aimed at emphasizing leadership development, identifying candidates for advancement, and by monitoring entire restaurant crews.^{xlvii} In addition to these reforms McDonalds also created learning labs in order to identify which tactics were more effective than others. These changes in tactics transformed McDonalds into a strong example for the business case rationale.^{xlviii}

But in the early 2000s, McDonalds was at the center of a nationwide debate over America's obesity epidemic. McDonalds underwent a "complete cultural change" in response to the intense scrutiny. They implemented a diversity training and development program that called for mentoring entire restaurant crews, emphasizing leadership development and identifying employees with the most potential for advancement. They also created academic-style learning labs in order to conduct internal studies to uncover which tactics were working and which ones were underperforming. These tactics helped transform McDonalds into a strong example for the business case rationale.^{xlix}

Conclusion:

Diversity is shown to benefit firms through increased financial returns on investment and by lowering employee attrition rates. Diversity initiatives fail when upper management is not truly supportive of the initiative, by miss-framing the reasoning for wanting a more diverse workforce, by not including white males, by seeing a more diverse workforce as compliance with Equal Employment opportunity laws, and by employing or promoting minority works based on their minority status.

To correctly implement a diversity initiative a firm must first define know where its employees stand on the issue to see if it is truly ready for the transition. Once this has been established a committee or taskforce from various departments must collaborate to ensure the best methodology of approach. The firm must also have a two-step approach to dealing with diversity issues as they arise. To ensure transparency a firm that sets out to establish a working diversity initiative should make it

clear why it values diversity and what diversity means to the company. This will give it a clear goal that the firm can work towards.

Diversity advocates must continuously push for effective policy reform and periodically reevaluate existing policies to ensure their effectiveness. After all, if diversity isn't impacting a company's bottom line then why do it.

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^{vi}Elisabeth Lasch-Quinn, *Race Experts: How Racial Etiquette, Sensitivity Training and New Age Therapy Hijacked the Civil Rights Revolution*, W.W. Norton & Company (2001).



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^{xxiv} See Annelise Goldstein, *Who's on Top: Unchanging Demographic Patterns*, Organizations, (Aug. 1995).

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