

## Diversity, Performance and the Bottom Line

By Pamela Tudor

Research shows that if diversity is well managed, it can enhance performance and the bottom line. If it is not well managed, it can be a drag on performance and adversely affect the bottom line.

Diversity is not as simple as hiring a diverse set of employees. To fully leverage diversity, leaders must understand the important interconnections between types of diversity, conflict, work environment, business strategies and HR practices.

This article presents the findings that leaders of diverse teams and organizations need to know, what they need to think about, and what they need to do in order to maximize performance.

### Overview of the Research Project.

Five years of cumulative studies conducted from 1998-2002 by a team of management professors and researchers at The Wharton School have yielded important information about how diversity affects team performance.

The overall goal was to collect and analyze hard data on diversity and its effects on performance. In 1998 when the project began results from previous diversity studies were mixed. Because diversity studies had differing results, we decided to look into types of diversity, types of conflict and different workgroup contexts in order to see which combinations created higher productivity and better results. 18 studies were conducted on diversity in teams and its relationship to increased or decreased performance

What became clear is that the *nature of the diversity* and the *nature of the conflict* are some of the keys to increased or decreased performance. Thus, good diversity management is not as “simple” as attracting and retaining visibly diverse employees- we already live in a diverse world. These studies show that we cannot ignore the connection between diversity, conflict management and leadership—because the interaction of the three factors affects performance and profitability.

We also focused on the interplay of organizational culture, business strategy and HR practices on diverse teams and how they relate to performance. From this and other research it appears that the environment diverse teams work within is a significant factor in performance, along with HR practices and business strategies. Certain environments and business strategies enhance the effectiveness of diverse teams; others are not as conducive to diverse work teams.

For those who presume greater diversity will lead to greater benefits regardless of team leadership, work group environment or organizational context, the bad news is that without creating a proper

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What follows is a summary of what we have learned about diverse teams, conflict, work environment, business strategy, leadership,

HR practices and how these factors relate to team performance. This information has implications for leaders at all levels.

## Research Findings.

### Types of Diversity

For our research purposes, we subdivide diversity into three categories:

1. Social category diversity
  - Visible demographic characteristics such as age, sex, ethnicity and race. *This is what most people think of when they say diversity.*
2. Informational diversity
  - Differences in educational level, organizational tenure, work experience, and expertise of the individual.
3. Goals and values diversity
  - Differences or similarities in team and company goals values. Low values/goals diversity means values similarity (i.e., sharing the same work ethic, similar approaches to dealing with people, sharing the same team goals and objectives, interpretation of vision, etc.).

It is important for leaders to have a good grasp of the types of diversity they are dealing with as they compose and lead their teams, because knowing what you're dealing with is a key to managing diversity well.

### Types of Conflict

Most of us are painfully aware that diversity often leads to conflict. When people with different cultural backgrounds and life experiences find themselves working together, clashes are bound to occur.

However, there are "good" and "bad" conflicts, just as there are clean and dirty fights. In general, there are three types of conflict that impact the functioning and performance of teams:

1. Relationship conflict
  - Disagreements and incompatibilities among team members, such as different communication styles, political views, and personality styles.
  
2. Task conflict
  - Issues about the task being performed, such as current hiring strategies or what to include in an annual report.
  
3. Process conflict
  - Logistical and delegation issues, such as how a task should proceed, who is responsible for what, or how something should be delegated.

Our research confirmed that conflict arises with all three types of diversity.

### **Types of Conflict and Its Effect on Teams**

	<b>Relationship Conflict</b>	<b>Task Conflict</b>	<b>Process Conflict</b>
<b>Description</b>	Animosity or annoyance about non-task related issues such as social behavior.	Disagreements about task being performed.	Conflicts about who should be delegated to perform certain tasks.
<b>Examples</b>	Team members gossiping about a third member, complaining about personality style, or attacking team members about their communication style, political views, clothing preferences.	Team members disagreeing about how to budget for specific activities, disagreeing about what information to include in a memo.	Team members disagreeing about who should be appointed to lead a newly set up task force.
<b>Effects</b>	Depletes energy and effort. Reduces time devoted to task at hand. Increases turnover and absenteeism, results in poor objective performance and low commitment.	Team benefit from increased debate about ideas and viewpoints. Helps avoid 'groupthink.'	Small amount improves performance because the right person can be assigned to the right job.

**The nature of a team's diversity affects the type of conflict it might have, which in turn affects performance and morale.** Different forms of diversity exacerbate different forms of conflict, which in turn impacts performance, satisfaction, intent to remain and commitment.

Major findings included:

1. A striking finding is the importance of values and goals diversity to both team performance and morale. It is diversity associated with values - and not social category diversity - that causes the biggest problems in team performance and morale. Low values diversity (values similarity) has the greatest potential for enhancing performance and morale.

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2. Teams with low diversity on values and goals have the least conflict of all. Closely aligned values reduce non-productive conflict and lessen the negative effects of social category diversity. For a team to be optimally effective, members should have high information diversity and low values and goals diversity.
3. Teams chosen primarily for social category diversity are more likely to have relationship conflict, at least initially. They have increased conflicts because people stereotype and interpret behavior in a personal manner that is destructive. Relationship conflict has negative effects on teams and often results in poorer performance.

4. Teams with informational diversity are better able to have constructive debates and conflicts around their task that *promote team performance, as measured by individual and team performance ratings, bonuses and stock options.*

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**High informational diversity resulted in higher team performance ratings as measured by bonuses and stock options.**

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5. Informational diversity is more likely to lead to improved performance when tasks are non-routine. Complex tasks are more likely to benefit from task-related debates, because they require problem solving.
6. Diverse (social category and informational) work teams develop more innovative solutions, but take longer to get there, at least initially. They are more effective than homogeneous teams.

### **Additional Findings.**

#### Effects of Organizational Culture and Business Strategies

- Additional research shows that informationally diverse groups are more likely to perform better in environments that emphasize a people-oriented culture (cultures that emphasize cooperation, sociability, empathy, good interpersonal relationships).
- Educationally diverse groups perform better in contexts that pursue a growth-oriented business strategy than in those that pursue a stability-oriented business strategy. Growth-oriented cultures need to embrace diversity as a resource to further fuel the creativity and innovation their groups depend on for success.
- Further research shows that stability-oriented cultures, characterized by avoiding risk-taking and focusing on efficiency and centralization, do not embrace diversity. This allows them to better

maintain the status quo and strive for peak efficiency.

To capitalize on diversity, managers have to think about an appropriate work environment for their diverse work teams. For example, an ideal work environment for an R&D team seeking to find a new treatment for cancer would emphasize creativity; promote innovative thinking, support diversity values and a sense of group identity. The leader of this team should avoid a stability-oriented environment with a high emphasis on efficiency.

### Effects of HR Practices

As we sift through the data, the evidence is mounting for diversity, performance and the bottom line. For example, DiversityInc's Top 50 Companies for Diversity in 2005 found the following:

1. The 43 publicly traded companies in DiversityInc Top 50 Companies for Diversity had a 23.5 percent higher return than the S & P's 500 when measured over a 10 year period.
2. The companies that made it onto the DiversityInc Top 50 of 2005 are only 7% of all Fortune 500 companies, yet they generate 22% of the total gross revenue for all Fortune 500 companies.

What can we learn from the Top 50? Companies that manage diversity well are well managed overall, good diversity management is demonstrated by strong support from the CEO; diversity is integrated into every line of business; metrics are used to assess progress, and managers are held responsible.

### **Recommendations.**

It is time for a more customized view from the leadership bridge, focusing on conditions that can leverage the benefits of diversity, and the leadership and process skills that can improve group functioning. To truly add value with diversity, a sustained and systemic approach is required, facilitated by practices that deem diversity an opportunity for people to learn from one another about how best to accomplish work. Also required is paying greater attention to measurement. HR leaders and others could do well to take a more analytical and sophisticated approach to data collection and analysis, in order to understand the effects and consequences of diversity within their own organizations.

### Six recommendations for leaders of diverse teams:

1. Be attuned to issues of social category diversity and identity groups.
2. Keep refining and developing your own emotional and social intelligence.
3. Focus on the values of the team, early and often.
4. Create a strong team identity or brand.
5. Hone your skills at having tough conversations.
6. Focus on building an organizational culture and human resource practices that translate diversity and inclusion into positive business results.

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