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Gail Robinson and Kathleen Dechant

Executive Overview

While most companies acknowledge the importance of making diversity a business consideration, diversity is often not a top business priority. Other business initiatives that present more compelling, factual evidence of payback on investment win out over diversity initiatives, which seem to offer less predictable and tangible benefits. As a result, many human resource executives revert to the argument that "it's the right thing to do" and trust that management will back their suggestions to promote a diversity-friendly work environment, then wonder why nothing happens or why well-intended initiatives fail. The presentation of a solid business case increases the likelihood of obtaining the leadership commitment and resources needed to successfully implement diversity initiatives.

A phenomenal surge in the growth of emerging markets, extensive use of cross-functional, heterogeneous teams to produce creative solutions to business problems, an increased reliance on non-traditional workforce talent—the realities of today's workplace clearly demonstrate that diversity management has become a critical aspect of operating a business.[1] Yet, a 1992 survey by the Hay Group showed that only five percent of 1,405 companies thought they were doing a very good job of managing the diversity of their workforces.[2] The reason companies aren't doing a better job stems from the way management determines and prioritizes a firm's time and resources. Although top management views diversity integration as important, there are usually more tangible and compelling business priorities that win out in the short run. The shift to lean organizational structures and the forces of Wall Street favor short-term investments with clear returns. In contrast, diversity integration requires a long-term commitment and the payback is often not as tangible or predictable as, say, investing in new product development.

Just as the head of Research and Development must present a compelling, fact-based business case to top management to gain the necessary commitment and resources from the organization to pursue a product initiative, so too must the head of Human Resources develop a case for diversity integration based on the competitive edge gained by optimizing the people resources of a firm.

Developing a business case for diversity is more difficult than for other business issues because evidence of diversity's impact on the bottom line has not been systematically measured and documented for easy retrieval and use. The human resource executive who tries to build such a case confronts a vast array of information and advice on diversity management, but finds little guidance on how to pull this data together to present a compelling and fact-based business case.

Companies competing in today's fast-paced global market tend to favor the broadest definitions of diversity—ones that encompass differences in gender, racioethnicity, age, physical abilities, qualities, and sexual orientation, as well as differences in attitudes, perspectives and background.

This article outlines, describes, and updates the competitive and business reasons for managing diversity. Citing best practices as well as the most recent research, the approach presented builds upon the seminal work done in 1991 by Cox and Blake linking diversity and organizational performance.[2] As a whole, it demonstrates that a compelling rationale can be created for making diversity a top business priority.

What Do We Mean by Diversity and Diversity Management?

Some companies still use the traditional Equal Employment Opportunity Commission (EEOC) definition of diversity, which deals with differences in gender, racioethnicity, and age. Others employ definitions that are broader and include different physical abilities, qualities, and sexual orientation. Still others focus on the heterogeneity of attitudes, perspectives, and backgrounds among group members. Finally, some businesses have broadened their definition of diversity even further to include people from different hierarchical levels, functions, and backgrounds. The Pillsbury Company, for instance, defines diversity as "all the ways in which we differ".[3]

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Business Reasons for Managing Diversity

Since the publication of the Workforce 2000 study, cost savings and winning the competition for talent are frequently cited as strong arguments for the pursuit of diversity initiatives.[4] More recently, they have been supplemented with a third, even more forceful arguement—the opportunity to drive business growth by leveraging the many facets of diversity. All three reasons surfaced as significant in a recent survey of Fortune 100 company human resource executives.[5] (See Exhibit 1.)

Cost Savings

The first argument for diversity focuses on the negative impact of diversity mismanagement on the bottom line.

HR Executives Cite Business Reasons for Diversity

Human Resource executives from 15 Fortune 100 companies were asked to identify the primary business reasons for engaging in diversity management. The results focus more on reasons that leverage the opportunities diversity management offers than on those having to do with avoiding the penalties of mismanagement (e.g. turnover costs and lawsuits).

Top five reasons:
1. Better utilization of talent (93 percent)
2. Increased marketplace understanding (80 percent)
3. Enhanced breadth of understanding in leadership positions (60 percent)
4. Enhanced creativity (53 percent)
5. Increased quality of team problem-solving (40 percent)

Exhibit 1: Diversity Rationale Poll

Higher Turnover Costs

Turnover among women and people of color is a significant and costly problem for many companies. The turnover rate for blacks in the U.S. workforce is 40 percent higher than the rate for whites, and turnover among women is twice as high as for men.[6] The added recruiting, staffing, and training costs per person are estimated at $5,000 to $10,000 for an hourly worker and between $75,000 to $211,000 for an executive at around the $100,000 salary level. Mary Mattis, Vice President of Catalyst, an organization that works with corporations to foster the career and leadership development of women, estimates that replacement costs total 93 percent of the departing employee's annual salary.[7] In addition, such a revolving-door situation means employees are constantly climbing the learning curve instead of performing at full potential.

Turnover among women and people of color is a significant and costly problem for many companies.

Women have higher turnover rates than men at all ages, not just during their childbearing years. Mobil, for example, discovered that its high potential women were leaving the company at two and a half times the rate of comparable men.[8] A Fortune 500 utility company with 27,000 employees found it was losing $15.3 million per year because of the costs associated with systematic gender bias, such as turnover and loss of productivity. This high figure did not even include sexual harassment costs.[9] The lack of opportunity for career growth is the primary reason that professional and managerial women leave their jobs.[10]

Higher Absenteeism Rates

Absenteeism, like turnover, can rack up significant costs for the organization. One Fortune 500 financial services corporation estimated the cost of absenteeism for 440 of their blue collar and clerical workers at $100,000.[17] Absenteeism rates are often higher among women and non-white men than they are for white males. A study of absence rates in the U.S. workforce found that rates for women are 58 percent higher than for men.[11] In many cases, family responsibilities, including child and elder care, are key factors underlying such high absenteeism.

Other studies have tied employees' perceptions of the workplace to elements of productivity, which may help to explain the notable level of absenteeism among non-white men. For example, Robert Eisenberger and his colleagues found a positive relationship between employees' perceptions of being valued and cared about by their organizations and their attendance, dedication, and job performance.[12] Workers must feel secure about their status to fully engage themselves at work. This is a particular issue for low-status members of an organization, who cannot engage themselves deeply in their work when the organizational values do not fit their own.[13]

A Gallup poll found that six of ten mothers employed full-time, would prefer part-time employment, flexible hours, or telecommuting.[14] Companies are beginning to respond to work/family balance issues by offering changes in benefits, day care facilities, and flexible hours. There is some evidence that these approaches can result in lower absenteeism rates. For example, in one study, companies were assigned an accommodation score based on the adoption of four benefit-liberalization changes associated with pregnant workers. Analysis revealed that the higher a company's accommodation score, the lower the number of sick days taken by pregnant workers and the more willing they were to work overtime during pregnancy.[15]

The addition of an in-house child care facility in one organization improved organizational commitment and job satisfaction and lowered absenteeism rates. Greater use of flextime work scheduling caused both short- and long-term absence to decline significantly. Work efficiency measures also increased significantly.[16]

Lawsuits on Sexual, Race and Age Discrimination
With employee sexual harassment complaints on the rise, the EEOC faces a backlog of 97,000 cases.[17] (See Exhibit 2.)

Lawsuits increase in frequency as employees become more aware of discriminatory practices. For example, there were 20 times more discrimination lawsuits in 1990 than 1970. Plaintiffs win two-thirds of the cases that go to trial. The average jury award for a discrimination lawsuit is $600,000.

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Foreign-owned companies can't escape liability either. Mitsubishi faces a $120 million damages as a result of a sexual harassment lawsuit filed by the EEOC.[20] In response, the firm decided to implement a comprehensive training program for dealing with sexual harassment and appointed a senior manager to promote advancement for minorities and women.

Winning the Competition for Talent
Winning the competition for talent means attracting, retaining, and promoting excellent employees from different demographic groups. As women and

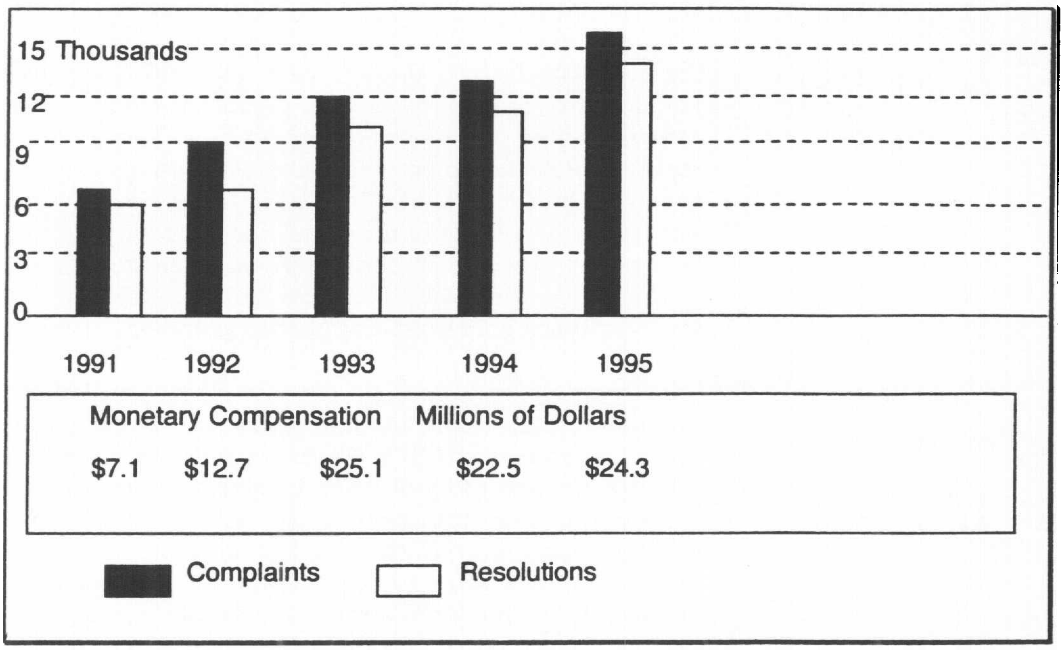

Exhibit 2. Volume of Employee Sexual Harassment Complaints and Resolutions and Associated Monetary Compensation

minorities increase in representation in the labor pool, organizations are competing to hire, retain, and utilize the best employees from these groups. Companies cited as the best places to work for women and minorities reported an increased inflow of applications from women and minorities, which is evidence of their ability to attract talent. According to Niall FitzGerald, Co-Chairman of Unilever, "We need the best people available. If we directly or indirectly restrict our choice, or make it more difficult to find the very best management available now and in the future, this is not only short-sighted—it will also be short-lived!"[21]

Attracting good talent is one thing; retaining it quite another. Women and minorities most often leave firms out of frustration over finding career opportunities and advancing up the corporate ladder.[22] A possible explanation for this problem can be attributed to the reluctance of management to coach and counsel these employees. Employees need feedback on the effectiveness of their behavior. However, women and people of color tend to receive less feedback than men. Feedback given to men is two-and-a-half to three times lengthier than that given to women, according to Kate Butler of American Humanagement Association. Conversely, women in successful mentoring relationships report an increase of nearly 94 percent in their professional effectiveness.[23]

Women are more likely to be placed in unchallenging jobs than men and to be limited by sexual bias in promotion opportunities. Racially motivated job treatment discrimination and promotion discrimination against minorities are factors that affect minority employees. The subtle biases present in promotion decisions often results in less than optimal utilization of the best talent in organizations.[24]

Sustaining competitive advantage depends on optimizing valuable human resources. Companies that are better able to recruit, develop, retain and promote diverse employees have an edge. Talented people will be attracted to corporations that value their capabilities and will be more willing to invest themselves in productive activity if they believe they are treated fairly and that career opportunities are available. (See Exhibit 3.)

Driving Business Growth

A powerful new impetus for managing diversity centers on driving business

The Women of Microsoft

Bill Gates, CEO of Microsoft, and his senior management team boast that they only hire smart people. In the early days of the firm, this mostly meant male software engineers; Microsoft was not a particularly hospitable place for women. Today, the future growth of the company depends in no small part on the women of the Interactive Media Division.

As the corporate market for PCs slows, Microsoft is looking to the consumer market; its U.S. Multimedia Division is looking to come up with creative CD-ROMs to engage this growing segment of the market. The requirements for these home CD-ROMs differ considerably from corporate computer and spreadsheet programs.

They demand talents found mainly in a female talent pool. Microsoft has begun to leverage its skills to attract and retain women in a industry where such talent is scarce and is fast becoming a determinant of competitive success.[25]

Exhibit 3. Diversity and Microsoft

growth by leveraging opportunities associated with increased marketplace understanding, greater creativity, higher quality team problem-solving, improved leadership effectiveness, and better global relations.

Improving Marketplace Understanding

The consumer market for goods and services is becoming increasingly diverse. Given the increase in ethnocultural diversity within the U.S. marketplace, formerly small market niches are becoming substantial ones that large corporations want to pursue. The spending power of African-Americans, Asian-Americans, and Hispanics together was estimated at $424 billion in 1990 and is expected to reach $650 billion by the year 2000.[26]

The cultural understanding needed to market to these demographic niches resides most naturally in marketers with the same cultural background. Joanie Miller, director of the Center for the New American Work Force, Queens College, says, "The power of cultural knowledge and individual contact inherent in diversity is vastly underestimated in the fight to gain share in today's segmented marketplace".[27]

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Several companies have taken advantage of their diverse talent to improve marketplace understanding. Avon Company, for example, was able to turn around its unprofitable inner city markets by putting African-American and Hispanic managers in charge of marketing to these populations. In the early 1990s, Maybelline, Inc., launched a new product line, Shades of You, for women of darker skin tones. With no minorities working in marketing or in middle or upper management, Maybelline hired people of color into marketing to concentrate on promoting the line. Shades of You captured 41 percent of the $55 million ethnic cosmetics market, making Maybelline the dominant player in the ethnic marketplace. Maybelline has since folded the line into an expanded product portfolio, having discovered that women in general prefer a wide range of color choices.[28]

Dupont recently leveraged the cultural savvy of a group of African-American workers in opening up promising new markets for its agricultural products. Another multicultural team recommended changes in the development and marketing of the company's decorating materials and garnered $45 million in business worldwide as a result.[29]

Besides gaining market penetration, companies can benefit from the good will of diverse consumers who prefer to spend their dollars on products produced by a diverse workforce or to give patronage to businesses with a diverse salesforce. As Liz Minyard of Minyard Food Stores states, "Most people in the [supermarket] industry are beginning to realize that your workplace should reflect your consumer base. It just makes good business sense."[30]

Finally, customers and suppliers, as well as consumers, are becoming more diverse. The Food Marketing Institute's Board of Directors formed a Task Force on Managing Diversity with the goal of increasing representation and utilization of females and minorities in the industry at both the store and corporate levels.[31] Companies are likely to benefit from matching the diversity of their customers and suppliers for the same reasons as from matching the diversity of their consumer bases.

Increasing Creativity and Innovation

Along with increasing marketplace understanding, the optimization of a diverse workforce can stimulate creativity and innovation.[32] Attitudes, cognitive functioning, and beliefs are not randomly distributed in the population, but tend to vary systematically with demographic variables such as age, race, and gender. Therefore, an expected consequence of increased cultural diversity in organizations is the presence of different perspectives for the performance of creative tasks. In addition, employees who feel valued and supported by their organizations tend to be more innovative.[33]

Producing Higher Quality Problem-solving

Research shows that heterogeneous teams produce more innovative solutions to problems. For example, differences among team members allow them to see problems from a variety of perspectives based on a range of experiences. The variety of perspectives and natural conflict that surfaces from their interaction ensure that differing views surface and are discussed. It also ensures that a wide range of possible solutions are entertained, and that there is a wide-ranging exploration of the possible consequences of each option considered.

American managers who have been highly successful in the national market may find that their tried and true management practices just don't work in the global arena.

Heterogeneity initially creates difficulties for team members in communicating, understanding, and functioning as a team. While diverse groups experience more conflict in agreeing on what is important and in working together at the outset, they ultimately outperform homogeneous groups in identifying problem perspectives and generating alternative solutions.[34]

Enhancing Leadership Effectiveness

The demographic composition of top management teams affects competitive strategy and financial effectiveness. In a study of 199 top management teams in the banking industry, organizational innovation positively correlated with team heterogeneity.[35] Homogeneity at the top results in a more myopic perspective at senior levels. According to Niall FitzGerald of Unilever, "It is important for any business, operating in an increasingly complex and rapidly changing environment to deploy a broad range of talents. That provides a breadth of understanding of the world and environment within which business operates—and a fusion of the very best values and different perspectives which make up that world."[36]

Building Effective Global Relationships

A critical challenge for top management today is to turn ethnocultural diversity into a differentiating advantage in an increasingly competitive global marketplace. Companies that in the past dealt primarily with the customs and people of North America now find it critical to incorporate ethnocultural diversity into marketing, sales, and customer service strategies throughout the world.

Cultural competence must be recognized as a key management skill. American managers who have been highly successful in the national market may find that their tried and true management practices just don't work in the global arena. They now have to adjust to a world of extraordinary variety in consumer preferences and work practices.[37] The increased cultural awareness developed by a firm's adaptation to diversity can help it become more effective in cross-cultural business situations. Cultural issues have a major impact on

The CanadianOxy Experience

Two years ago, a fierce civil war broke out in the Republic of Yemen between two factions with divergent philosophies. CanadianOxy owns a 52 percent interest in and operates the Masila Block Development program in Yemen. The firm's facilities were not attacked, and it was able to continue operations during the war. CEO Bernard F. Isautier believes that the efforts of his people to build very strong relationships with all interested parties was what saved the organization's installation. "We have been successful in integrating our staff with the Yemeni population . . . (they) know that we are interested in the development of the country and that we would continue this whoever won the war . . . . It was in no one's best interests to damage our facilities".[38]

Exhibit 4. Diversity During Civil War

dealing with international customers or managing a group of local nationals. (See Exhibit 4.)

Pulling it all Together: Structuring the Business Case

Diversity management can have an impact on both a firm's long-term financial performance and its short-term stock performance.[39] However, the most successful business case for diversity is one that focuses on attaining a firm's specific business objectives. For example, a labor-intensive business, such as a restaurant chain or retail sales operation may need to reduce turnover and absenteeism. A consumer goods or financial services firm may need to improve its understanding and management of enthnoculturalism. Corning's business

Early in the 1980s, Corning realized that women and people of color were resigning from the company at more than twice the rate of white men, costing the company $2 to $4 million a year to recruit, train, and relocate replacements. Two quality teams were set up in 1987 to identify and address the issues facing women and black employees. They found that the barriers or challenges facing white males were not the same as those facing women and people of color.

Corning embarked on a systemic intervention to change things. Then CEO Jamie Houghton was appalled that people in the corporation did not feel valued and felt they were not able to contribute. The intervention included mentoring, career development opportunities, a more progressive approach to child care and other work life balance programs, and training. Targets were set to raise the critical mass in the organization. An examination of performance and reward systems was conducted to ensure they were free of bias.

The business case for this systemic intervention rested on the cost of replacement, the shrinking talent pool, and changing market demographics. Using a conservative estimate of $50,000 as the cost of turnover for an average employee, Corning estimated a savings of $5 million by reducing the attrition rate by 100 people. Corning's goal was to have an employee population that mirrored the face of the country. Given the demand for diverse talent, it maintained that a company that was not diversity-friendly would have a difficult time attracting and retaining such talent.

Finally, the company saw the changes taking place in marketplace. As the population it was selling to changed, the marketing and sales strategies had to be shaped by a work force that thought, acted like, and understood the marketplace.

After five years the company has realized the necessary critical mass. Thirty five percent of the management workforce was female, up from almost none in the early 1980s. A relatively recent climate survey showed that the views of the corporation by men and women employees are virtually the same on 40 key questions having to do with career development, fairness, and employee value, among other things.[40]

Exhibit 5. The Business Case for Diversity at Corning

case for diversity provides an excellent example of linking a company's goals with its diversity initiative. (See Exhibit 5.)

Creating a business case for diversity involves four steps.

- Determining business objectives or needs
- Identifying actions required for each objective or need
- Conducting a cost/benefit analysis
- Developing tracking mechanisms to assess progress and financial impact

Determining objectives starts with consideration of the business strategy and identifies the highest leverage business opportunities or needs that require diversity. McDonald's business strategy, for example, calls for providing a consistent customer experience across all McDonald's restaurants. For many years this strategy was achieved by employing and training energetic teenagers who were in abundant supply. During the 1980s, the company noticed that the workforce demographics were beginning to change. Teenagers who had for so long formed the basis of the consistent McDonald's experience were dwindling in supply.

The second step identifying what is required to achieve these objectives or needs means deciding whether the nature and magnitude of the initiative will be focused or comprehensive in scope. A focused approach has targeted, specific objectives that seek a particular short-term payback of investment dollars. For example, McDonald's decided to pursue a focused initiative and tapped into the growing numbers of older workers as its new labor pool. It realized that it would have to manage this population differently and took the actions required to do so.[41] A comprehensive strategy has multiple targets and objectives involving a significant investment of time and money. Such a strategy requires integration across the organization, touching multiple systems, levels and cultures.

The third step calls for specifying the costs involved in the implementation of the initiative and the expected returns. Part of the cost/benefit derived from using senior citizens is that they require little or no special training.

The fourth and final step requires that a company identify up front and along the way all the activities of progress that can be measured and evaluated. Building in such measures replicates the way most organizations assess business performance. It also suggests the need for including measures and monitoring processes in strategic business plans that have timetables and for assigning accountability and rewarding and recognizing progress. McDonald's diversity initiative of recruiting MacSeniors has been so successful that the company has gone on to actively recruit older workers for management jobs.

In presenting a business case for a comprehensive approach to diversity, however, diversity management generally involves a long-term culture change requiring a significant commitment of time, resources, and leadership attention. Therefore, the corresponding return on investment may take years. To develop process measures, which track the progress of the diversity interventions, and outcome measures, which track the impact of diversity on business results, can be used to demonstrate progress.

Process can be measured by involving employees in focus groups, surveys, interviews, and various culture audits or needs assessments. Process measures might also include company statistics on recruitment, retention, and promotions, including adverse impact. Process indicators enable top management to see signs of progress, even when business results are not yet visible.

Outcome measures, on the other hand, provide validation and ultimate justification for a long-term investment in diversity. These include measures produced by initiatives designed to achieve specific business objectives, such as new market penetration results as well as broader measures of financial results.

Conclusion

The bottom-line focus of today's business environment requires that diversity initiatives be treated like any other business investment, e.g., technology or advertising. This requires human resources executives to create a clear, compelling business case for diversity linked to the company's strategic business objectives. By providing top management with a better understanding of the expected return on investment, HR executives can more successfully compete for the company's scarce resources, resulting in better funded and supported diversity initiatives.

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