

**The Effects of Diversity on Business Performance:  
Report of a Feasibility Study of the Diversity Research Network<sup>1</sup>**

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February, 2002

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<sup>1</sup> This research was conducted in partnership with the BOLD Initiative. Support was provided by the Alfred P. Sloan Foundation and the Society for Human Resource Management. All views expressed here are solely those of the authors.

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The recognition that diversity is a reality in the workforce today and even more tomorrow has generated an enormous amount of activity over the years among leaders in business, government, and civil society. In recent years, considerable interest has arisen over the question of whether, or under what conditions, diversity contributes to better organizational performance. The proposed link between diversity and performance has been labeled the “business case” for diversity. Despite considerable interest in the question of how diversity relates to the bottom line, there has been little field research focused on this issue.

Given an interest in the question of whether workforce diversity improves organizational performance and the lack of relevant empirical evidence, a group of industry executives known as the BOLD Initiative (Business Opportunities for Leadership Development) sought to involve academics in research on this topic. This article describes the research project that was conducted and summarizes the initial results from four organizations. One goal of this project was to determine the feasibility of conducting a large-scale, multi-organization consortium research project to examine the bottom-line effects of workforce diversity. In addition, within each company, we sought to test several propositions, derived from the existing literature, regarding the means through which diversity might affect business performance. This article summarizes what we have learned to date and describes several implications for future practice and research.

## **Evolving Perspectives on Workforce Diversity**

To put in perspective the question of whether a business case can be made for increasing workforce diversity, it is useful to review briefly the evolution of approaches to thinking and action on diversity since the passage of the landmark Civil Rights Act of 1964. The evolution of these efforts can be grouped into several phases (for an extended discussion, see Jackson and Joshi, 2001).

Fueled by the civil rights movement, the 1960s and early 1970s produced new legislation making it illegal for organizations to engage in employment practices that discriminated against employees on the basis of race, color, religion, sex, national origin, age, and disability. Through these government actions, society made a statement: Employers were expected to provide equal employment opportunities to people of similar qualifications and accomplishments. In addition, government contractors were to engage in affirmative action to overcome past patterns of exclusion or discrimination. The major effects of these societal mandates have been to eliminate formal policies that discriminated against protected classes of workers and to raise the costs to organizations that failed to implement fair employment practices. These laws remain a part of the legal responsibilities under which firms (and other labor market institutions such as unions or job matching organizations) operate today.

By the late 1970s and into the 1980s, there was growing recognition within the private sector that, while the legal mandates were necessary, they were not sufficient to achieve effective management of diversity within organizations. Although the workforce of many organizations became more diverse, entrenched organizational cultures were slow to change. To promote the development of more positive organizational cultures,

many companies and consulting firms began to offer training programs aimed at making advances in “valuing diversity.” These efforts focused on changing employees’ attitudes and eliminating behaviors that reflected more subtle forms of discrimination and exclusion, which often inhibited effective interactions among people. The widespread adoption of such training programs expanded the concept of “diversity” as people began to realize that visible, legally recognized demographic differences such as race and gender were not the only types of differences that affected interpersonal relationships among employees. Gradually, initiatives intended to reap the benefits of diversity encompassed a wide range of physical, cultural and interpersonal differences that could influence styles of decision-making, communication, group interactions, norms, etc. Unfortunately, most studies show that training in valuing diversity rarely led to the desired long-term changes in attitudes and behavior (Bezrukova and Jehn, 2001).

During the 1990s, diversity rhetoric shifted to emphasize the “business case” for supporting workforce diversity. Figure 1 reports how the former CEO of Hewlett Packard described the new rhetoric. Essentially he was looking for a way to convince his fellow executives and managers that effective management of diversity is not only a business necessity given the nature of labor and product markets today, but also that a diverse workforce produces better business results (compared to a homogeneous workforce). Thus, for diversity practitioners, the new imperative was to find evidence to support the “business case” argument. In recent years, the assumption has been that providing this evidence will accelerate the rate of progress employers will make in hiring and developing a more diverse workforce, resulting in organizations that are more fully integrated throughout all occupations and all levels of leadership.

**Figure 1**  
**The Business Case for Diversity**

**“I see three main points to make the business case for diversity:**

- 1. A talent shortage that requires us to seek out and use the full capabilities of all our employees.**
- 2. The need to be like our customers, including the need to understand and communicate with them in terms that reflect their concerns.**
- 3. Diverse teams produce better results.**

**This last point is not as easy to sell as the first two—especially to engineers who want the data. What I need is the data, evidence that diverse groups do better.”**

**Source: Lew Platt, former CEO of Hewlett Packard, comments to the Diversity Research Network, Stanford Business School, March 18, 1998.**

In fact, however, there is little empirical evidence that is directly relevant to the question of whether the presence of diversity or diversity management practices directly impact financial success (e.g., see Richard, 2000; Richard and Johnson, 1999). An exception to this general statement is a study that compared companies with exemplary diversity management practices to those that had paid legal damages to settle discrimination lawsuits. These results indicated that the exemplary firms also performed better as measured by their stock prices (Wright, Ferris, Hiller & Kroll, 1995). With few exceptions, the search for evidence that directly supports the business case hypothesis has proved elusive. Two reasons might explain this lack of evidence. First, diversity is extremely difficult to study in organizational settings because this issue is so sensitive. Many organizations, including many we contacted during this project, are reluctant to share their experiences or data, given the legal climate and the potential for litigation.

Another reason for the lack of evidence linking workforce diversity to business performance may be that the relationship between diversity and the bottom line is more complex than implied by the popular rhetoric. Decades of research on the effects of diversity within teams and small groups indicates that diversity can have some negative effects, as well as some positive ones. The empirical literature does not support the simple notion that more diverse groups, teams, or organizational units necessarily perform better, feel more committed to their organizations, or experience higher levels of satisfaction (Williams and O'Reilly, 1998; Millikin and Martins, 1996; Jackson, May and Whitney, 1995). Instead, the evidence suggests that diversity may simultaneously produce both more conflict and employee turnover as well as more creativity and innovation (Jehn, Northcraft, and Neale, 1999; c.f. Williams and O'Reilly, 1998). For example, this pattern of mixed results was found in two studies that examined diversity within top management teams in the banking industry. On the one hand, diversity in the background of top managers was associated with greater innovation within bank branches (Bantel and Jackson, 1989). On the other hand, diversity also was associated with higher rates of turnover among members of a top management team (Jackson et al, 1991). Thus, the research literature paints a more complex picture about the consequences of diversity than does the popular rhetoric espoused in organizations.

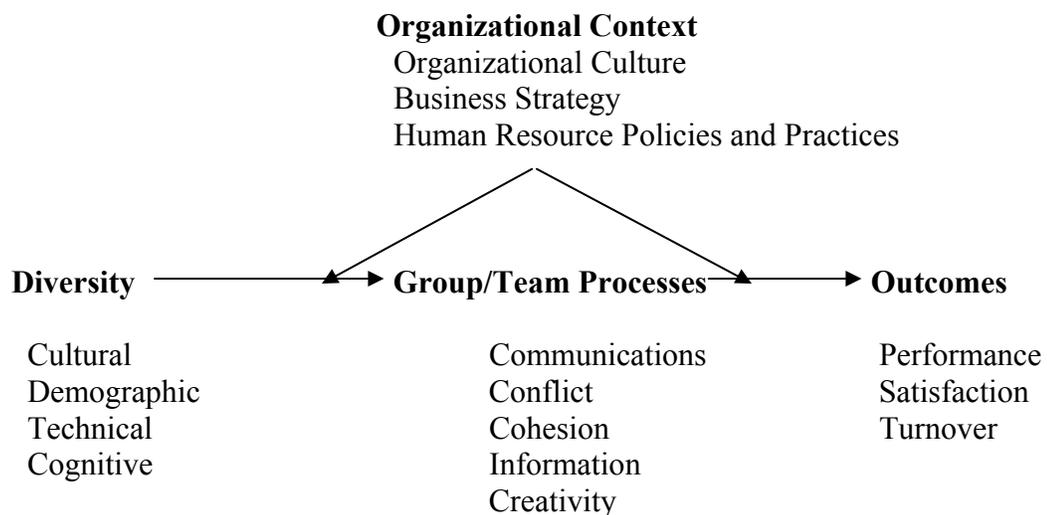
### **The Diversity Research Network and Consortium Research Project**

The complex state of research and rhetoric about managing diversity in work organizations motivated a group of academics and business leaders to design a large-scale research project designed to sort out the conditions necessary to translate diversity into positive outcomes for both organizations and individual employees. The research project

described here was conducted by a consortium that includes the BOLD Initiative and the Diversity Research Network. The BOLD initiative is a non-profit organization of business leaders committed to helping corporate America learn how to leverage demographic diversity to gain global competitive advantage. The Diversity Research Network is a group of scholars with experience conducting research on this topic from a variety of different perspectives. Funding for the consortium’s research was provided by the Alfred P. Sloan Foundation and the Society of Human Resource Management. Figure 2 summarizes the model that guided the design of the studies that are summarized in this article. The research model is consistent with evidence from over 100 prior laboratory and field studies investigating the effects of diversity on group dynamics and group performance.

**Figure 2**

**The Model:  
The Effects of Diversity on Group Processes and Outcomes**



Briefly, our guiding research model suggests that diversity is likely to affect intervening group processes, such as communications, conflict, and cohesion. Diverse backgrounds can spur creativity and increase the information and understanding present in a group. At the same time, many forms of diversity present challenges to communications and cohesion. Lower cohesion and worse communication can then lead to group conflict. Some of this conflict may be productive (for example, if it avoids "groupthink" and brings additional points of view into the discussion), while other forms may worsen group performance.

The connections shown in the model that link diversity to team processes and then to performance seem logical, but we recognize that past research has not always found strong linkages between diversity and performance outcomes. In fact, past research suggests that there may be no direct positive or negative relationship between diversity and performance outcomes. In some groups, diversity may improve performance, while in other groups diversity is detrimental to performance. If diversity has inconsistent effects across groups, we would find no overall, main effect of diversity on performance. In that case, the research model suggests another possible alternative to be explored: the organizational context in which the work takes place may moderate the relationship between diversity and performance. For example, the effects of diversity on organizational performance might be more favorable if group leaders and members build on team members' creativity and information. Diversity may also be more likely to improve performance when group members and leaders are trained to deal with group process issues, particularly those involved in communicating and problem-solving in diverse teams. Presumably, HR practices for recruiting, selecting, training, motivating

and rewarding employees partially determine whether team members and leaders are skilled in communicating with and coordinating members of diverse teams. When HR practices support the creation of a workforce that has the skills needed to turn diversity into an advantage, diversity is more likely to translate into positive performance outcomes. In other organizations, however, HR practices may inadvertently result in teams that are diverse but unskilled in diversity management. Such organizations are more likely to experience negative outcomes, such as disruptive conflict and increased turnover.

The Diversity Research Network has been testing various propositions that follow from the model shown in Figure 2 using data collected from four large companies. The results we have obtained to date are summarized briefly below and presented in more detail in Appendices 1 through 4.

## **Results**

*Study one* was conducted in a large firm in the information processing industry. This firm has had a longstanding commitment to workforce diversity and social responsibility, dating back to the influence of its CEO in the 1940s. It has a highly visible Diversity Task Force that is charged with developing and reviewing strategic plans for promoting diversity. The company supports several resource groups for women and minorities, as well as a wide range of efforts intended to build diversity into its leadership development, succession planning, and managerial reward systems. The company believes its commitment to diversity is highly visible throughout the organization. So the overall organizational context for managing diversity at the business unit or team level is quite favorable in this company.

The tests of the model produced mixed results, showing that different types of diversity lead to different consequences in this company.

- In general, there were significant indirect effects of diversity on the performance outcomes studied (individual performance, performance appraisal ratings, and group performance as measured by the company) via team process and the organizational context (see Appendix 1).
- Effective team processes in this company had the expected positive association with team performance ratings.
- Cross-functional (informational) diversity had positive effects on group processes while diversity in education was negatively associated with effective group processes.
- Training on team skills, one of the organizational context variables that was examined, was found to moderate the negative effects of racial and educational diversity on group processes and further strengthen the positive effects of gender diversity.
- Finally, differences in the organizational culture of specific business units also appeared to moderate the effects of diversity on performance. Specifically, a culture that encouraged competition across groups reduced some of the positive effects that otherwise were observed from cross functional diversity while a more cooperative culture appeared to enhance the positive effects of group processes on performance.
- A positive relationship found between gender diversity and group performance in business units strongly focused on people-oriented organizational culture, diversity-focused human resource practices, and customer-oriented business strategy.
- Business units with competitive organizational cultures and growth-oriented business strategies had significant and negative effects of racial diversity on individual and group performance. However, business units with human resource practices emphasizing training and development had significant and positive effects of racial diversity on individual bonuses and stock options.

Overall, Study One provides partial support for the model outlined in Figure 1. But perhaps more importantly, Study One suggests that the effects of diversity are more nuanced and difficult to predict in advance. Thus, managing this diversity effectively requires paying careful attention to how different types of diversity affect group processes, to skill building and management of inter-group relations, and to the organizational culture and relationships among groups in different parts of the organization.

*Study 2* was conducted in one of the country's largest financial services firms. This study examined the relationship between diversity and performance using branch banks as the unit of analysis. Study 2 also found some support for the basic model shown in Figure 1. However, there also were some unanticipated findings that are perhaps more interesting and important than the results of formal tests of the research model.

The company in Study 2 is highly respected for integrating a commitment to diversity into its managerial policies and strategies. The CEO chairs a company-wide Diversity Council and comparable councils are in place within each business unit. Managers at all levels must set annual objectives with respect to diversity, are held accountable for meeting these objectives, and develop a detailed plan for linking diversity to their education, recruiting, succession planning, and business growth strategies. Extensive education and communications programs are in place and diversity is linked to the company's policies for meeting employee work-life and family needs. So, like the other companies in our study, this financial services firm has expended considerable effort to create an organizational setting that is supportive of its diverse workforce.

With respect to the model, like Study 1, the results vary across race and gender. In this company, 82% of the workforce was female so increased gender diversity in this case would imply a higher proportion of *men* present in the branch.

- Consistent with prior research few direct relationships were observed between different measures of diversity and business performance.
- Effective group processes were positively related to several measures of branch performance such as revenue from new sales, sales productivity, and customer satisfaction, but not significantly related to several other performance measures (see Appendix 2 for further details).
- The most interesting finding from this study was that the perspective taken toward diversity in the different branches significantly moderated how racial diversity affects performance. This study built on some of the authors' prior work (Ely and Thomas,

2001) and is worth summarizing here. Ely and Thomas identified three different perspectives toward diversity in their prior work:

1. A “discrimination and fairness” perspective: The organization is committed to diversity because it is the right or moral thing to do.
2. An “access and legitimacy” perspective: The organization is committed to diversity because its product markets and customers are diverse and therefore the workforce needs to reflect the markets and customers it seeks to serve or reach.
3. An “integration and learning” perspective: The organization is committed to diversity because it can learn from the different backgrounds, knowledge bases, and experiences of different people and can translate this knowledge and learning into positive results.

Their case study evidence from three professional service firms suggested that this third perspective—one that views diversity as an integration and learning opportunity—is more likely to produce positive organizational results and more rewarding personal outcomes than organizational diversity efforts driven by either a discrimination and fairness or an access and legitimacy perspective.

Their test of this hypothesis with data from the financial services firm found that racially diverse branches that scored high on the integration and learning measure achieved higher revenue from new sales compared to racially diverse branches that lacked this perspective.

*Study 3* was conducted in another Fortune 500 firm in the information processing industry. This company’s diversity management practices have been considered by other companies as a benchmark for assessing the best practices in managing a diverse workforce. The company has a strong commitment to workforce diversity and has been quite successful in recruiting, retaining, and promoting women and minorities. It has won a number of national awards for its efforts in diversity management. The company’s commitment to diversity can be traced at least as far back as the 1970s when it undertook

a thorough review of its human resource policies and management efforts and developed a comprehensive plan for recruiting and developing a diverse workforce. It has a long history of supporting employee identity groups that provide mentoring to their members; all divisions of the company must meet annual targets for achieving diversity in race and gender in each grade level; performance appraisals for managers include measures of whether these targets are met; and intensive diversity training that focuses on managerial capabilities and skill-building for diverse work groups is carried out throughout the organization's various business units. Of all the organizations studied, this company's efforts vary least across its different business units or locations.

Perhaps because of this uniformity in diversity management practices throughout the company, our test of the model observed no significant negative or positive effects of diversity on work team processes or team performance. Work teams that were more diverse in terms of ethnicity, gender, age, and education were neither more productive nor less productive than more homogeneous groups. This conclusion held for both service teams and sales teams, which typically included 10 or fewer employees. One interpretation of this result (which is stable across a wide range of performance indicators) is that this organization's overall commitment to a diverse workforce and its related policies and practices has neutralized any potential negative effects of diversity on group processes. On the other hand, it appears that this firm has not yet been able to generate positive gains from having more diversity in its sales and service units.

However, the picture from this organization changed when larger business units were studied. At the level of districts, which would include 10 or more work teams, greater gender diversity was associated with more cooperative behavior and higher

productivity. In the occupational groups studied, females were clearly in the minority. Nevertheless, for both sales and service organizations, having more gender diversity appears to go hand-in-hand with improved performance. Thus, when we focussed on larger work units instead of smaller work teams, the evidence indicated that this organization was doing a fairly good job of managing gender diversity. For these same organizational units, ethnic diversity was associated with greater cooperation but not better performance. In fact, for some measures, ethnic diversity was associated with lower performance. Thus, despite years of investment in proactively managing diversity, this organization has not yet developed a capability for fully leveraging ethnic diversity to achieve improved business outcomes.

**Study 4** was conducted in a large retail establishment with locations across the country. The analyses conducted in this study investigated the relationship between workforce diversity and store performance, taking into account the diversity of each store's customer base. More specifically, this study asked whether workforces that reflect the racial make-up of the communities in which they are located perform better than those that do not reflect the make-up of the community. No data about team processes or interactions among employees were available for this study.

The results show no effects for customer-workforce matching on the sales performance of these retail establishments. This study also examined the question of whether workforce diversity in terms of race and gender were associated with store performance. The evidence indicated that there were some modest positive effects on performance of both racial and gender diversity. However, these effects were outweighed by stronger effects for the percentage of the workforce that was white or male.

Increasing the proportions of whites or males had a direct positive effect on sales so that increasing or decreasing the racial or gender diversity (i.e., moving toward more equal distributions across these categories) was overwhelmed by this effect.

The results from Study 4 suggest that arguments promoting diversity based on customer demographics resemble a two-edge sword. Advocates for diversity tend to assume that the employee population is likely to have fewer women or minorities than the existing or potential customer population. In this situation, increasing diversity produces a better customer-employee match. But in some cases the reverse might be true and therefore adding more women (and in some cases minorities) to the workforce reduces diversity. The latter situation was the case in this company. Moreover, in many situations with high-paying jobs, most potential interactions for executives involve white men. In such cases, using customer discrimination to justify hiring is likely to lead to low, not high, demographic diversity.

### **Summary and Implications**

The studies reported here were all conducted in large firms that have well-deserved reputations for their longstanding commitments to building a diverse workforce and managing diversity effectively. Taken together, they present a picture of the glass being half full or half empty. On the one hand, our qualitative research in these firms clearly documented the importance and value of the firm-wide managerial strategies, human resource policies, and organizational cultures in which teams and groups operate in these organizations. Each of these firms has taken steps to ensure that its formal policies support and reinforce its diversity objectives. Thus it is encouraging that we observed very few negative relationships between diversity and performance at the

business unit or team level in these organizations and where negative effects were observed their effects were moderated and reduced through training and leadership aimed at building specific skills needed to manage diverse groups.

At the same time, we found only limited evidence supporting the general proposition that diverse teams achieve higher levels of effectiveness. Moreover, only limited support was found for the mediating role of team processes such as communication, conflict management, and cohesiveness. Instead, we learned that these team processes sometimes are related to performance and sometimes are affected by diversity, but not all in the same way.

Of particular note is that three of the studies found that employers seem to be more effective in managing gender diversity than in managing ethnic diversity. Perhaps this is not too surprising, given that U.S. society is integrated with respect to gender but remains quite segregated with respect to race and ethnicity. One implication of these findings is that organizations should develop and evaluate their race-based and gender-based diversity efforts separately. During the 1990s, many organizations began to merge together all of their efforts to address many types of diversity. Defenders of this strategy argued that broadening the meaning of diversity was helpful for gaining political acceptance of diversity management activities. However, critics of this approach warned that it would diffuse the focused attention required to overcome a long history of racial discrimination. Our research suggests that the critics' concerns may have been well-founded. In short, the bottom line here is that employers must remain sensitive to how different types of diversity may affect team processes and performance within their organizations.

If these results generalize to other leading companies with similarly strong commitments to diversity, we may be at a point in history where the potential negative effects of racial and gender diversity are no longer particularly salient and therefore are exerting few if any costs on business performance. Moreover, if managed well such diversity may be able to enhance performance. Yet translating these forms of diversity into enhanced performance may require special efforts to encourage learning and a cooperative, participative organizational culture.

An important goal of this research was to test the feasibility of doing research on diversity in organizational settings. Our experience demonstrated how difficult it is to conduct this type of field research and how little analytical thinking about these issues is present in organizations today. Few companies are accustomed to thinking about their diversity efforts in this way and few companies collect the data needed to actually evaluate how they are doing on these dimensions. One clear implication that we draw from our experience in the field is that organizations need to do a better job of tracking and evaluating their strategies for hiring a diverse workforce and managing it to achieve high levels of performance.

### **Managerial Implications**

What implications do we draw from this work for managers? Given the limited nature of our sample and our findings, it would be inappropriate to propose broad or sweeping implications for managerial action. However, in the course of this project we discussed the state of practice with managers from more than twenty large, well-known, and highly regarded firms as we sought their involvement in our research. Through these discussions we obtained what we believe to be a fairly good picture of the state of

practice in managing diversity in these organizations. Moreover, while our empirical research is limited to four cases, to our knowledge, this research represents the first effort to test a model relating diversity to performance in multiple firms. So, with all appropriate cautions about the limited nature of our sample and our findings, we offer the following implications for practice.

Modifying the “Business Case.” Based on our experience and results in these companies, we would suggest a modification in the way the “business case” for diversity is framed. It should reflect a more nuanced view of the processes that translate diversity into positive outcomes. There is no evidence to support the simple assertion that diversity is inevitably good for business. The following may be a more accurate way of stating the “business case” for diversity:

*Diversity is a reality in labor markets and customer markets today. To be successful in working with and gaining value from this diversity requires sustained systemic approach and long term commitment. Success is facilitated by a perspective that considers diversity to be an opportunity for everyone in an organization to learn from each other, to develop a supportive and cooperative organizational culture, and to build the group leadership and process skills required for effective group functioning. Organizations that invest their resources in taking advantage of the opportunities that diversity offers should outperform organizations that fail to invest in learning how to take advantage of this opportunity.*

Training for Group Process Skills. Diversity training programs should include efforts designed to build the *managerial and group process skills* needed to learn from and manage diversity effectively. At the group or work unit level, training and other HR practices should be building the employees’ capacity to manage communications, conflict and other group processes effectively.

Adopting a More Analytical Approach Human resource managers and other professionals in charge of diversity efforts should take an analytical approach in performing their roles. Sophisticated data collection and analyses are needed to understand the consequences of diversity within organizations, and to monitor an organization's progress in managing diversity effectively. Currently, organizations often assess their diversity efforts by simply comparing results for different groups of employees. For example, they may ask: How do men compare to women in their attitudes, performance, advancement, pay, and so on? How do employees from different ethnic backgrounds compare to each other on these outcomes? And so on. These are important questions, but answering them is just the first step. An equally important but very different question is: Do work units that are diverse with respect to gender (or ethnicity or age, etc.) have different outcomes than work units that are more homogeneous. If diversity is managed well, the outcomes for diverse work units should be equal or better than those of more homogeneous work units.

### **Implications for Research**

An important objective of this project was to build a research network that, if this initial feasibility study proved worthwhile, would continue to promote and carry out large-scale field studies of workforce diversity and its effects on organizational performance. Thus, it is appropriate to end with our suggestions for how to move research on this topic forward.

When we began this endeavor, we understood that this research would be incredibly difficult to conduct due to the sensitivity of the topic, the difficult conceptual

issues involved, and the data required. In fact, the research proved more difficult to conduct than we imagined.

Accessing Data. One conclusion we reached is that it is extremely difficult to gain access to the type of data required to conduct this research. Numerous organizations that expressed deep interest in the research and in learning about our results nevertheless declined to participate. Surprisingly, even within the organizations that participated, we found that compiling the needed data was always a complex and difficult task. Despite the widespread availability and use of human resource information systems, we often found that basic HR data about individuals could not be readily linked to business-level performance data. In our view, this is problematic. Unless HR practices and their outcomes can be linked to business performance, it will remain difficult for HR practitioners to make a convincing case that managing diversity effectively is a strategic imperative that warrants the financial investments that are required.

The Need for Experimentation and Evaluation. More work is needed to design and evaluate specific interventions or experiments aimed at enhancing the team processes that are viewed as critical in the diversity-performance relationship. Our research relied on measuring natural variations across groups, which may capture numerous co-varying group characteristics. This may account for why laboratory studies that manipulate various group processes in a controlled setting tend to find larger effects than what we observed in the field research reported here. Studies that can better replicate these experimental conditions in real organizational settings would be particularly useful. In order for such research to be carried out, it will be necessary for executives to commit to this type of experimentation and learning within their own organizations.

Understanding the Role of Organizational Context. Testing our full research model in a holistic approach also proved to be more difficult than we expected. In contrast to much of the research that has been conducted to date, our research team firmly believes that the organizational context is an important factor that must be taken into consideration when examining how diversity affects individuals and work teams. Our interpretation of how context matters rests mainly on our understanding of the history of diversity in these organizations and the current practices in place. Future work needs to continue to mix qualitative and quantitative data collection and analysis. In addition, however, it is necessary to collect comparable data from many different organizations. We remain hopeful that more organizations will want to participate in future rounds of data collection, but we also realize that it may take several years before we are able to develop a full understanding of how organizational context affects the way diversity influences performance.

In summary, we have learned a great deal about how to move work in this area forward. We believe that progress in both research and organizational practice will be made through continuing collaborative efforts between researchers and managers as they design and evaluate new approaches to leveraging workforce diversity. Training programs that improve the teamwork skills of managers and team members may be particularly useful, but training alone is not likely to be sufficient. Also needed are human resource practices that develop and sustain an organizational culture of learning and cooperation.

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## Appendix 1 An Information Processing Firm

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This study is based on data from a large Fortune 500 information processing company with over 26,000 employees at all ranks within the organization. Employees work in a range of business units such as corporate administration, finance, sales, product development, software systems, and manufacturing. The workgroups analyzed were created using a reporting system developed by the company as well as the information about the organization/business units' structures provided by key senior staff.

### **Qualitative Analysis**

Diversity has been at the forefront of this company's social and business agenda for over half a century. In the early 1940s when the company chairman took several sales representatives, including one African American, to an awards ceremony, the hotel hosting the event refused to register the African American, so the chairman left with his sales force in tow. In 1987, management realized that many minority employees were not advancing through the ranks, so the Women's Resource Group and the Minority Resource Group were created to address the issue. In 1992, the Diversity Task Force was created to develop a strategic plan for promoting diversity. Each year since then the Diversity Leadership Council, comprised of employees at every level and in every department of the company, helps to create diversity action plans, which outline initiatives linked to the strategic goals of the Diversity Task Force.

In the past decade a number of innovative practices have emerged to promote and maintain diversity within the company. For example, each business unit is required to submit an end-of-year report measuring how well the unit performed against its diversity objectives. This report details quantitative information on diversity initiatives, including the hiring and promotion of women and minorities, succession planning, development, retention, and training. This approach has resulted in a number of tools designed to support the company's diversity objectives. For instance, all business unit newsletters cover diversity issues, employees have access to lecture series on diversity, and a "Managing Diversity" module is taught at every manager orientation session.

Another succession planning process called the Leadership Program (LP) was created to identify high potential employees, including women and minorities. As part of the LP program, individuals create Development Plans. The creation of these plans helps to instill a sense of personal responsibility for the employees' development. When managers and individuals go over the development plans together, the resulting feedback can accelerate the individual's development process. This can be particularly beneficial for women and minorities who traditionally have fewer mentors. New intranet applications have recently made secure private access to the LP available to more

employees, increasing the likelihood that minorities and women will have access to the tools and information needed to succeed.

The LP is also designed to recognize leaders within the company who value diversity. The program includes the Middle Management and the Executive Level Leadership Portfolios, both of which emphasize the importance of valuing diversity. These portfolios provide a road map for management, defining fundamental leadership knowledge and skills that are necessary for sustaining excellent performance. Possession of these fundamentals detailed in the portfolios is a prerequisite for entering and maintaining any leadership position within the company. Managers should encourage diversity within their own teams, demonstrate non-biased behavior, show respect for others, take an inclusive approach, and modify their personal style to meet the unique needs of individuals.

Internally and externally the company's practices are shaped by their belief that diversity is essential to innovation and growth. Diversity is encouraged and supported in every aspect of their business operations. The Diversity Development Department implements strategies that guarantee that every aspect of the company's business operations manifests its commitment to diversity. These strategies include establishing alliances with external women's and minority organizations, supporting small businesses, and supporting regional minority business councils across the country. These practices create a base of mutually beneficial business relationships and help the company meet the needs of their customers, who have requested goods and services produced with content from women and minority-owned suppliers. Additionally, the company actively supports minority scholarships, cooperative education and internship programs; and it provides substantial funding to national organizations concerned with professional, social and educational goals in minority communities.

In sum, based on the textual information available from the organization, efforts are being made to value the talents and skills of each individual. Special emphasis is placed on recognizing the contributions of people from diverse cultures, backgrounds, and lifestyles. Efforts are made to create an environment in which people from diverse backgrounds feel comfortable and are treated with respect. These efforts are made in order to give the company a competitive advantage by harnessing the power that diversity can bring to the organization. By recognizing, fostering, and utilizing the contributions of people from diverse backgrounds, the organization increases its ability to innovate, to compete, and to meet customer needs. According to Thomas and Ely's organizational diversity perspectives (Harvard Business Review, 1996), this would be considered the "integration and learning" perspective. This perspective suggests that the organization is committed to diversity because it believes it can learn from the different backgrounds, knowledge bases, and experiences of different people and can translate this knowledge and learning into positive results.

We would like to note that based on the researchers' experiences in the company and with the data collected, the two other perspectives (discrimination and fairness; access and legitimacy), are more evident in the day-to-day conversations of the company's

upper-management and in the rhetoric that the top managers use in public forums (e.g., speeches to employees, guest speaking at universities). The legal components representative of the discrimination and fairness perspective, for example, were exhibited in numerous meetings of the diversity council and the researchers. The access and legitimacy perspective was prevalent in one-on-one interviews with upper level executives and in the public speeches made by them, as well. They focused the reasoning for their diversity efforts on the match with their customer base and the markets they wanted to reach. Thus, this company appears to draw on all three of the Thomas and Ely perspectives in justifying and managing its diversity efforts.

### **Quantitative Analysis at the Team Level**

Our results of the quantitative test of the model used in this research project revealed that the relationship between diversity and group processes, and hence performance provided partial support for the model. However, the results varied by type of diversity. For example, informational diversity, such as diversity in tenure and function, positively affected constructive group processes (e.g. processes relating to business operation and getting results, processes relating to building commitment, group spirit, and cohesion), while diversity in education negatively affected constructive group processes. The positive effect might be attributed to the fact that people bring varied perspectives due to diverse experiences, knowledge and function, which are likely to promote constructive group processes. The negative effect could be due to the differences in status that usually match education and can cause inferior group processes and cooperation.

Specifically, we found that diversity in tenure positively affected processes relating to business operation and getting results. Diversity in functional background was positively associated with group processes relating to 1) business operation and getting results, 2) innovation, creativity, and exploring new perspectives, and 3) team focused processes such as building commitment, group spirit, and cohesion. In contrast, diversity in education was negatively related to the team focused group processes.

Our results showed that social category diversity such as diversity in gender was likely to increase constructive group processes, while diversity in race was likely to inhibit them. Past research has explained that people in mixed gender groups were more pleased with the group in which they worked. Thus, the positive effects of gender diversity can be attributed to the fact that people enjoyed working with people of the opposite sex, leading to higher job satisfaction and hence more constructive group processes. In particular, we found that diversity in gender promotes group processes relating to career advancements and professional success as well as innovation, creativity, and exploring new perspectives.

Some negative effects of race diversity that we found in this company are consistent with previous research and are usually explained from the social categorization theory perspective. According to this theory, individuals classify themselves and others into social categories based on salient attributes of the categories (e.g. white male engineer). Individuals are motivated by the need for positive self-esteem to believe that people in

their categories are better than people from other categories. In particular, employees of different categories are likely to view each other through the biased lenses of category stereotypes and prejudice that usually negatively impact constructive group processes.

However, our results showed that training and development focused human resource (HR) practices were likely to reduce any negative effects of race diversity and educational diversity on constructive group processes that these types of diversity might have. In other words, the HR practices, which were focused on coaching, providing challenging assignments and opportunities for development and adjusting management styles to fit individual and situation could almost eliminate these detrimental effects of diversity. Specifically, through training in open communication and interactive listening, groups that are diverse in race and education can learn how to apply different communication styles and methods and promote group processes relating to business operation and getting results. This set of findings provides strong support for both the importance of supportive human resource practices as a moderator between diversity and for the importance of constructive group processes. It also offers support for diversity training that focuses specifically on skill building.

Interestingly, we found that diversity in age was positively related to the group processes focusing on building commitment, group spirit, and cohesion, but negatively affected the processes relating to change, innovation, creativity, and exploring new perspectives.

In turn, constructive group processes were found to have an impact on group performance, specifically, on team performance ratings. This was consistent with previous research findings and provides support for the proposition in our model arguing that group processes play an important intermediary role in linking diversity to performance outcomes. Moreover, we also found that groups that were focused on business operations and getting results, building commitment, group spirit and cohesion, exploring new perspectives, and pursuing career advancements and professional success were likely to have the higher performance ratings and higher bonuses.

Several other aspects of the organizational context were also significant, but varied in effect across different aspects of diversity. For example, a business strategy focused on developing and valuing customer relationships enhanced the positive effects of informational diversity (specifically, diversity in tenure) on constructive group processes. Furthermore, a customer-focused business strategy also significantly enhanced the positive effects of constructive group processes on group performance.

Another factor of organization context investigated in this study was organizational culture. Two culture types included in this study were (1) people-oriented organizational culture, which focused on shared commitment among people and (2) competitive organizational culture focused on competition, achievement, and independence. This last type—a competitive organization culture—was found to reduce the positive effects of informational diversity, specifically diversity in function, on constructive group processes. This finding is consistent with the previous research that finds members diverse in function interact significantly less frequently when organizational culture emphasizes individual achievement and competition.

Finally, we found that diversity-focused HR practices enhanced the positive effects of gender diversity on constructive group processes relating to career advancements. In other words, HR practices that value the uniqueness of each person and create a work environment that reflects respect for everyone's contributions—whatever that person's background—energize gender diverse groups to move on in their career pursuits.

Some more puzzling results were also obtained. While analyzing bonuses and stock options, we found that people-focused organizational cultures reduced the positive effects of product focused group processes. One explanation for this effect is that people lack incentives or specific product direction. Whereas in a competitive culture, bonus and stock options act as an incentive for people to be product-, change-, or team-focused.

Training- and diversity-focused HR practices reduced the positive effects of product-, and change-focused group processes. This may indicate that the costs of such HR practices exceeded the benefits produced in creating constructive group processes, leading to a net reduction in performance. It may also be that groups that were the focus of training and diversity practices had correspondingly higher expectations placed on them, and their performance indicators are lower because they were judged against this higher standard.

### **Additional Analyses of Organizational Context**

We conducted additional analyses on a larger sample of groups for which no group process data were available. In this case, therefore we could only test for how various aspects of the organizational context moderated the relationship between measures of diversity and performance. These tests produced results similar to those with the group process measures. For example, we found:

Diversity in tenure and function significantly and positively affects performance in most of the business contexts except, for example, in training-oriented human resource practices (both functional and tenure diversity).

The positive relationship found between gender diversity and group performance in business units strongly focused on people-oriented organizational culture, diversity-focused human resource practices, and customer-oriented business strategy was greater than in units that lacked those specific cultures, practices, and strategies. Gender diversity was also significantly and positively related to group stock options in people-oriented cultures and diversity-focused Human Resource departments.

Business units with competitive organizational cultures and growth-oriented business strategies had significant and negative effects of racial diversity on individual and group performance. However, business units with human resource practices emphasizing training and development had significant and positive effects of racial diversity on individual bonuses and stock options.

The negative effects of educational diversity on individual bonuses and stock options disappear in business units that focus on training and development.

We found partial support for our original findings related to the presence of a competitive organizational culture. Specifically, we found a negative relationship between functional diversity and both group performance and stock options in competitive business unit cultures. We also found that functional diversity significantly and positively affected group performance in non-competitive organizational cultures.

Substantiating our previous results on diversity-focused human resource practices, we found a positive relationship between gender diversity and individual bonuses in business units with a strong emphasis on diversity-focused human resource practices.

Appendix 2  
A Financial Services Firm

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Our research site is a retail financial services firm, franchise to a leading wholesale financial services company, and has customers including more than 30 million individuals and small business across the United States.

### **Qualitative Results**

The company embarked upon its formal diversity program several years ago under the direction of the CEO, who believed that the company's diversity efforts had to be central to their management processes and business practices. We focus our research on the retail branches of the firm, which have access to and participate in the full array of corporate level diversity initiatives.

At the corporate level, the company has implemented four practices in particular which they believe represent "best practice" in the field. First, all senior managers in the company, including regional managers of the retail branches, are held accountable for managing to a formal diversity plan and for linking diversity to education, recruiting, succession planning, career development and business growth. These plans cascade down to individual branch managers who, as part of their regional manager's plan, have diversity objectives they are required to meet. Second, in addition to a company-wide Diversity Council, chaired by the CEO, each business hosts its own diversity council chaired by its respective business executive, ensuring hands-on employee involvement in their diversity initiatives. The company now has 45 diversity councils around the world, involving some 1,000 employees, including many retail branch employees. Third, the company considers itself unique in extending the focus of its diversity efforts beyond race and gender. Their education efforts and dialogue with employees across the company include race, gender, disabilities, religion, sexual orientation, and age. Finally, they have an aggressive construction plan for back-up childcare centers with the belief that they need to support the diverse work-life needs of their employees. They are currently constructing a network of 17 on-site back-up childcare centers in major company sites across the U.S., to which most retail branch employees have access.

Three years ago, in a day-long, world-wide company forum, the CEO summarized findings from a series of focus groups interviews the company had conducted internally with numerous groups of employees, including women; African Americans; Hispanics; Asians; white men; disabled employees; generation Xers and baby-boomers; and gays, lesbians, and bisexuals. In this presentation, the CEO spelled out what he saw as the challenges and opportunities their diversity presented. He focused largely on the importance of having a diverse workforce in order to reach and be responsive and

credible to their increasingly diverse market. Much of the session was devoted to the presentation of results from the focus group interviews. The CEO was impressively candid, reporting that, despite important firm initiatives, which had created a more enabling work environment for many, the data also suggested that stereotypes and unintentionally biased work place practices still existed, which contributed to an inhospitable work environment for many women, people of color, people with disabilities, and gay, lesbian, and bisexual people. The number one issue raised was work-life balance. People felt that interventions to help ease work-life stress represented the company's most successful diversity initiatives but, at the same time, that work-life balance still represented the greatest challenge for employees and managers. A second issue was the widely shared perception that, while senior executives were highly committed to working on diversity issues, most middle level managers, including branch managers, do not "walk the talk." Both corporate and business unit diversity councils used these findings to inform their plans and goals for the following year. The corporate Diversity Council, for example, undertook an investigation into what made it difficult or easy for these managers to promote and support diversity efforts and then designed initiatives to assist them accordingly.

The firm continues its efforts to change its corporate culture so as to ensure a workplace where employees of all backgrounds and perspectives feel welcome, and where every employee feels his or her talents are matched by opportunities to grow and contribute. The company offers a number of programs, available to all employees, from diversity education offerings and employee networking groups to mentoring opportunities and a wide range of career development programs to ensure that they are attracting and retaining the broadest range of employee talent and perspective.

To ensure that their workforce reflects the communities they serve, the company aggressively recruits candidates of all backgrounds. In their entry management training programs, they have established close recruiting ties with Historically Black Colleges. They participate in a number of internship programs that provide opportunities for both high school and college level students. Their intercept programs include A Better Chance, Smart Start, and a Fellows Program and Summer Jobs for Youth, with the hope that many of their interns will choose full-time employment with their firm upon graduation.

### **Quantitative Results at the Team Level**

Our sample of teams consists of 370 retail branches of the firm located primarily in a large city in the northeastern U.S. Branches in this sample ranged in size from 10 to 70 employees, with an average of 18.2 and a standard deviation of 9.7. The average proportion of whites in the branches was 46%; the average proportion of women was 82%. The average age of employees in the branches was 37.1 years, with a standard deviation of 11.7; the average tenure was 7.9 years, with a standard deviation of 7.9.

The data came from 3 sources: 1) archival data on the race, sex, age, and tenure of each employee in each branch; 2) employee attitude-satisfaction data from an annual employee attitude-satisfaction survey and 3) branch performance data used to allocate bonuses to branches on a semi annual basis. The data represents one time period and were collected at the end of 1999.

It is important to note that, in this sample, branches that are less racially diverse might be predominantly white, predominantly black or predominantly Hispanic and that these would all receive a similar diversity score. In addition, because the proportion of women is high, both in the officer and non-officer ranks, a higher gender diversity score represents a branch that has a greater than average proportion of *men* employees, or, stated another way, a sex composition that is closer to a 50:50 ratio of men to women relative to one that is predominantly female.

We obtained performance measures from the firm's branch bonus award system whereby branches are assessed semi-annually on six areas of performance, relative to goals set for the branch in each area. The six performance areas were: 1) revenue from **New Sales**, 2) revenue from growing the **Consumer Portfolio** (growth over the 6-month assessment period in revenue from retail customers), 3) revenue from growing the **Business Portfolio** (growth over the 6-month assessment period in revenue from business customers), 4) **Customer Satisfaction** (a composite score assessed from independently conducted surveys of approximately 50 randomly selected customers for each branch), 5) number of **Qualified Referrals** to bank services (referrals by employees from one product to another that resulted in sale to the customer), and 6) **Sales Productivity** (total revenue from new sales relative to total salary expense).

Averaging across 5 items from the employee attitude-satisfaction survey, we developed a branch-level measure of the quality of a branch's **Team Processes**. We used this measure in analyses as a possible mediator of relationships between diversity and performance, with the hypothesis that poor team processes stemming from diversity might help to explain negative relationships we might find between diversity and performance.

As proposed in the model guiding this project, we expected that the relationships between diversity and team processes and between team processes and outcomes are likely moderated by different aspects of the branches' context. Using the employee attitude-satisfaction survey, we developed measures of three possible moderating variables: 1) whether or not the branch enacts an **Integration-and-Learning Perspective (ILP)** on diversity (Thomas & Ely, 1996; Ely & Thomas, 2001), 2) the proportion of branch employees who have attended at least one of the firm's **Diversity Programs**, and 3) the degree to which branch management incorporates **Diversity Practices**. We hypothesized that high levels of racial diversity would lead to more positive outcomes in branches that enacted an integration and learning perspective on their diversity. We also hypothesized that high levels of diversity of all kinds would lead to more positive outcomes in branches in which a higher proportion of employees had attended at least one diversity program and in which management had incorporated diversity into its practices, relative to branches in which these conditions did not exist.

Consistent with past research, few direct relationships between diversity and performance were observed in these data. We found only two significant main effects of social category diversity on performance. Racial diversity was positively associated with growth in branches' business portfolios and age diversity was negatively associated with qualified referrals. Gender diversity had no significant main effects on any of the performance measures. Tenure diversity, our one measure of informational diversity, was significantly related to three of the six performance measures, but not in a consistent way. Greater tenure diversity was positively associated with growth in branches' business portfolios and with the number of qualified referrals, but negatively associated with customer satisfaction.

Some support was observed for the expected relationships between team processes and performance, but the results varied across performance measures. Quality of team processes was positively associated with revenue from new sales, customer satisfaction, and sales productivity. Team processes, however, did not mediate any of the effects of diversity on performance.

Our notion that the effects of diversity on performance would be moderated by certain context variables was partially supported. In particular, racially diverse branches that enacted an integration-and-learning perspective on diversity had higher revenue from new sales compared to racially diverse branches that did not enact this perspective. Stated another way, there was a positive relationship between racial diversity and revenue from new sales in branches that enacted an integration-and-learning perspective on diversity and a negative relationship in branches that did not. None of the context variables moderated the impact of gender diversity on performance. Again, however, it should be noted that in this case, higher scores on the gender diversity measure imply a lower percentage of females in the group, since females make up 82 percent of the overall workforce.

### **Summary and Conclusions**

In summary, this organization has many of the features that one would expect to create a positive organizational context for diversity at the branch levels. We find no negative effects for diversity on performance and some positive effects for racial diversity in branches that exhibit an integration and learning perspective toward diversity. Effective team processes are positively associated with several indicators of performance. Since in this organization we do not observe negative effects of diversity on team processes, these processes do not mediate or modify the effects of diversity on performance.

Appendix 3  
An Information Systems Company

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The research setting for this study is a Fortune 500 U.S.-based company in the information processing industry. Over the past several decades, the company consistently promoted workforce diversity and proactively worked to increase the proportions of women and minorities employees. It has a long history of supporting employee support/identity groups that provide mentoring and other supports to their members. The company's initiatives for managing diversity are reflected in staffing procedures, performance appraisals, and training. Several national awards have recognized the company's excellent programs for creating and managing diversity.

*Staffing.* All divisions of the company must meet annual targets for the representation of majority and minority males and females in each employee grade level. Availability of minority and majority males and females is determined by examining the internal labor pools as well as U.S. Census data. As of 1995, based on the company newsletter, approximately 20% of the vice presidents in the company were members of minority groups, and approximately 25% of corporate officers were women. Of the entire work force in the U.S. division approximately one-third were women, one-sixth were African-Americans, less than ten percent were Hispanics, and Asian and other ethnic groups comprised about five percent. These numbers attest to the success the company has achieved in recruiting and promoting a diverse workforce.

*Performance appraisals.* In order to enforce the annual targets described above, performance appraisals for line managers include measures managers' ability to achieve the targets. The performance appraisals are used for making promotion and compensation related decisions.

*Training.* Training practices include intensive diversity training. Trainers use behavioral modeling techniques to help develop managerial capabilities of interacting with subordinates and colleagues irrespective of demographic differences. Thus they focus on skill-building more than efforts to build awareness or modify attitudes.

### **The Employee Teams in the Study**

Participants in this research were the company's U.S. employees in the sales (n = 3970 employees) and service (n = 8636 employees) divisions. A few general points are worth noting. First, the demographic characteristics of employees in sales and service are substantially different. Gender diversity and ethnic diversity are greater in sales than in service. In service, only 6% of employees are female, while 35% of sales personnel are female.

Second, within sales, the ethnic distribution is the same statistically for males and females. Within service, however, the ethnic distribution is statistically different for males and females. Although the difference is small, the pattern shows that females are slightly more likely to be white.

Finally, employees working in sales are more educated, younger, and have lower organizational tenure than employees working in service.

The individual participants in this study were organized into 578 sales teams and 1820 service teams. Most analyses were conducted separately for these two occupational groups.

## **Results and Interpretation**

*Main Effects of Team Diversity.* The results at the team level show essentially no support for the simple notion that team diversity predicts team processes and team performance. We examined the effects of diversity in terms of gender, age, ethnicity, tenure and education, separately and in combination and found not evidence that team diversity had predictable consequences on the subjective reports from employees or objective performance data. In other words, neither edge of the so-called double-edged diversity sword is revealed in this company. Diversity did not appear to have predictable and substantive beneficial or detrimental effects for the company's small work teams.

One explanation for these results is that diversity is less likely to make a difference in small work, stable teams. Some past research indicates that the effects of superficial differences among team members diminish over time, as team members get to know each other and learn to work together as a coordinated unit. This effect may be especially strong in smaller teams. Given the relatively long tenure of participants in this study, any effects of diversity may have long disappeared.

*Main Effects of Diversity in Larger Organizational Unit.* In a second round of analyses, we examined the effects of diversity within larger organizational units using hierarchical linear modeling techniques. In these analyses, we considered whether diversity had different effects when larger organizational units were examined. In the larger organizational units within this company, employees were interdependent with each other but not everyone was in close personal contact. When we studied these larger groups, our findings changed. For the larger organizational units, greater gender and ethnic diversity were associated with greater cooperation. Also, gender diversity was associated with better objective performance on some measures, but ethnic diversity was associated with poorer objective performance. The story does not end here, however.

*Organizational Diversity Moderates the Effects of Team Diversity.* In a third set of analyses, we asked how the organizational context in which teams worked influenced whether the teams benefited from their diversity. We reasoned that diverse teams would be best able to leverage their resources when the members of the team could form beneficial relationships with other employees who belonged to other work groups. In

other words, one benefit of diversity is that it enables the team to reach out beyond its own boundaries to a broader community from which it can obtain resources and support. (Presumably, this is one reason why employee network or affinity groups may be beneficial to organizational performance.) Members of a diverse team might find that it is more difficult to establish relationships outside the team if the larger organization is not also diverse. Our results supported this argument. Diverse teams performed better if they were part of a larger organizational unit that was itself diverse. That is, diverse teams within diverse organizations performed better than diverse teams within homogeneous organizations.

## **Conclusion**

The data from this organization can teach many lessons, and we have just begun to learn all that can be learned. What is already quite clear, however, is that there are no simple answers to the question: How does diversity affect the employees and their employing organizations. Certainly, different aspects of diversity are likely to have different consequences. For the occupational groups we studied in this organization, for example, age, tenure and educational diversity appear to be of little consequence. Gender and ethnic diversity, on the other hand, clearly were of some significance. (Note also that different results might be found for higher level managers.) In a difficult economy and an era of limited resources, such findings suggest that this organization may be wise to focus its efforts on managing these particular aspects of diversity. In addition, the results from this organization reinforce the basic argument that organizational context matters. HR policies business strategy are quite centralized in this company, so these aspects of the organizational context may not be of great importance to understanding the effects of diversity. However, the demographic make-up of various organizational units clearly does vary (this is true even within geographic regions), and these variations have important consequences. In particular, it appears that the best outcomes occur when diversity is found across entire organizational units. Simply having diversity within a team provides few benefits unless the team itself is surrounded by diversity.

Appendix 4  
A Retail Chain  
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Employee diversity can affect business performance either as a result of customer discrimination, or through effects on the internal dynamics of the workplace. We test for both channels in a sample of over 700 workplaces and over 70,000 employees. We find little payoff to matching employee demographics to those of potential customers. The second diversity effect, operating through diversity within the workplace, has some statistically significant impact on sales, but these effects are modest in magnitude. The main effects of the age, race, and sex of employees are of greater importance.

**Strengths of the study**

In most field studies, demographics are highly correlated with other features of the workplace or job; for example, female-dominated occupations and establishments typically involve quite different tasks than those dominated by males. The workplaces in our study exhibit almost none of this variation. Each workplace has minimal local discretion, as each must implement the detailed human resource policies disseminated from corporate headquarters.

An additional contribution of this study is to unpack the concept of diversity into a number of theoretically and empirically distinct measures. Many previous studies have had no or few workplaces with female, Black, or Hispanic majorities. The limited range of data implies that a single diversity measure conflates both a main effect (such as rising percent female) and gender diversity. The data used in this study are unique among studies of organizational demography in having a sufficiently large sample size and sufficiently dispersed workgroup compositions to examine both diversity and the main effect of percent female, percent Black, and percent Hispanic. To be clear, a workplace that is 100% female is not diverse in gender, but previous studies have not operationally distinguished the two.

**The setting**

The employer we study is in an industry characterized by monopolistic competition. Numerous small outlets sell somewhat differentiated products. This employer, like most national chains, organizes a subset of these outlets into a single entity that invest heavily in establishing brand image.

The workplaces we study are open to the public. Moreover, most of the non-managerial employees at work at any time are visible to the public, literally by looking through a window. These workplaces are located in every U.S. market of any significance. Each workplace typically employs 15 to 40 part-time employees with several full-time managers and assistant managers. The employees work scattered shifts through the week. Thus, employees work with a changing mix of the other employees on the payroll that month. In general, most frontline employees rotate through the several tasks in the store, spending some of their time dealing with customers and other time in support tasks.

Employees receive minimal training when they are hired. At the same time, some self-selection occurs because of the popular image of this employer. In the largest division of this employer, advertisements show a demographically diverse (though consistently young) group of customers. Employees interact with each other to maintain stock, and service customers, but these interactions are not complex. Further enhancing the likelihood that diversity effects will be muted, managers (unlike new hires) do receive some training in managing a diverse workforce.

We combine employee-level data on demographics, store-level data on sales, and data from the 1990 Census on community characteristics. The employee data are the complete personnel records from February 1996 to October 1998. We analyze data on frontline workplace employees, dropping workplaces with fewer than ten employees. Our performance measure is average sales at a store. We control for a number of employee, store, and community characteristics.

## **Results**

Contrary to theories of customer discrimination, communities with more whites, blacks, Hispanics or Asians did not buy more from stores with similar employees.

The effects of diversity within a store are more complex. Gender diversity had no meaningful effect. At the same time, stores with highly female workforces (the norm in this employer) sold less than more mixed stores.

Racial diversity has little effect on sales due to two offsetting effects. On the one hand, the index of racial diversity (the odds that two employees plucked at random are the same race) predicts higher sales. On the other hand, stores with more whites sell more in this chain, and the primary means of increasing diversity is to hire fewer whites. These two effects roughly cancel for most of the stores. These results are consistent with the hypothesis that all customers prefer white service people.

Our strongest results concern diversity of age. The mean age in this employer is quite young (low 20s). Increasing diversity of age strongly predicted lower sales, even controlling for employees' average age. This result may be due to obstacles to teamwork and communication in stores with widely varying ages, but the mechanism is unclear. Because community characteristics can affect both employee demographics and sales, we replicated these results adding a separate intercept for each community, as proxied by the first 4 digits of its ZIP code. Results were similar.

## **Discussion**

These results concern a single employer in the low-wage, high-turnover service sector. Thus, it is not obvious if results generalize. Moreover, omitted factors may still affect both employee demographics and sales.

Overall we find no consistent evidence that most customers care whether the salespeople who serve them are of the same race or gender. These results do not support some recent proponents of diversity who advocate diversity so as to satisfy customers' desires to be served by those who physically resemble them. Such arguments may still hold in other sectors, and may still be good arguments in settings when employees have more discretion and autonomy – so that they have more scope to act on their group-specific information. At the same time, these results are heartening for old-fashioned proponents of workplace integration. These diversity proponents fought against employers who

claimed their (mostly white) customers cared about the race and gender of the employees who served them.