



Workplace Diversity

Does Diversity Really Benefit Organizations? 5 Studies Say Yes.

Executive Summary

Diversity and inclusion are not only valuable for avoiding discriminatory practices and reducing risk. Research shows that diversity really does benefit organizations. Five studies show that diversity leads to more innovation, better problem solving, and better efforts to attract and retain talent. The best diversity is “2D” diversity: diversity that is a mix of both acquired and inherent differences. This article closes with recommendations for getting buy-in to diversity initiatives across an organization.

The last decade has seen many initiatives come and go for managing the diversity and inclusiveness of organizations. Is there a business case to be made for such initiatives? Or are they just more examples of political correctness run rampant?

The latest research shows that diversity really does benefit organizations—when they focus on the right kinds of diversity, and when the context is appropriate. Crafting diversity initiatives, then, requires some careful planning and strategy. Beyond careful planning, it also requires getting the right sort of buy-in from management to really affect cultural change. Knowing the data about diversity initiatives can help with this.

“Diversity: the art of thinking independently together.”

— Malcolm Forbes, Entrepreneur,
Publisher of Forbes magazine

Where Things Stand: Diversity to Avoid Legal Entanglement

Managing diversity and inclusiveness has typically been a human resources function—though that tendency is beginning to change in many organizations. “Organizational diversity,” for many recruiters and HR staff, has traditionally meant avoiding discriminatory practices (especially in hiring, recruiting, and promoting), posting relevant employment laws, and other sorts of legal compliance. In other words, it is about avoiding negative consequences—risk management.

To the extent organizations are trying more positive diversity programs, they are beginning to suffer from “diversity fatigue.” This points to the first issue that diversity initiatives face: proving their business value. Many diversity initiatives fail because the value of these initiatives is not communicated well, either to management or to the workforce at large. Too much communication focuses on the what of diversity management, and not on the why.

Why Diversity: Diversity Brings Innovation

Workplace diversity seems to be the over-arching context in which innovation happens... or so finds a Forbes study from 2011. This study surveyed 321 executives from companies with a global presence, asking them about their diversity initiatives. Among other things, this study found that 48% of executives polled strongly agreed that “a diverse and inclusive workforce is crucial to encouraging different perspectives and ideas that drive innovation.”

This view is born out by further research. Business professors Cristian Deszö of the University of Maryland and David Ross of Columbia University studied gender diversity in top companies from the S&P Composite 1500 list between 1992 and 2006. Looking at the financial performance of these companies, they found that, on average, "female representation in top management leads to an increase of \$42 million in firm value." They also measured the firms' "innovation intensity" through the ratio of research and development expenses to assets. Companies with a need for innovation saw greater financial gains when women were part of the top leadership ranks. Similar studies have shown that racial diversity also increases innovation.

Diversity goes beyond ensuring a varied workforce, however. The Forbes report points out that, as companies compete on a global scale, diversity and inclusion frequently have to change and shift, given that different markets and different cultures have varied definitions of what diversity means.

Why Diversity: Diversity Also Attracts and Retains Talent

Aiming for diversity also has the benefit of expanding the talent pool that an organization can hire from — and that talent pool is explicitly interested in diversity.

Diversity strongly signals inclusion—an organization's tendency to ensure that the people in its diverse workforce feel included and are treated with respect. While inclusion itself is hard to measure, diversity is often seen as a good proxy for inclusion.

For example:

- A diverse employee pool is the first step towards being more inclusive; prospective employees thus like to see diversity from their prospective employers.

- A diverse employee pool also makes onboarding easier, as new employees are more likely to learn from someone with shared life experiences. In short, diversity makes further diversity easier.
- Diverse teams are better at taking multiple perspectives and solving problems—even "internal" ones.


In short, any investments in diversity will compound over time, as manifested in better talent pools, a better brand image when attracting employees, and better employee retention.

So What Kind of Diversity Should Organizations Aim For?

Many organizations aim for diversity when it comes to gender, age, and ethnic background. Is this the right way to conceptualize the kind of diversity that drives innovation and retains talent?

The foundational plan for using diversity to foster innovation across markets can be found in a study reported in the Harvard Business Review. This study found that the best problem solving comes from groups exhibiting "2D" diversity.

What is 2D diversity? Think of diversity as coming in two different types of "flavors." There is inherent diversity, which means variation in characteristics that people have naturally (i.e., are not learned in one's career). Gender and race are obvious examples; but innate mathematical talent, or a background with certain kinds of life experiences, also count.



For some populations, diversity might be more important than raw problem solving ability.

On the other hand, acquired diversity includes specialized skills acquired during one's career. For example, if someone has worked in a foreign country for some time, they will have insights into that country's customs, laws, and attitudes that others would not. Same thing with acquiring a specialized trade, or working to serve a particular industry.

2D diversity is diversity of both types found in the same group. For organizations, teams that exhibit this 2D diversity were much better at understanding target markets, avoiding mistakes, and driving product innovation.

In fact, for some populations, diversity might be more important than raw problem solving ability. A rather technical paper by researchers from the University of Michigan, Ann Arbor and Loyola University proved that, given a large enough pool of talent, a diverse group outperforms a group selected for best-performance when it comes to solving certain kinds of problems. Given an intelligent enough workforce, problem-solving diversity is more important than raw problem-solving ability.

How Can Individuals Successfully Advocate for Diversity?

The research seems to say that diversity really does provide benefits—when initiatives are done right. The challenges for HR is not so much maintaining diversity "on paper," but in helping to steer and encourage organizations to include a diverse range of talents, views, and life experiences.

Before any program can be put into place, though, there needs to be a change in attitude. Have the hearts and minds of decision makers been won over to the ideas of diversity and inclusion?

Without the support of senior management, diversity initiatives tend to fall flat. Here are some small steps that are easily obtainable:

1. Share the benefits of diversity. As seen above, there is a lot of research on the benefits of diversity. Find the best and share it. Summarize the results so you can build a case.
2. Suggest "blind" recruitment tools and procedures. Formal assessments, for example, are much more objective than interviews and effectively filter out many of our biases. If interviews must happen, make sure there are multiple interviews from different people.
3. Communicate the successes of diverse teams. Nothing convinces people like a good success story. When diverse teams catch a mistake, solve a problem, or bring a new perspective to a situation, call out their fine performance. Use these as "case studies" when convincing decision makers to include diversity and inclusion initiatives.
4. Suggest training for dealing with a diverse workforce. Really, this is killing two birds with one stone. On the one hand, a diverse workforce will need more training to ensure that there is a culture that values diversity, and that inclusion is "in the air." On the other hand, training itself can create diversity. As the HBR article mentioned above argues, some diversity is acquired during one's career. Better, more diverse training thus leads to a better more diverse workforce. That's a true driver of profitability if there ever was one.

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