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ARTICLE DIVERSITY

Getting Serious About Diversity

Enough Already with the Business Case
by Robin J. Ely and David A. Thomas

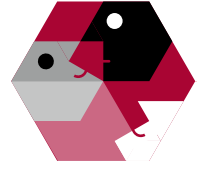




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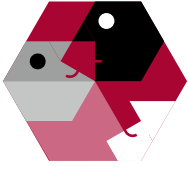
DIVERSITY



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Getting *Serious* About Diversity

Enough Already with
the Business Case



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“The business case has been made to **demonstrate the value a diverse board brings to the company** and its constituents.”

“The case for establishing a truly diverse workforce, at all organizational levels, grows more compelling each year.... **The financial impact—as proven by multiple studies—makes this a no-brainer.**”

“The business case is clear: **When women are at the table, the discussion is richer, the decision-making process is better, and the organization is stronger.**”



THESE RALLYING CRIES for more diversity in companies, from recent statements by CEOs, are representative of what we hear from business leaders around the world. They have three things in common: All articulate a business case for hiring more women or people of color; all demonstrate good intentions; and none of the claims is actually supported by robust research findings.

We say this as scholars who were among the first to demonstrate the potential benefits of more race and gender heterogeneity in organizations. In 1996 we published an HBR article, “Making Differences Matter: A New Paradigm for Managing Diversity,” in which we argued that companies adopting a radically new way of understanding and leveraging diversity could reap the real and full benefits of a diverse workforce. This new way entailed not only recruiting and retaining more people from underrepresented “identity groups” but also tapping their identity-related knowledge and experiences as resources for learning how the organization could perform its core work better. Our research showed that when companies take this approach, their teams are more effective than either homogeneous teams or diverse teams that don’t learn from their members’ differences. Such companies send a message that varied points of view are valued and don’t need to be suppressed for the sake of group cohesion. This attitude encourages employees to rethink how work gets done and how best to achieve their goals.

We called this approach the *learning-and-effectiveness paradigm*. We argued that cultivating a learning orientation toward diversity—one in which people draw on their



Increasing diversity does not, by itself, increase effectiveness; what matters is how an organization harnesses diversity, and whether it's willing to reshape its power structure.

experiences as members of particular identity groups to reconceive tasks, products, business processes, and organizational norms—enables companies to increase their effectiveness. We stand by the research on which that article was based, and we continue to advocate its conclusions.

The problem is that nearly 25 years later, organizations have largely failed to adopt a learning orientation toward diversity and are no closer to reaping its benefits. Instead, business leaders and diversity advocates alike are advancing a simplistic and empirically unsubstantiated version of the business case. They misconstrue or ignore what abundant research has now made clear: Increasing the numbers of traditionally underrepresented people in your workforce does not *automatically* produce benefits. Taking an “add diversity and stir” approach, while business continues as usual, will not spur leaps in your firm’s effectiveness or financial performance.

And despite all the rhetoric about the value of diversity, white women and people of color remain seriously underrepresented in many industries and in most companies’ senior ranks. That lack of progress suggests that top executives don’t actually find the business case terribly compelling.

On that point, we have to agree: The *simplistic* business case isn’t persuasive. A credible and powerful case *can* be made, however, with three critical modifications. First, platitudes must give way to sound, empirically based conclusions. Second, business leaders must reject the notion that maximizing shareholder returns is paramount; instead they must embrace a broader vision of success that encompasses learning, innovation, creativity, flexibility, equity, and human

dignity. Finally, leaders must acknowledge that increasing demographic diversity does not, by itself, increase effectiveness; what matters is how an organization harnesses diversity, and whether it’s willing to reshape its power structure.

In this article we expose the flaws in the current diversity rhetoric and then outline what a 21st-century learning-and-effectiveness paradigm could look like—and how leaders can foster it.

A CRITIQUE OF THE BUSINESS CASE FOR DIVERSITY

Let’s start with the claim that putting more women on corporate boards leads to economic gains. That’s a fallacy, probably fueled by studies that went viral a decade ago reporting that the more women directors a company has, the better its financial performance. But those studies show correlations, not causality. In all likelihood, some other factor—such as industry or firm size—is responsible for both increases in the number of women directors and improvement in a firm’s performance.

In any case, the research touting the link was conducted by consulting firms and financial institutions and fails to pass muster when subjected to scholarly scrutiny. Meta-analyses of rigorous, peer-reviewed studies found no significant relationships—causal or otherwise—between board gender diversity and firm performance. That could be because women directors may not differ from their male counterparts in the characteristics presumed to affect board decisions, and even if they do differ, their voices may be marginalized. What is more pertinent, however, is that board decisions are

IDEA IN BRIEF

THE CONTEXT

Business leaders often make a business case for diversity, claiming that hiring more women or people of color results in better financial performance.

THE PROBLEM

There’s no empirical evidence that simply diversifying the workforce, absent fundamental changes to the organizational culture, makes a company more profitable.

A BETTER APPROACH

Companies can benefit from diversity if leaders create a psychologically safe workplace, combat systems of discrimination and subordination, embrace the styles of employees from different identity groups, and make cultural differences a resource for learning and improving organizational effectiveness.



When diversity initiatives promise financial gains but fail to deliver, people are likely to withdraw their support for them.

typically too far removed from firms' bottom-line performance to exert a direct or unconditional effect.

As for studies citing the positive impact of racial diversity on corporate financial performance, they do not stand up to scrutiny either. Indeed, we know of no evidence to suggest that replacing, say, two or three white male directors with people from underrepresented groups is likely to enhance the profits of a *Fortune* 500 company.

The economic argument for diversity is no more valid when it's applied to changing the makeup of the overall workforce. A 2015 survey of Harvard Business School alumni revealed that 76% of those in senior executive positions believe that "a more diverse workforce improves the organization's financial performance." But scholarly researchers have rarely found that increased diversity leads to improved financial outcomes. They *have* found that it leads to higher-quality work, better decision-making, greater team satisfaction, and more equality—under certain circumstances. Although those outcomes could conceivably make some aspects of the business more profitable, they would need to be extraordinarily consequential to affect a firm's bottom line.

Moreover, advocates who justify diversity initiatives on the basis of financial benefits may be shooting themselves in the foot. Research suggests that when company diversity statements emphasize the economic payoffs, people from underrepresented groups start questioning whether the organization is a place where they really belong, which reduces their interest in joining it. In addition, when diversity initiatives promise financial gains but fail to deliver, people are likely to withdraw their support for them.

Still another flaw in the familiar business case for diversity is the notion that a diverse team will have richer discussions and a better decision-making process simply because it is diverse. Having people from various identity groups "at the table" is no guarantee that anything will get better; in fact, research shows that things often get worse, because increasing diversity can increase tensions and conflict. Under the right organizational conditions, though, employees can turn cultural differences into assets for achieving team goals.

Studies have shown, for example, that diverse teams realize performance benefits in certain circumstances: when team members are able to reflect on and discuss team

functioning; when status differences among ethnic groups are minimized; when people from both high- and low-status identity groups believe the team supports learning; and—as we reported in our earlier article—when teams orient members to learn from their differences rather than marginalize or deny them. But absent conditions that foster inquiry, egalitarianism, and learning, diversity either is unrelated to or undermines team effectiveness.

Many progressive companies today recognize the conditional nature of the diversity-performance link and have moved beyond "diversity," the catchword of the 1990s, to "diversity and inclusion." They understand that just increasing the number of people from underrepresented groups is not meaningful if those employees do not feel valued and respected. We applaud the emphasis on inclusion, but it is insufficient because it doesn't fundamentally reconfigure power relations.

Being genuinely valued and respected involves more than just feeling included. It involves having the power to help set the agenda, influence what—and how—work is done, have one's needs and interests taken into account, and have one's contributions recognized and rewarded with further opportunities to contribute and advance. Undertaking this shift in power is what the learning-and-effectiveness companies we wrote about in 1996 were doing, and it's what enabled them to tap diversity's true benefits.

THE LEARNING-AND-EFFECTIVENESS PARADIGM, REDUX

What we've learned since we wrote our original article is that embracing a learning orientation toward diversity turns out to be quite difficult. To make real progress, people—and the organizational cultures they inhabit—must change. But instead of doing the hard work involved, companies have generally stuck with easier, more limited approaches that don't alter the status quo.

We previously identified four actions that were helping business leaders and managers shift to a learning-and-effectiveness approach. We still consider those actions fundamental, but we present them anew here to underscore the message in light of today's challenges and opportunities.

Build trust. The first task for those in charge is to build trust by creating a workplace where people feel safe

expressing themselves freely. That requires setting a tone of honest discourse and getting comfortable with vulnerability—one's own and others'.

At no time has this need been greater in the United States than during the current unrest spurred by outrage over police brutality against Black men and women—a legacy of centuries of racism. Two weeks into the nationwide protests that began in May, white leaders in companies across the country struggled with how to respond. Publicly expressing support for the Black Lives Matter movement was one thing; knowing what to say to Black employees, who might already have been feeling marginalized or undervalued at work, was quite another. Leaders who were used to wielding authority grounded in their subject-matter expertise had no comparable expertise to handle the deep grief, rage, and despair felt by many of their employees—especially their Black employees. And Black leaders, many with firsthand experience of police mistreatment and other forms of racial oppression, faced the challenge of managing their own strong emotions and speaking their truth without appearing biased against whites.

Yet troubling times provide opportunities for leaders to begin conversations that foster learning. In response to public acts of racial injustice, for example, white leaders can reach out from a place of vulnerability, as a way of creating connection and psychological safety, rather than staying silent from a place of privilege and self-protection. This was the choice made by a white senior partner in a global professional services firm when he decided to convene a special virtual meeting with his teams across the country. He knew that if he said nothing about the recent racist incidents, his silence would speak for him, with a message not of neutrality but of complicity. Just weeks before, he'd been eloquent in addressing the distress wrought by the Covid-19 pandemic, but when it came to race, he felt at a complete loss. What he astutely realized, though, was that people needed him simply to begin a dialogue, acknowledge his pain and theirs, and give them the space to talk about their experiences inside and outside the firm, if they wished. He had no solutions, but that moment required none—just a willingness to speak from the heart and listen compassionately to whatever his colleagues might share. Perhaps most important, he was willing to risk not getting his own words or actions exactly right, and he was ready to receive feedback with openness and equanimity.

Actively work against discrimination and subordination. Creating psychological safety and building employees' trust can be an excellent starting point for the second action: taking concrete measures to combat forms of discrimination and subordination that inhibit employees' ability to thrive. This action calls for both individual and collective learning aimed at producing systemic change.



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Over the years we've seen the emergence of a multibillion-dollar industry dedicated to advancing such goals. Companies have adopted a slew of initiatives as a result: affinity groups, mentoring programs, work-family accommodation policies, and unconscious-bias training, to name a few. But the sad truth is that these efforts largely fail to produce meaningful, sustained change—and sometimes even backfire.

Leaders are the stewards of an organization's culture; their behaviors and mindsets reverberate throughout the organization. Hence to dismantle systems of discrimination and subordination, leaders must undergo the same shifts of heart, mind, and behavior that they want for the organization as a whole and then translate those personal shifts into real, lasting change in their companies.

To that end, a first step for leaders is to learn about how systems of privilege and oppression—racism, sexism, ethnocentrism, classism, heterosexism—operate in the wider culture. Numerous excellent books and articles can help with this work; they have the added benefit of relieving those on the receiving end of oppressive systems from the burden of educating their majority-group counterparts. And the impact can be surprising. For example, major news organizations picked up the story of a Black flight attendant who noticed a white male passenger reading a book about white people's reluctance to confront racism. She struck up a conversation with the man and had a moving exchange with him, eventually learning that he was the CEO of a major airline. The encounter filled her with hope: Here was a powerful executive—someone in a position to effect change—making a genuine effort to understand systemic racism.

Educating oneself is important, but it will be meaningless unless leaders take the next step: investigating how their organization's culture has reproduced systems of oppression, undercutting some groups' opportunities to thrive and succeed, while giving others a boost. As part of that investigation, leaders must examine what stereotypes and assumptions they hold about employees' competencies and suitability for jobs, acknowledge that they have blind spots, and come to see how their personal defenses can shut down learning—their own and their organization's. Working with hundreds of leaders over the years, we have seen how this individual learning journey can be a transformational experience that often leads to individual behavioral change.



Learning from cultural differences is more likely once leaders have created trust, begun to dismantle systems of discrimination and subordination, and embraced a range of styles.

But that's not enough. The critical final step in rooting out systems of discrimination and subordination is for leaders to use their personal experience to spur collective learning and systemic change. It is here that even the most progressive leaders' efforts tend to stall. Such efforts require a well-articulated, widely shared organizational mission to motivate and guide change, together with a collective process of continuous reflection and consciousness-raising, experimentation, and action—followed by sustained attention, monitoring each change for impact, and making adjustments accordingly.

An example of this process comes from a midsize consulting firm whose partners—almost all white men—had begun to fear that high turnover among the white women and people of color they employed meant they were losing talent, potentially undermining the firm's competitiveness. Taking a hard look at their culture, they identified a flawed approach to project assignment that was inadvertently contributing to systematic inequities. Plum projects were going disproportionately to white men; it was the old story of people having an easier time identifying talent when it comes in a package that looks like them. When a particularly challenging project for an important client came up—the kind that can stretch and give exposure to a promising young consultant—the white male partners staffed it with their go-to people: other white men. Meanwhile, white women and people of color, despite having been recruited from the same highly competitive MBA programs as their white male counterparts, regularly were assigned the more mundane projects. They got stuck doing tasks they had long ago mastered, which led many to leave the firm. Come promotion time, the few who remained were either counseled out or told they still weren't ready for partnership; women waited two years longer than men, on average, to make partner.

But were the go-to people actually better? Did they really have more “raw horsepower,” as the partners believed? When those leaders examined their developmental practices, they were chagrined to see clear patterns in who received coaching, whose mistakes were forgiven, and who got second and even third chances to prove themselves: the white men. So after an uncomfortable reckoning with their biases, the partners decided to experiment with making comparable investments in people they'd previously overlooked—people they might have automatically, if not quite consciously,

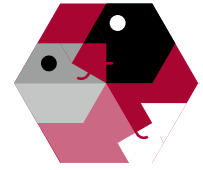
written off simply as hires to meet diversity goals. When they started treating white women and people of color more like the white men they'd favored, they were surprised to find a bigger, more diverse pool of talent than they'd expected.

Embrace a wide range of styles and voices. The third necessary action for leaders and managers involves actively trying to understand how organizational norms might implicitly discourage certain behavioral styles or silence certain voices. For example, in companies where the prototypical leader is a white man who earns respect by speaking assertively, women and Black men, who are often penalized for being assertive, may find themselves in a double bind: They can conform to the organization's norms and deviate from cultural prescriptions for their group, or they can do the opposite. But either way, they violate one set of expectations, risking marginalization and diminished chances for advancement.

Managers may believe they're giving helpful feedback when they tell a large Black man to smile more so that his white colleagues won't fear him, when they ask a Latina who advocates passionately for a project to dial it down, when they encourage a no-nonsense white woman to be “nicer,” or when they urge a soft-spoken woman of East Asian descent to speak more forcefully. But all such messages communicate that these employees must be ever-mindful of how others see them in relation to stereotyped images of their group, making it harder for them to bring their talents and perspectives to the table. Companies need performance management systems that tie feedback and evaluation criteria to bona fide task requirements rather than group stereotypes.

Make cultural differences a resource for learning. For companies shifting to a learning-and-effectiveness paradigm, the fourth action is to encourage—and draw lessons from—open discussions about how identity groups shape employees' experiences inside and outside the organization. Leaders should frame those experiences as a valid source of ideas for enhancing the organization's work and culture. Even if employees champion ideas that are at odds with the company's profit goals, those ideas may still be worth pursuing if they help the organization achieve its mission or uphold its values.

Over the years, we have seen that learning from cultural differences is more likely to occur once the previous three actions are under way: Leaders have created trust, begun



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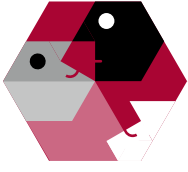
men. Women had a more difficult time building support networks inside their firm, had fewer mentors, and were neglected by high-status groups such as the firm's institutional sales force—an important source of industry information. And so, unlike men, women built their franchises on portable, external relationships with clients, companies, and the media. In addition, they forged unconventional in-house relationships with their firm's retail sales force—also an important source of industry information but a low-status group that male analysts typically ignored. Not only were women stars able to maintain their performance upon switching firms but, generally speaking, they outperformed their male peers over the nine-year period of the study. In short, women were not only different; they were better.

In a follow-up set of case studies, coauthored with Ashish Nanda and Laura Morgan Roberts, respectively, Groysberg showed how a Wall Street firm's research director leveraged

to dismantle systems of discrimination and subordination, and embraced a broad range of styles. Without such efforts, talking about differences happens (if it happens at all) only in reaction to diversity-related crises—when discussions tend to be fraught and people's capacity to learn is diminished.

An example of learning from gender diversity comes from Boris Groysberg's study of top-ranked research analysts on Wall Street. In exploring whether they take their star status with them when they switch firms, he found a fascinating sex difference: Unlike their male counterparts, whose performance worsened upon changing firms, women who made a move experienced no such performance drop. The reason, Groysberg concluded, was that women analysts faced sex discrimination, and so they had to do the job differently from

women's "difference" to everyone's advantage. He aggressively recruited talented women for the analyst role and then set out to create the conditions that would enable them to thrive, emphasizing team culture, allowing flexible work arrangements, and instituting systems that gave analysts regular, unbiased feedback to help them set personal improvement goals. Additionally, he encouraged people to develop their own style and voice. As one woman star in the firm noted, "We have always been given the freedom to be ourselves." Another said, "I never felt I had to pretend to be male to fit in here." Within three years this firm had the highest percentage of top-ranked women analysts of any firm on Wall Street and the lowest rate of female turnover. Furthermore, the research department moved in the rankings from 15th to first, and the



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unique approach that women had developed for building their franchises became the basis for training all the firm's analysts. What the research director figured out was that gender had given women analysts a unique set of experiences, and those, together with their resilience and ingenuity, led to new insights into how to do the job better.

We have also seen how the mere act of learning across employees' differences can have a positive impact, even when the content of the learning is unrelated to people's identities. The benefits are particularly strong when the differences have been historically fraught with tension. In a study of more than 400 retail bank branches in the northeastern United States, we, together with Irene Padavic of Florida State University, found that the more racially diverse the branch, the better its performance—but only for branches in which *all* employees, across all racial groups, experienced the environment as conducive to learning. Some of that learning definitely came from sharing cultural knowledge—for example, a white branch manager described how his Chinese coworker's explanations of norms in the Chinese community helped him better serve that segment of customers. But many of the branches' tasks were technical and unrelated to people's cultural backgrounds. In those cases, the benefit from diversity seemed to stem mainly from the process of learning—a process that involves taking risks and being unafraid to say “I don't know,” “I made a mistake,” or “I need help.” Showing such vulnerability across divisive lines of difference, such as race, and being met with acceptance rather than judgment or rejection, strengthens relationships. Stronger relationships in turn increase resilience in the face of conflict and other stressors. In short, for culturally diverse teams, the experience of learning across racial differences can, in and of itself, improve performance.

INEQUALITY IS BAD for both business and society. Organizations limit their capacity for innovation and continuous improvement unless all employees are full participants in the enterprise: fully seen, heard, developed, engaged—and rewarded accordingly. Moreover, such treatment can unleash enormous reserves of leadership potential too long suppressed by systems that perpetuate inequality.


When the only legitimate conversation about diversity is one that links it to economic gains, we tend to discount the

problem of inequality. In fact, studies have shown that making the economic case diminishes people's sense that equality is itself important, limits socially conscious investors' ability to promote it, and may even increase bias. Furthermore, focusing on financial benefits sends a message to traditionally underrepresented employees that they are worth hiring and investing in only because having “their kind” in the mix increases the firm's profitability.

Companies will not reap benefits from diversity unless they build a culture that insists on equality. Treating differences as a source of knowledge and connection lays the groundwork for such a culture. But as part of that process, firms may have to make financial investments that they won't recoup, at least in the short run, and more will be required of top leaders, managers, and rank-and-file employees alike. Everyone will have to learn how to actively listen to others' perspectives, have difficult conversations, refrain from blame and judgment, and solicit feedback about how their behaviors and company practices might be impeding the push for a culture that supports learning, equality, and mutual respect. Developing those capacities is no small feat in any context; it is even more challenging for people working across cultural identity differences. But teams that truly embrace the learning-and-effectiveness paradigm will come to understand that homogeneity isn't better; it's just easier. They'll realize, too, that the benefits of diversity arise as much from the collective work of developing those key capacities as from the collective learning they enable.

Finally, while there *is* a business case for diversity—one that rests on sound evidence, an expansive definition of what makes a business successful, and the presence of facilitating conditions—we are disturbed by the implication that there must be economic grounds to justify investing in people from underrepresented groups. Why should anyone need an economic rationale for affirming the agency and dignity of any group of human beings? We should make the necessary investment because doing so honors our own and others' humanity and gives our lives meaning. If company profits come at the price of our humanity, they are costing us too much. And if diversity initiatives fail to reckon with that trade-off, they will amount to little more than rearranging the deck chairs on a sinking ship. ☺

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