LEVERAGING DIVERSITY TO IMPROVE BUSINESS PERFORMANCE: RESEARCH FINDINGS AND RECOMMENDATIONS FOR ORGANIZATIONS

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Research findings from industrial and organizational psychology and other disciplines cast doubt on the simple assertion that a diverse workforce inevitably improves business performance. Instead, research and theory suggest several conditions necessary to manage diversity initiatives successfully and reap organizational benefits. This article reviews empirical research and theory on the relationship between workforce diversity and organizational performance and outlines practical steps HR practitioners can take to manage diversity initiatives successfully and enhance the positive outcomes. © 2004 Wiley Periodicals, Inc.

Does diversity help organizations perform better? Ask many organizations today and the answer is a resounding "yes." What began for many as an effort to meet governmental and legal requirements has evolved into a strategic priority aimed at positioning organizations more competitively in the marketplace. It is estimated that organizations spend $8 billion annually on diversity training (Hansen, 2003). In addition, organizations devote resources to a variety of other diversity-related initiatives, including dedicated diversity management staffs and workplace programs and benefits such as flexible work arrangements, domestic partner benefits, corporate-sponsored employee affinity groups, and other programs designed to attract and retain a diverse workforce (Corporate Leadership Council, 2003).

Organizations devote resources to diversity initiatives because they believe diversity is a business imperative and good for the bottom line. Demographic shifts in the U.S. labor market, specifically the projected rapid growth of the minority labor force over the next 10 years (Bureau of Labor Statistics, 2004), impact organizations on a number of fronts. Konrad (2003) has stated three primary arguments in the business case for diversity. First, competition for the best talent requires organizations to reach out and embrace an increasingly diverse labor pool. Second, a global economy requires that organizations have a diverse workforce so that they can effectively deal with an increasingly diverse customer base. Thus, a diverse workforce can lead to an increased market share,

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whereas lack of diversity in the workforce can lead to a shrinking market share. A third argument is that demographic diversity unleashes creativity, innovation, and improved group problem solving, which in turn enhances the competitiveness of the organization. In addition to these arguments, one could add that in the context of the debate and controversy surrounding affirmative action programs, diversity is a more palatable and "socially acceptable" way to address race and gender issues. Finally, one could argue that in a multicultural society, attempting to increase workforce diversity is simply the right and ethical thing to do as corporate citizens, regardless of the economic implications.

Ask about empirical support for the claim that diversity has a positive impact on business performance, however, and the answer is a more tentative "maybe." Research examining the impact of demographic heterogeneity on workgroup performance as well as overall organizational performance has produced mixed results at best. So, what does this mean for the HR practitioner? Fortunately, despite mixed empirical findings on the relationship between diversity and organizational performance, research and best practices of organizations with defined diversity initiatives have uncovered strategies and techniques HR practitioners can use to facilitate positive outcomes of diversity. The purpose of this article is to review the empirical findings on the relationship between diversity and organizational performance and highlight practical techniques for applying these findings in organizations. In addition, this article will discuss techniques for establishing metrics to evaluate the effectiveness of diversity initiatives.

How Is Diversity Defined?

Before launching into the empirical findings regarding the impact of diversity on organizational performance, it is important to understand how organizations define diversity. For many organizations, the definition of diversity has evolved from a focus on legally protected attributes such as race, gender, and age to a much broader definition that includes the entire spectrum of human differ-

ences. Table I provides excerpts of diversity statements from the public Web sites of companies ranked in *Fortune* magazine's 50 Top Companies for Minorities. A common theme of each statement is a reference to embracing all employees under the umbrella of diversity. Further evidence of the movement toward "inclusion" as a diversity strategy is revealed in a Human Resources Institute (2003) report of findings from a 2001 survey of *Fortune* 1000 companies: 96% of respondents said they provide diversity training on race, 88% on gender, 85% on ethnicity, 65% on age, 64% on disability, 57% on sexual orientation, and 54% on religion. Inclusion as a diversity strategy attempts to embrace and leverage all employee differences to benefit the organization. As a result, managing all workers well has become the focus of many corporate diversity initiatives.

In contrast, inclusion as a diversity strategy differs from policies and programs such as equal employment opportunity and affirmative action. Equal employment opportunity ensures that employment decisions (e.g., hiring, promotion, pay) are made without regard to legally protected attributes such as an employee's race, color, religion, sex, or national origin. Affirmative action programs, in turn, seek to remedy past discrimination by taking proactive steps based on race or gender and to prevent current or future discrimination. Both focus on legally protected attributes, whereas diversity and inclusion broaden the scope beyond legally protected attributes to include a much larger and wide-ranging pool of individual differences. One concern raised is that the movement toward inclusion has led some companies to place less emphasis on affirmative action programs, which opened corporate doors for minorities in the 1990s (Hansen, 2003; Human Resources Institute, 2003).

What Is Involved in a Diversity Program?

Diversity programs come in a variety of forms and can include some or all of the activities listed in Table II. The first three components are crucial to changing the composition of the workforce and include efforts to recruit, retain, and develop employees from under-

TABLE I **Excerpts from Diversity Statements Posted on the Public Web Sites of Select Companies Listed in *Fortune* Magazine's 50 Best Companies for Minorities (Hickman, 2002)**

Company	Web Address	Diversity Statement
McDonald's	http://www.mcdonalds.com/corp/values/diversity.html	Diversity at McDonald's is understanding, recognizing, and valuing the differences that make each person unique. McDonald's is committed to recognizing the talents and job performance of all employees and values the contributions that come from people with different backgrounds and perspectives.
Fannie Mae	http://www.fanniemae.com/careers/diversity/index.jh	. . . (O)ur corporate philosophy on diversity is based on respect for one another and recognition that each person brings his or her unique attributes to the corporation. Fannie Mae will be most successful in meeting its public mission and our corporate goals when we fully capitalize on the skills, talents, and potential of all our employees . . .
Sempra Energy	http://www.sempraenergy.com/diversity.htm	When we talk about diversity at Sempra Energy, we mean more than race, age, sexual orientation, and gender. We believe that diversity includes: • **Human diversity,** characterized by our employees' physical differences, personal preferences, or life experiences. • **Cultural diversity**, characterized by different beliefs, values, and personal characteristics. • **Systems diversity**, characterized by the organizational structure and management systems in a workplace.
PepsiCo	http://www.pepsicodiversity.com/employees.shtml	We respect individual differences in culture, ethnicity, and color. PepsiCo is committed to equal opportunity for all employees and applicants. We are committed to providing a workplace free from all forms of discrimination. We respect the right of individuals to achieve professional and personal balance in their lives.
Freddie Mac	http://www.freddiemac.com/corporate/careers/environment.html	To ensure the achievement of Freddie Mac's mission, vision, and strategic objectives, we must foster an increasingly diverse work culture, where all employees have the opportunity to be included, add value, and contribute to their fullest potential. Freddie Mac is committed to diversity and inclusion and has made it a core value integral to how we do business . . .

represented groups. Diversity programs also include attempts to promote diversity through developing external relationships with underrepresented groups outside the organization, including minority communities and suppliers. Efforts to communicate the rationale for diversity programs and to recognize and reward successes in achieving and maintaining diversity can constitute additional components. The training component is by far the most common component and can consist of efforts to increase awareness of discrimination and prejudice and to improve behavioral skills of employees in relating to persons from other cultures. Finally, a crucial component of a diversity program can include the creation of internal structures to maintain the program.

Gaps between Diversity Rhetoric and Research Findings

The research findings of industrial and organizational psychologists and other organizational scientists cast doubt on the simple assertions that are so often stated in support of diversity programs. *Simply* having a diverse workforce does not necessarily produce the

TABLE II Activities Commonly Included in Diversity Initiatives

Strategic Initiative	*Sample Interventions*
Recruiting	• Employee referral programs
	• Diverse recruiting teams
	• Internship programs and sponsored scholarships
	• Job posting and advertising initiatives targeting specific groups
	• Minority conference and job fair attendance
	• Recruiting efforts targeting universities and community colleges with diverse student bodies
Retention	• Corporate-sponsored employee resource or affinity groups
	• Employee benefits (e.g., adoption, domestic partner, elder care, flexible health, and dependent spending accounts)
	• Work life programs and incentives (e.g., onsite child care, flexible work schedules, onsite lactation facilities)
Development	• Leadership development training programs
	• Mentoring programs
External Partnership	• Minority supplier programs
	• Community service outreach
Communication	• Award programs providing public recognition of managers and employees for diversity achievements
	• Newsletters, internal Web sites on diversity
	• Senior leadership addresses, town hall meetings, business updates
Training	• Awareness training on the organization's diversity initiative
	• Issue-based/prevention training (e.g., sexual harassment, men and women as colleagues)
	• Team building and group process training
Staffing and Infrastructure	• Dedicated diversity staffs
	• Executive and local diversity councils

positive outcomes that are often claimed by some of the more optimistic proponents.

1. *Increased diversity does not necessarily improve the talent pool.* An increase in the diversity of a group at the demographic level (age, gender, race, disability) does not guarantee an increase in diversity of task-related knowledge, skills, abilities, experiences, and other characteristics (KSAOs). The research in industrial and organizational psychology has yielded a variety of standardized techniques that have been shown to be predictive of job performance (Schmidt & Hunter, 1998). These include behavioral interviews, biographical data inventories, assessment centers, work samples, personality inventories, mental ability tests, and other procedures, all of which provide objective, quantitative assessments of KSAOs. Improvements in the talent pool are best accomplished by using measures such as these rather than using demographic diversity as a surrogate of talent diversity. While organizations should seek the most valid assessment tools, an overemphasis on selection to the neglect

of training and development is likely to harm diversity efforts. Effective diversity programs are likely to achieve a balance between identifying and selecting people who have the right KSAOs using the best measures and growing these KSAOs through training, coaching, mentoring, and other development activities.

2. *Increased diversity does not necessarily build commitment, improve motivation, and reduce conflict.* Another expectation is that a happier, more harmonious workplace will result from diversity. Unfortunately, the diversification of the workforce often has the opposite effect. One area of research, often called "relational demography," has focused on how individual employees react to work situations in which they must work with persons who are demographically similar to themselves as opposed to situations in which they must work with persons who are dissimilar. This research has shown that working with dissimilar others is often associated with negative outcomes (Riordan, 2000; Williams & O'Reilly, 1998). Persons working

with dissimilar others are likely to show lower commitment to the organization, express less satisfaction, perceive more discrimination, and display a variety of other negative behavioral and attitudinal outcomes. In one such study, Ellen Fagenson (1993) found that commitment to the organization decreased among male managers as the number of women in their work units increased, and for white managers, as the number of minorities in their work units increased.

3. *Increased group-level diversity does not necessarily lead to higher group performance.* One cannot, on the basis of the current research in psychology, conclude with confidence that a diverse group is a better-performing group. While some research has identified benefits of demographic heterogeneity on workgroup outcomes such as creativity and innovation (Bantel & Jackson, 1989), other research has shown that workgroups whose members are diverse in terms of their race, gender, age, or tenure have a variety of problems, including communication breakdowns, low cohesion, and turnover (Milliken & Martins, 1996; Williams & O'Reilly, 1998). Two recent surveys of this research (Bowers, Pharmer & Salas, 2000; Webber & Donahue, 2001) have shown that group diversity is associated with a mix of results and that the overall relationship of homogeneity to performance based on the aggregate of these studies is very small. These findings have led many researchers to view diversity as a "double-edged sword" (Milliken & Martins, 1996), specifically improving group processes on some tasks and leading to higher-quality solutions while also decreasing cohesion and all too often disrupting group processes.

4. *Diversity does not necessarily improve organizational performance.* Unlike the research on the effects of diversity on individual and group-level performance, where there are a large number of studies, there are relatively few studies assessing the relationship to the performance of the organization. Again, the results are mixed. Some studies have shown that diversity is related to higher performance (Wright, Ferris, Hiller, & Kroll, 1995; Hartenian & Gud-

mundson, 2000), but others have shown that diversity is actually detrimental to organizational performance (c.f. Sacco & Schmitt, 2003). Richard, McMillan, Chadwick, & Dwyer (2003) hypothesized an inverted-U relationship in which the highest performance results from moderate levels of racial diversity. In the most comprehensive evaluation to date, Kochan et al. (2003) concluded that there is no justification for the assertion that organizations that are diverse in their workforce perform better on the return on investment, profits, revenue, costs, and other financial measures. Although this appears to be the best study so far, there are limitations, including small and possibly unrepresentative samples. Consequently, the debate on the business case for diversity is far from over.

The Implications of Research and Theory for Diversity Programs

Although the research in industrial and organizational psychology and related areas casts doubt on the contention that diversity programs will yield a cornucopia of benefits, the research and theory have identified at least four general conclusions that have important implications for diversity initiatives.

1. *The benefits of diversity are contingent on the situation.* The accumulated research and theory in industrial and organizational psychology provide little comfort for those who seek simple rules and procedures that apply across all situations. Based on the research, a variety of contingency models have been proposed for leadership, motivation, group behavior, and organizational effectiveness. Likewise, there is unlikely to be "one best way" with regard to diversity programs (Roberson, Kulik, & Pepper, 2003). The probability of success is likely to depend on situational factors such as the organizational culture, strategies, and environment, as well as the people in the organization and their jobs. In one typology, Cox (1991) described organizations as ranging from "monolithic," where there are relatively few minority employees and diversity efforts are subject to resistance, to the multicultural organization, in which minorities are at all levels of the or-

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ganization and diversity is incorporated as a basic value in the corporate culture. Diversity programs are more likely to be accepted in multicultural organizations with "diversity climates" (Elsass & Graves, 1997) and in firms that are growth-oriented rather than engaged in downsizing (Richard, 2000). None of this is particularly surprising, but what *is* surprising is the frequency with which diversity programs are implemented with little or no attention to the specific situation to which they are applied.

2. *Successful diversity programs are based on specific goals with feedback provided on how well the programs achieve these goals.* In its simplest form, goal-setting theory states that explicit goals that are difficult but also acceptable lead to higher performance on a wide variety of tasks than goals that are ambiguous, easy, or nonexistent (Locke & Latham, 1990). Goals are used here to refer to whatever the diversity program is designed to achieve. Goals should not be confused with quotas. Although increasing the diversity of employees is one potential goal, the use of quotas in hiring, promotion, or placement can result in charges of reverse discrimination. Consequently, diversity programs should be designed with other goals in mind than quotas. For example, one could have goals for improved relations with minority communities, mentoring of minorities, cross-cultural knowledge, and a variety of other outcomes in addition to goals for numbers of minorities and women hired and promoted. Furthermore, any goal regarding workforce representation should be developed in conjunction with legal counsel to ensure it is consistent with applicable employment law. Whatever the specific nature of the goals, they should be realistic and based on a careful assessment of the current organization and translated into specific targets against which the program can be evaluated. To achieve the full benefits of goal setting, progress must be evaluated and feedback provided on progress in achieving goals. Goals focus attention on what needs to be achieved, encourage the development of effective strategies, and energize efforts to achieve them. There is little reason to believe that specific goals set for participants in a di-

versity program do not have the same benefits. On the other hand, stating vague and all-encompassing objectives (e.g., greater appreciation for diversity) without specific goals to accomplish unambiguous results is likely to do little to focus attention, generate strategies, or energize participants.

3. *The success of diversity initiatives depends on how they are framed.* Research in a variety of areas of psychology has shown the powerful influence of psychological framing on how messages are perceived and how the recipients of these messages respond to them (Howard-Grenville, Hoffman, & Wirtenberg, 2003). An implication of previous research on the framing of goals in complex task environments is that diversity programs should be framed as challenges and opportunities rather than as threats to overcome (Drach-Zahavy & Erez, 2002). Ely and Thomas (2001) contrasted three frames. The *integration-and-learning perspective* approaches the diversity program as a vehicle for rethinking the primary tasks and processes of the organization. In the *access-and-legitimacy perspective,* the diversity program is seen as a strategy of gaining entry into markets through hiring employees who are similar to customers. The *discrimination-and-fairness perspective* approaches the diversity program as a way of eliminating discrimination and providing equal opportunity. Based on qualitative data, the authors concluded that all three perspectives can succeed to some extent, but only the integration-and-learning perspective contains a rationale that will motivate management and employees in a sustained manner to ensure the long-term success of a diversity program.

Needless to say, the research also suggests that the messages and actions of management must convey strong support for the programs. Based on a survey of 785 human resource professionals, Rynes and Rosen (1995) concluded that the factor that was most strongly related to successful diversity training was the perception that top management supported the diversity training. Having a top management team that is diverse is perhaps the most powerful way of conveying this support. Given that diversity programs usually contain efforts to increase the hiring

and promotion of women and minorities, the research on how affirmative action programs are framed is particularly important to consider. It appears that affirmative action programs are less likely to be accepted to the extent that they emphasize the group affiliation of the recipients and deemphasize merit (Kravitz & Klineberg, 2002). Descriptions of an affirmative action program that focus the attention of employees on the gender or minority status of an employee who is the beneficiary of a program can stigmatize the beneficiary as incompetent (Heilman, Block, & Stathatos, 1997).

4. *Diversity initiatives are more likely to succeed when employees identify with their teams and the organization.* A fourth theory that is relevant to a consideration of when diversity initiatives are more likely to succeed is social identity theory (Tajfel & Turner, 1986). This theory starts with the basic assumptions that people are motivated to view themselves as positively as they can and that a primary means of achieving this goal is to identify with a group of people who are similar to themselves. Consequently, there is a tendency to sort people into ingroups and outgroups and to attribute to members of the outgroup the negative attributes of the group (Ashforth & Mael, 1989). The implication is that factors in the workplace that trigger such categorizations are likely to interfere with diversity efforts by encouraging stereotyping, prejudice, and intergroup conflict, whereas those that encourage the adoption of a common identity facilitate diversity efforts.

There are powerful forces at work in the typical organization that encourage employees to associate with those like themselves and to reject outgroup members (Lefkowitz, 1994; Waldman & Avolio, 1991). What can be done to counteract these divisive pressures and encourage people from different demographic groups to place priority on their team identity over their demographic group identity? The research suggests that a crucial first step is that they get to know each other as individuals. Harrison, Price, and Bell (1998) distinguished between "surface-level diversity" in terms of race, gender, appearance, age, and physical disability and "deep-level diversity" with regard to attitudes, be-

liefs, and values. Diversity in terms of surface-level features had negative consequences in the short term, but as persons interacted over time, deep-level diversity emerged as a more potent force that benefited the group.

Time and contact are necessary but are insufficient to ensure the success of diversity programs (Gaertner, Rust, Dovidio, Bachman, & Anastasio, 1994). The research and theory also suggest that the task and reward structures in the organization must foster cooperation and motivate them to form collegial, mutually helpful relationships (Brickson, 2000). When the task and the rewards require people to cooperate, organizational and team membership become more salient than the demographic differences among individuals. On the other hand, competitive or individualistic task designs, reward structures, performance appraisal practices, and compensation systems create barriers to cooperative interaction and prevent realization of the benefits of diversity (Chatman, Polzer, & Barsade, 1998). Actions to foster a cooperative culture include leadership emphasis on the common good, basing part of employees' compensation on organizational or group outcomes, collecting performance feedback on group members' performance from a variety of perspectives (e.g., peers, customers, subordinates), and celebrating successes on a regular basis (Chatman et al., 1998).

Actions Organizations Can Take To Manage Diversity Effectively

Despite mixed results regarding the impact of diversity on organizations, research and theory clearly indicate that the outcomes of a diversity initiative depend heavily on how the diversity initiative is managed. Empirical research, theory, and the best practices of organizations with well-defined diversity initiatives offer specific steps organizations can take to reap the benefits of a diverse workforce.

1. *Build senior management commitment and accountability.* A key element of any successful organizational intervention is senior management commitment to the intervention. Diversity is no different. Because orga-

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nizational barriers to diversity are often systemic, subtle, and deeply ingrained in the organization (Lyness, 2002), leveraging diversity for the benefit of the organization requires ongoing and consistent leadership. Success also requires that line management, as opposed to human resources, own the diversity strategy and hold managers accountable for leveraging diversity. Many organizations establish executive-level diversity councils chaired and composed of senior line managers who are responsible for ensuring that diversity issues are addressed, communicated, and acted upon in their home organizations. Holding managers accountable for addressing barriers to building a workforce that mirrors the demographic make-up of the available internal and external labor market represents another common strategy used to build commitment. Diversity interventions mean change for the organization, and visible, active, and ongoing senior management involvement and commitment are critical to the change effort.

2. *Conduct a thorough needs assessment.* There is no single best way to manage diversity. To be effective, a diversity initiative must be tailored to the situation, including the culture and unique business and people issues facing the organization. A thorough needs assessment of the people, jobs, and organization ensures that issues related to diversity are framed accurately and that the right interventions are identified. The needs assessment will help an organization navigate the wide range of offerings and pick those interventions that best address organization needs.

At the level of the people and their jobs, elements of an effective needs assessment process include understanding the business challenges facing the organization, analyzing the current demographic make-up of the organization, including workforce flow (e.g., new hires compared to labor market availability, promotion rates, turnover rates), and understanding employee attitudes (e.g., perceptions of diversity, need for work/family benefits). Employee surveys, focus groups, and exit interviews can be particularly useful in uncovering the often subtle and systemic issues facing the organization. For example,

managers often attribute the absence of women and people of color in leadership positions to skill and experience deficits such as lack of line management experience. Women and people of color, however, frequently point to factors such as lack of mentoring programs, stereotyping, and exclusion from informal networks. Research examining the attitudes of various subgroups of an organization can go a long way in identifying issues that may otherwise be overlooked. Other avenues of research include analyzing internal complaints (e.g., harassment) and legal activity regarding employment practices and policies.

Identifying areas of the organization that might benefit most from a well-managed diversity intervention is another outcome of a thorough needs assessment. Research suggests that areas requiring greater flexibility, creativity, and innovation are likely to experience the greatest benefits from a diverse workforce. It has also been suggested that the nature of the business strategy an organization employs may impact the relationship between diversity and performance. Richard (2000), for example, found that among organizations pursuing a growth strategy, racial diversity enhanced productivity, but there was little effect of diversity when the organization was downsizing. HR professionals must understand both the business context and culture of the organization in order to manage diversity effectively.

An organization's culture must also be considered when developing strategy and choosing diversity interventions. An intervention that works successfully in one organization may not work as well in another organization and may require more focused attention and support for successful implementation. For example, an organizational culture that places a premium on "face time" is more likely to struggle with alternative work schedule programs such as compressed workweeks and part-time work than an organization that places more emphasis on results. Without consideration of culture, the outcome is likely to be that programs are underutilized and the desired outcomes, such as enhanced retention of women, unrealized because employees feel participation is ca-

reer-limiting. The situation described here will likely require active and sustained effort over a long period of time to truly meet employees' need for more flexibility in their work arrangements.

In some cases, a needs assessment will identify those aspects of the culture that are "givens" that the diversity program must accommodate. The needs assessment is also likely to identify those aspects of the culture that must change and suggest ways to implement change. Fostering a culture that embraces diversity is an important component of an effective diversity initiative. Actions such as visible and consistent senior management support and management accountability will go a long way in shaping an organization's culture to better support effective diversity management. The empirical research offers additional steps that may contribute to a supportive diversity culture. Fostering a culture that views diversity as an opportunity to capitalize on the insights, skills, and experiences of members of various cultural identities has also been identified as a factor enhancing the performance of diverse workgroups (Ely & Thomas, 2001) and will go a long way toward building an organization that leverages diversity effectively.

3. *Develop a well-defined strategy tied to business results.* Tying the diversity strategy to business results in a realistic way is the foundation of a successful diversity initiative. The diversity strategy guides decision making and builds the business case for employees. For meaningful change to occur in an organization, employees must understand and embrace the business case for change. Organizations and researchers have posited several potential competitive advantages of diversity, including enabling organizations to compete for the best talent, competing more effectively in the marketplace by understanding the demands of a diverse customer base, enhancing the creativity and problem-solving effectiveness of work teams, and reducing costs associated with turnover, absenteeism, and lack of productivity (Cox & Blake, 1991). Again, while each may be a plausible benefit, for a business case to resonate with employees, it must be tailored to the unique business challenges facing the organization.

Demonstrating how diversity ties directly to the organization's business strategy provides a foundation for linking the diversity initiative to organizational outcomes. Richard (2000), for example, found a positive relationship between racial diversity and firm performance in organizations pursuing a growth strategy. This finding supports the argument that a diverse workforce offers several benefits to organizations entering new markets—for example, the added insight and cultural sensitivity that women and minorities provide (Cox, 1994). Alternatively, racial diversity was found to have a negative impact on the performance of firms pursuing a downsizing (no or negative growth) strategy. This finding, in turn, may result from the fact that a downsizing strategy typically promotes efficiency and an emphasis on cost containment, whereas diversity in human resources creates costs stemming from increased coordination and control (Milliken & Martins, 1996; Williams & O'Reilly, 1998). This research suggests diversity efforts can support and contribute to an organizational growth strategy and reinforces the importance of linking diversity initiatives directly to the business strategy.

While the Richard (2000) study offers support that diversity has a positive impact on firm performance, it is important to keep in mind that this benefit appears to emerge only in certain contexts. Therefore, when framing the business case for diversity, it is important to clearly articulate how diversity supports the business strategy of the organization. Furthermore, diversity is perhaps best framed as a *business reality,* and organizations that rise to the challenge with a committed, long-term, systematic and strategic approach are likely to mitigate the potential negative outcomes of diversity and may succeed in capitalizing on the benefits of diversity, leading to better overall organizational performance. As Kochan et al. (2003, p. 18) state, "Success is facilitated by a perspective that considers diversity to be an opportunity for everyone in an organization to learn from each other how better to accomplish their work and an occasion that requires a supportive and cooperative organizational culture as well as group leadership and process

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skills that can facilitate effective group functioning." Specifying how diversity contributes to organizationally specific business objectives as opposed to blanket statements that diversity will inevitably lead to better organizational performance is a more realistic message and more likely to be embraced by employees.

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Building support for a diversity initiative requires a clearly defined strategy for communicating the business case and clear roles and responsibilities for the senior leadership team, managers, and employees. In particular, emphasizing the fairness of a diversity program is crucial to building support and mitigating the potential negative reactions from both majority and minority groups. Backlash from majority group members and the stigmatization of women and people of color have been identified as potential negative reactions to diversity initiatives (e.g., Heilman, Block, & Stathatos, 1997). Fairness would include perceptions of the procedures used in implementing a diversity program (e.g., employees have input or voice in the design and evaluation of the program) as well as in the distribution of outcomes related to the program (e.g., employees believe that people are hired, promoted, and otherwise rewarded commensurate with their relative contributions). Research on employee perceptions of fairness indicate that providing an adequate explanation that emphasizes the reasons for an action, even in cases where the action may result in negative consequences for the employee, will result in more cooperation and less retaliation than providing a vague or general explanation (e.g., Shaw, Wild, & Colquitt, 2003). Emphasizing the business rationale for diversity, as well as the intent of diversity initiatives to embrace all employees, will demonstrate fairness and equity and mitigate potential negative perceptions on the part of employees.

The communication plan often involves awareness training to educate employees about the business case and objectives of the diversity initiative. Training, however, is only part of an effective communication strategy. Discussing diversity in senior leadership addresses to employees (e.g., business updates, town hall meetings), including diversity issues as part of ongoing business review meetings, and recognizing and rewarding managerial and employee efforts to leverage diversity represent strategies leaders can use to demonstrate active commitment and integrate diversity interventions into the business plan. Incorporating diversity issues into the regular business of the organization, as opposed to a stand-alone initiative, will demonstrate senior leadership commitment and move the organization toward a culture that truly embraces diversity.

4. *Emphasize team-building and group process training.* Once a diverse group of employees is hired and recruited with a variety of skills and perspectives, steps are needed in the diversity initiative to ensure that these skills and perspectives are actually used to improve task performance. Capitalizing on the strengths that individual members bring to the team requires knowledge and understanding of the unique contribution each member can make to the group. Diverse groups are believed to perform better over time, largely because time allows group members to develop a deeper-level, interpersonal understanding beyond demographic characteristics (Harrison et al., 1998; Pelled, Eisenhardt, & Xin, 1999).

Facilitating the acquisition of interpersonal knowledge through team-building efforts can accelerate the team's ability to draw upon these unique skills. Team-building efforts that encourage group members to share information about their unique backgrounds, skills, and experiences will help teams develop a deeper understanding of the resources available to the team. Sharing information about task-relevant abilities and characteristics may also foster "interpersonal congruence" among team members. Interpersonal congruence refers to the extent to which team members' perceptions of themselves and their unique skills and abilities match the perceptions that others have about them. Polzer, Milton, and Swann (2002) found that in groups with high levels of interpersonal congruence, demographic diversity enhanced creative task performance. Members of teams with high interpersonal congruence feel more positive about their teams, are more likely to share

unique perspectives and opinions, and are more likely to understand and value the unique perspectives and skills of others. Fostering a group norm early in the team's tenure that values and encourages team members to share unique experiences and perspectives will help teams capitalize on the potential benefits of a diverse team.

While unique perspectives foster creativity, these differences also raise the specter of team conflict. Research suggests that different types of diversity may result in different types of conflict. Pelled et al. (1999) found that differences in functional background increased task-related conflict (e.g., disagreements about goals, key decisions, best course of action), whereas race and tenure diversity increased emotional conflict. Not unexpectedly, task-related conflict had a more positive impact on group performance than emotional conflict. Therefore, effective conflict management is also crucial when managing diverse teams, as team member diversity will almost assuredly bring about situations where perspectives and opinions collide. Harnessing the creative energy from conflict is important to enhance team performance and avoid undermining effective group processes. Finally, instituting task and reward structures that foster cooperation and motivate team members to form collegial, mutually helpful relationships will also enhance the performance of diversity teams. (Brickson, 2000).

Given the impact that effective group processes can have on the productivity and performance of diverse teams, organizations must help managers develop the leadership and group process skills needed to facilitate constructive conflict and effective communication. A first step is to help managers understand and anticipate the potential challenges diverse teams may face, including less social integration, greater communication problems, and higher turnover rates (Milliken & Martens, 1996; Williams & O'Reilly, 1998). Managers must also understand that these challenges can be overcome with effective group leadership. Arming managers with the skills and techniques to help diverse teams overcome potential challenges and harness the benefits that a diversity of thought, skills, and perspectives can have on group performance is even more critical. It is also important for managers and organizations to recognize that a team's ability to leverage and capitalize on its diversity may take time. Watson, Kumar, and Michaelsen (1993), for example, found that diverse teams, while initially performing less effectively than homogenous teams, eventually became more effective in identifying problems and generating solutions than the homogenous teams. This improvement, however, occurred over a relatively lengthy period of time—namely, 17 weeks. Team-building activities should accelerate a team's potential to benefit from its diversity. However, it will still take time, and organizations should consider this when evaluating the performance of diverse teams.

5. *Establish metrics and evaluate the effectiveness of diversity initiatives.* Establishing meaningful metrics to evaluate the effectiveness of an organization's diversity initiative is critical to managing diversity effectively. Kochan et al. (2003) reported that none of the 20 large and well-known *Fortune* 500 companies approached for their study had systematically examined the effects of their diversity initiatives. The reasons for not evaluating diversity programs are wide-ranging. First, organizations typically struggle to identify meaningful metrics and calculate the return on investment of HR practices, and diversity is no exception. Second, HR organizations frequently don't collect the data required for meaningful evaluation and are often reluctant to invest required resources. Fear that the data may reveal systemic bias or discrimination, leaving organizations vulnerable to legal challenge, is another common reason for not evaluating diversity initiatives. Finally, leaders of organizations with well-defined diversity initiatives typically already believe in the benefits of diversity and therefore don't demand definitive evidence.

Despite these reasons, there are several compelling reasons why organizations should invest in the development of diversity metrics. Metrics allow the organization to track progress and identify and address issues as they emerge. It also signals an organization's

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commitment to the diversity initiative. The adage "what gets measured gets attention" is true in most if not all organizations. Metrics also ensure that scarce resources are devoted to areas that will benefit most, and early identification of issues can avoid costly outcomes. Currently, due to the lack of field research, little is known about the relative merits of one diversity initiative over another. Establishing metrics and evaluating the effectiveness of diversity initiatives will allow organizations to make data-driven decisions about how to leverage resources most effectively.

Establishing meaningful metrics and implementing an effective and comprehensive evaluation of a diversity effort require careful planning and sufficient resources. Measurement is about change, and an evaluation program needs to be carefully monitored and nurtured. Rosenfeld, Landis, and Dalsky (2003) offer several steps organizations can take to implement an effective evaluation program. An important first step is to establish an evaluation team championed by senior leadership and made up of business process owners of the diversity initiative, members with measurement expertise, and, at least on an ex officio basis, a member of internal legal counsel. The senior leader champion ideally will be someone from line management who is willing to serve as an advocate for diversity initiatives and the plan to evaluate these initiatives. A senior leader champion is necessary to guide the team toward identifying meaningful metrics, provide the team with sufficient resources, and help team members overcome the inevitable resistance they are likely to face. Business process owners are critical team members because they are the ones who will be asked to implement and use the metrics to evaluate efforts. Including individuals with measurement expertise will ensure metrics have statistical integrity and provide meaningful information on which to base decisions. Involving a member of the organization's legal staff will help mitigate legal concerns that often deter organizations from pursuing a rigorous evaluation process. Finally, ensuring that team members are diverse, both in skills and demographically, will help the credibility of the team's efforts.

Once an evaluation team is established, the next step is to identify metrics. The business strategy for diversity should serve as the framework for defining and tracking metrics. The focus should be on establishing metrics that are truly meaningful and provide useful information for guiding decisions about diversity initiatives. For example, tracking the number of people who attend diversity training may be an important implementation metric but will say little about how well the training is meeting its strategic intent (e.g., convincing employees of the business case for diversity). Tracking the utilization of flexible work arrangements programs will help the organization track participation rates but will not indicate whether the organization has a culture that supports a balance between employees' work and personal lives. It is the role of the evaluation team to work closely with members of senior management to identify metrics that provide meaningful information tied to the strategic intent of the diversity initiative.

Unfortunately, the data that would be most useful in evaluating a program are often not the data currently tracked by the organization. For example, while data on race/ethnic and gender representation may be readily available, data on other factors included under the newer and expanded model of diversity such as religion or sexual orientation may not be readily available. Therefore, the evaluation team will likely be charged with finding new and potentially creative methods of data collection. This likely outcome reinforces the importance of securing commitment from senior management to devote sufficient resources to the evaluation effort. A final key to the successful establishment of diversity metrics is to focus on the vital few. Often, organizations establishing metrics programs make the mistake of trying to measure too much too soon. This approach can strain organizational resources and overwhelm decision makers. Tying metrics to the diversity strategy will ensure that the most useful metrics are identified and that resources are devoted to those that are most critical.

There are several common metrics that organizations use to track the effectiveness

of their diversity efforts. Measuring the current demographic profile of the organization and how it evolves over time is critical to successful diversity management. For example, comparing current race/ethnic and gender representation of different job groups and levels within the organization to labor market availability may identify potential barriers in key human resources processes such as hiring and promotions. Other key data that should be evaluated include workforce flow statistics, specifically data related to recruiting (who was interviewed, who was hired), promotions (who was considered, who was promoted), and retention (who left the organization, how do turnover rates compare across demographic groups). Tracking and analyzing demographic data will identify processes requiring intervention and monitor progress as interventions are implemented. Employee opinion data represents another source of data for evaluating the effectiveness of a diversity initiative. Surveys, focus groups, and exit interviews can be used to monitor more subtle and systemic aspects of diversity such as organizational culture and barriers such as lack of mentoring programs and exclusion from informal networking groups. These techniques can also give a voice to groups included under the larger umbrella of diversity not typically tracked in HR information systems (e.g., disability status, sexual orientation, country of origin, etc.). Finally, it is important to include an analysis of the majority group in any metrics evaluation program. This approach will ensure any issues unique to majority group members are addressed and demonstrate support for an inclusive diversity strategy.

Given the importance of a sound business case to successful diversity efforts, organizations must do a better job of tying diversity results to business outcomes. HR organizations in general struggle with tying their programs and policies directly to business outcomes, and diversity is no different. A Corporate Leadership Council study found that 61% of participating companies cited identifying quantifiable links between HR performance and business goals as the primary HR metrics challenge facing organizations (Corporate Leadership Council, 2001).

However, with some careful analysis and a bit of creative thinking, organizations can make important inroads in demonstrating the link to business outcomes. For example, an intervention that succeeds in increasing minority retention will have a bottom-line impact on the costs associated with employee turnover. Evaluating the performance of diverse teams that have engaged in team-building activities versus those that have not represents a way to evaluate the effectiveness of team-building interventions on team performance. Finally, a reduction in litigation activity and costs following a specific intervention such as sexual harassment training represents another avenue for demonstrating bottom-line results.

Organization-specific metrics tied to the organization's overall business strategy represent another avenue for linking diversity initiatives with bottom-line results. At Ford Motor Company, for example, employee resource groups demonstrate their value to the bottom line by tracking the number of vehicles members sell through the company's Friends and Neighbors vehicle discount plan. An examination of the program, which enables Ford employees to provide extended family members and acquaintances with vehicle discount vouchers, revealed that resource group members were more likely than nonmembers to use the program. In 2002, resource group members were able to sell $100 million of Ford cars and trucks (Cole, 2003).

Finally, when establishing and reporting diversity metrics, it is important to keep in mind that the benefits of diversity will not occur overnight. Leveraging diversity for the good of the organization requires change and change takes time. Therefore, it is best to take a long-range perspective in evaluating diversity efforts. As stated previously, active and sustained commitment over time will result in an organization that derives benefits from a diverse workforce.

Conclusion

The increasing attention given to diversity management in both HRM practice and research is not a momentary fad or fashion but

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reflects the inevitable consequence of a global economy and demographic changes. It is obvious, however, that the rhetoric used by proponents and opponents of diversity has not been in touch with the empirical research. In this article, we have attempted to highlight some of the conclusions that can be drawn from the existing research literature, the gaps between the rhetoric and these findings, and some strategies for successfully designing and implementing diversity programs. It seems clear that increasing the diversity of the workforce often involves problems such as dissatisfaction and conflict.

Moreover, diversity alone does not guarantee immediate, tangible improvements in organizational, group, or individual performance. Nevertheless, achieving a diverse workforce and effectively managing this workforce can yield huge benefits. The research has provided important insights that can help HRM practitioners achieve the benefits and avoid the problems of diversity efforts.

The opinions expressed in this article are exclusively those of the authors, and do not purport to represent the views of Ford Motor Company or the University of Central Florida.

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