ADDING VALUE WITH DIVERSITY: WHAT BUSINESS LEADERS NEED TO KNOW

Research Sheds Light On Diversity and Performance, and the Skills of Leaders

Pamela Tudor
President, Tudor Consulting
www: tudorconsulting.net
Advisor, George Harvey Program on Redefining Diversity, Wharton School of the University of Pennsylvania

Pamela Tudor has 25 years of business experience as a leadership consultant and executive coach. She works with organizations seeking to develop inclusive environments and assists senior executives, managers, and their teams to navigate through significant changes, including culture change and marketplace challenges. Her goals are to help leaders grow professionally and personally, and to create sustainable results for the organizations in which they work.

Before forming Tudor Consulting, Pamela was a Senior Organizational Consultant at Right Management, focusing on change management, leadership consulting and strategy implementation. Prior to joining Right she founded and was President of a motivational events company in New York City that produced incentives and motivational events for organizations. After twelve years of building the company from a start-up to a thriving firm, Ms. Tudor sold her company to a star employee.

“In all affairs, it is a healthy thing now and then to hang a question mark on the things you have long taken for granted”. Bertrand Russell
ADDING VALUE WITH DIVERSITY: WHAT BUSINESS LEADERS NEED TO KNOW

By Pamela Tudor

Research Sheds Light On Diversity and Performance, and the Skills of Leaders

- Are you unsure if you can make the business case for a diversity strategy and convince skeptics that money invested in diversity initiatives will provide a good return on the investment?

- You know diversity is a good idea, but does serious diversity strategy and implementation get relegated to the back burner because of other pressing business needs?

Companies like Texaco, Coca Cola, and Morgan Stanley probably thought diversity was just a “good idea” too, until they got hit with lawsuits and much negative publicity. Millions of settlement dollars later, they clearly see the business case for managing diversity well and as a reaction have implemented strategic diversity initiatives.

Other companies, without having a huge lawsuit slapped on them, act on the knowledge that diversity provides fresh perspectives and that looking at problems from various frames of reference often produces insights. For example, Mexican manufacturer Cemex has implemented an “innovation board” that comprises a diverse mix of insiders and outsiders, understanding that innovation requires input from people with different skills, attitudes and life experiences.¹

Such questions and issues drove a major research project at the Wharton School of the University of Pennsylvania. Five years of solid, cumulative studies, conducted from 1998-2002 by a powerful team of management professors and researchers have yielded important information about how diversity affects team performance. The research shows that if diversity is well managed, it can enhance performance and the bottom line. If it is not well managed, it can be a drag on performance and adversely affect the bottom line. Additionally, there are important interconnections between types of diversity, conflict, work environment, business strategy and HR practices. This article presents the findings that leaders of diverse teams need to know, what they need to think about, and what they need to do.
Overview of the Research Project

The overall goal of the George Harvey Program on Redefining Diversity at the Wharton School was to collect and analyze hard data on diversity and its effects on performance. In 1998, when the Project began, results from previous diversity studies were mixed. Some showed the positive effects that diverse teams bring to solutions and performance. Other studies showed the negative effects of diversity on teams due to conflicts that arose from perceived differences. Because diversity studies had differing results, the researchers decided to look into types of diversity, types of conflict and different workgroup contexts in order to see which combinations created higher productivity and better results.

The research examined when, how and under what conditions diverse teams produce beneficial, quantifiable results. It also expanded the definitions of diversity and constructive conflict. Because so many organizations use team structures, the primary focus was on work teams. Over the course of five years, 18 studies were conducted to on diversity in teams and its relationship to increased or decreased performance.

Most of us recognize that with increased diversity there will be increased conflict. Generally, the more we are alike, the less the conflict, the more we differ, the greater the conflict. Wharton researchers studied this issue head on, and deconstructed types of diversity and types of conflict to see how these two interact when people work together in teams.

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

Researchers also focused on the interplay of organizational culture, business strategy and HR practices on diverse teams and how they relate to performance. From this and other research it appears that the context or

The DART TEAM:

Robert Holland, an economist whose illustrious career included a stint as a governor on the Federal Reserve Board, and who is currently a Senior Fellow of the SEI Center for Advanced Studies in Management at Wharton, led the George Harvey program. The Diversity Analysis Research Team (DART) included 11 management professors and researchers from the Wharton School, Penn State University, an economic consulting firm and a leadership institute. It also included two advisors: myself, a leadership consultant and diversity strategist, and a publisher of Next Step Magazine.
environment diverse teams work within is a significant factor in performance, along with HR practices and business strategies. Certain environments and business strategies enhance the effectiveness of diverse teams; others are not as conducive to diverse work teams. For those who presume greater diversity will lead to greater benefits regardless of team leadership, work group environment or organizational context, the bad news is that without creating a proper environment conducive to realizing the value in diversity, leaders and managers may be juggling a more diverse but no more productive workplace.

What follows, then, is a summary of what we have learned about diverse teams, conflict, work environment, business strategy, HR practices and team performance. This information has implications for leaders at all levels. At the end of this article strategies are recommended to guide those charged with leading diverse teams.

RESEARCH FINDINGS

Types of Diversity

Because the range of what we call diversity is so extensive, understanding what we mean by it is vital. The definition frequently used as a starting point is “a characteristic of a group that refers to differences of one sort or another among group members.”

Professor Karen Jehn of the Wharton Project saw early on that this definition of diversity was too general. For diversity research to be meaningful, it was useful to subdivide diversity into three categories:

1. Social category diversity: visible demographic characteristics such as age, sex, ethnicity and race. This is what most people think of when they say diversity.

2. Informational diversity: educational level, organizational tenure and work experience, expertise of the individual.

3. Goals and values diversity: team and company goals and underlying work values. Low values/goals diversity means values similarity, i.e., sharing the same work ethic, similar approaches to dealing with people, sharing the same team goals and objectives, interpretation of vision, etc.
It is important for leaders to have a good grasp of the types of diversity they are dealing with as they compose and lead their teams. The implications for this are enormous because knowing what you’re dealing with is a key to managing diversity well.

**Types of Conflict**

Now we go on to the second part of the interaction: conflict. Most of us are painfully aware that diversity often leads to conflict. When people with different cultural backgrounds and life experiences find themselves working together, clashes are bound to occur. However, there is “good” and “bad” conflict, just as there are clean and dirty fights. As with diversity, there are three types of conflict that affect the functioning and performance of teams. The research led by Karen Jehn confirmed that conflict arises with all three types of diversity.

1. *Relationship conflict*: disagreements and incompatibilities among team members, such as different communication styles, political views, and personality styles.

2. *Task conflict*: issues about the task being performed, such as current hiring strategies or what to include in an annual report.

3. *Process conflict*: logistical and delegation issues, such as how a task should proceed, who is responsible for what, or how something should be delegated.

Building on prior research, the early Project studies hypothesized the following:

- Informational diversity will increase task conflicts in teams.
- Social category diversity will increase relationship conflicts.
- Values diversity will increase all three types of conflicts.
- Values and social category diversity will decrease team morale.
- Informational diversity will increase team performance when tasks are complex rather than routine.
## Types of Conflict and Its Effect on Teams

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

### Findings: Conflict and Diverse Teams

The nature of a team’s diversity affects the type of conflict it might have, which in turn affects performance and morale. The way in which different types of diversity influence performance is not a simple story. Different forms of diversity exacerbate different forms of conflict, which in turn affects performance, satisfaction, intent to remain and commitment.\[^{vi}\]

1. A striking finding is the importance of values and goals diversity to both team performance and morale. It is diversity associated with values -- and not social category diversity—that causes the biggest problems in team performance and morale. Low values diversity (values similarity) has the greatest potential for enhancing performance and morale.
2. Teams with low diversity on values and goals have the least conflict of all. Closely aligned values reduce non-productive conflict and lessen the negative effects of social category diversity. For a team to be optimally effective, members should have high information diversity and low values and goals diversity. For teams to be willing to engage in the sometimes difficult processes necessary for innovation, members must have agreement around their values and goals.

3. Teams chosen primarily for social category diversity are more likely to have relationship conflict, at least initially. They have increased conflicts because people stereotype and interpret in a personal manner that is destructive. Yet, they also reported increased morale, probably because their diverse teams performed better, and they were more pleased with the group in which they were working. N.B. This research sheds light on the difficulty of measuring social category diversity. It’s hard to make predictions about its effects, because social category diversity may represent informational diversity, value diversity, neither, or both. Again, it is not a simple story.

4. Relationship conflict has negative effects on teams and often results in poorer performance.

5. Teams with informational diversity are better able to have constructive debates and conflicts around their task that **promote team performance**, as measured by **individual and team performance ratings, bonuses and stock options**. In other words, teams with informational diversity received higher bonuses or a greater number of stock options, indications of higher performance and presumably increased profitability.

6. Informational diversity is more likely to lead to improved performance when tasks are non-routine. Complex tasks are more likely to benefit from task-related debates, because they require problem solving. The quality of the discussion and debates needed to accomplish complex tasks depends on the availability of informational diversity.

7. Diverse (social category and informational) work teams develop more innovative solutions, but take longer to get there, at least initially. With diverse teams, members have newness and differences to deal with -- it takes a while to get to know one another and test the waters, not to mention all the conscious and unconscious baggage people bring with them regarding social category and informational diversity. It takes more time to work through some of this newness and difference. However, they are more effective than homogeneous teams.
8. Process conflict can improve performance slightly in instances where the right person is assigned to the right job, but mostly it operates like the less beneficial relationship conflict, because process issues revolve around people.

| One of the quantifiable benefits of well-managed diversity, as measured by some of these studies, is this: High informational diversity resulted in higher team performance ratings, higher bonuses and increased stock options. Companies profited from the higher performance of these teams, and rewarded them financially. |

The Later Findings: Organizational Culture, Business Strategy and HR Practices affect diverse teams’ performance

An interesting twist in the later studies of the DART group, confirmed by other studies as well,\(^\text{viii}\) is that the relationship between diversity and performance may depend on the organizational context in which the teams work.

**Effects of Organizational Culture and Business Strategies**

Research has backed up the hypothesis that diverse groups are more likely to have higher levels of performance in environments that emphasize a people-oriented culture (cultures that emphasize cooperation, sociability, empathy, good interpersonal relationships). In fact, members of educationally diverse groups were paid higher bonuses in departments that cultivated a people-oriented culture.

Another confirmed hypothesis is that educationally diverse groups perform better in group contexts that pursue a growth-oriented business strategy than in those that pursue a stability-oriented business strategy. Growth-oriented cultures are characterized by exploiting new product and market opportunities, focusing on innovation and flexibility, and supporting experimentation. Growth-oriented cultures need to embrace diversity as a resource to further fuel the creativity and innovation their groups depend on for success.

The research further shows that stability-oriented cultures, characterized by avoiding risk-taking and focusing on efficiency, specification and
centralization, do not embrace diversity. This allows them to better maintain the status quo and strive for peak efficiency.

We've seen this play out in these different work environments numerous times. Fast-moving high tech teams, for example, are more ready and able to utilize diverse teams and benefit from the task conflict/debate or discussion that might arise. Take a look at Apple's Ipod Engineering recruiting website: “Apple celebrates diverse experiences and backgrounds. By introducing new and innovative people to the Company, we incorporate their different perspectives and skills, and achieve our goal of making the best products on the market.”ix Apple, and companies like it, seek a diverse employee base, understanding that it contributes to innovation.

Now picture a work team in a large defense contractor organization or government agency. These organizations are stability oriented, products are specified in detail and in advance, and efficiency and going-by-the-book is valued over risk-taking. This context by its nature will not promote diversity. We see here the ingredients for an uncertain and perhaps ambivalent commitment to diversity. These kinds of organizations have to work very, very hard to attract and retain diverse employees. Issues such as groupthink and the possibility of questioning decisions reappear regularly in organizations like NASA and the FBI. The empathic outsider can see the kind of difficulties they are up against because of the nature of their stability-oriented culture.

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

Effects of HR Practices
Studies have also confirmed that diverse groups perform better in organizations that implement diversity-oriented HR practices. Diversity-oriented HR practices assert that diversity is a valuable asset to the organization, and send a clear signal supporting diversity. These practices deem that the organization values differences and that employees can leverage differences by expanding

These studies emphasize the importance of creating a flexible environment for teams with age, education and functional diversity, where they are given sufficient time to develop and embrace their innovative ideas. Over-emphasizing stability and high efficiency may interfere with group productivity.
the knowledge base from which the team works to enhance creativity and effectiveness.

Members of educationally diverse groups were generally awarded higher amounts of stock options in departments that implemented diversity-oriented HR practices.

Thus, organizational context seems to be a factor in the performance of diverse teams, and could explain the inconsistency of results on team diversity and performance in the research literature.

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

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

The DiversityInc Top 50 ranking has been held for five years, and is determined entirely by corporate responses to a 230-item questionnaire. Questions are lumped into four categories: human capital, CEO commitment, corporate communications and supplier diversity. There are multiple-choice questions, no open-ended or subjective responses are allowed.

What can we deduce from the Top 50? That companies that manage diversity well are well managed companies overall. That good diversity management is demonstrated by strong support from the CEO; diversity is integrated into every line of business; metrics are used to assess progress, and managers are held responsible. In other words, the context within which diverse teams operate is favorable to leverage the benefits of diversity for the organization.

**The Expanded, Nuanced Leadership Role**

Our US census predicts that by the year 2050, non-whites will be in the majority in this country. Today, diversity is a reality in both the workforce and the marketplace. It is also, for the most part, a societal value.
So what implications can be drawn from these studies for leaders of diverse teams? No doubt, readers of this article have varying degrees of insight and experience with diversity and its impact on performance. This research provides all of us with a thoughtful and practical toolbox to dip into, not a formula to use. Today’s leaders should have an entire toolbox at the ready and know its capacity and how to use it judiciously.

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

So with appreciation of the history, practices and nuances in individual organizations and in individual leaders, following are six specific and practical recommendations that can be added to the toolkit for leaders of diverse teams.

#1 Be attuned to issues of social category diversity and identity groups.
There is an identity group dynamic that goes on at work, so what can you do to be more attuned to social identity differences? Start by having a clear understanding of your own social identity -- how you respond to others and how others react to you. Some questions you might ask yourself: Of my different social identities, which is most central to my true self? Which of my social identities is a hot button, eliciting strong emotional responses from others? Can you think of a time when different social identities created tension, or triggered a conflict? Can you think of a situation in which social identity issues resulted in a positive outcome for your organization? What could you do in your current roles to be more attuned to social identity differences at work? x

#2 Keep refining and developing your own emotional and social intelligence.
Your attunement to issues of diversity can be developed by refining your emotional/social intelligence skills -- becoming ever more aware of your own strengths and weaknesses. As a leader, are you aware of your moods, and how you manage them?
Are you a leader who is highly focused on efficiency, procedures and routines? Is it possible that improving competitiveness and innovation might mean letting go of that emphasis and promoting another kind of work environment? Are you willing to look at your personal style and needs and make the appropriate changes for your diverse team to thrive?

This takes a reasonably high level of self-awareness and flexibility, hallmarks of social intelligence.

How aware of your flow of judgments are you, and how you say what you say, both verbally and non-verbally. Since approximately 80% of communications are non-verbal, being aware of your intonation, facial gestures and body language is very important. How can you become better at managing them well, especially when under pressure? How do you manage your concerns about meeting goals, work quality, team collaboration, etc.?

It is also crucial for leaders to be aware of how non-verbal cues vary by culture. Cultural signals, such as showing the sole of your foot, using your left hand, making the “OK” sign, and giving a weak handshake, have different significance in different cultures. It is imperative for leaders of diverse, global teams to be knowledgeable about these non-verbal cues, and be willing to learn about their effects. Emotional/Social intelligence competencies are not soft skills; these are competencies that the 21st century leader must have to lead her or his team.

#3 Focus on the diversity values of the team, early and often.
We have found that values similarity is critical for the productivity of diverse teams, and for reducing non-productive conflict. This means that taking the time up front to align your team on its vision and diversity values is a good investment - it provides the context for increased performance. Performance and productivity are affected by values alignment. This too is not a “soft” activity; it is effective leadership.

One company I know had a business unit of 4 disparate groups, connected under a cumbersome name that described only 2 of the groups. The group was diverse, complaining, (often to a third party outside of their group) and interpersonal conflicts were commonplace. They were neither efficient nor effective.

Their reputation and their work suffered. The leader saw the need to unify them by creating a vision and goals for the entire group, which they hammered out as a group. A year later, they have improved their functioning considerably, as demonstrated by: a) regular meeting of their leadership teams; b) requesting a name change for the department that is inclusive. After
much wrangling with Corporate, they succeeded and have a new, inclusive name for their group. Members report experiencing being ‘included’ and not ‘less than’, and most importantly, there is an increase in inter-group cooperation and innovation. They report to the Company at large on measurable savings to the Company, as they continue to make improvements on procedures and systems, for themselves and the North American division as a whole.

#4 Create a strong team identity or brand.
To get through the relationship and process conflicts, and be able to focus on the more productive task conflicts, team leaders need to continuously build the team’s identity and connection to the larger organization. Consider building a brand for your team that is a sub-brand of your organization’s, just as your company builds its external brand. Identifying with a positive team image such helps teammates get over a lot of bumps. It taps into the very human desire to live up to something greater than our individual selves.

What could your team’s brand be? What kind of identity do you want to have to help meet your goals? “A name you can rely on”; “Customer service, first and foremost” - these tag lines are a kind of shorthand identification that can be repeated, and demonstrated, until it becomes accepted and well known.

Once this is done, how do you cement accountabilities to give substance to the brand? Having to answer to one another and not a ‘higher power’ creates a shared sense of responsibility and teamwork.

Questions for the team: Are there consequences if a team member does not act accountably? Is it discussed with that person, or talked about behind that person’s back?

This of course relates to establishing and communicating values, as discussed in recommendation #3.

#5 Hone your skills at having tough conversations.
Leaders today cannot be conflict averse. Get the training you need, and do the personal work you need to do, to hold difficult conversations. See conflict as creative tension that can build positive results. Modeling the behavior of dealing with conflict is a leader’s task. As a leader, it is important to funnel the relationship conflicts into the more constructive task conflicts. Find ways to reward the channeling of relationship conflict into task conflict.

There is an Indian story about a young boy who came to his grandfather at the end of a school day, upset and angry. His grandfather saw the look on his face and asked what was wrong. The boy told a story of a fight he had at school and
asked his grandfather what to do. Grandfather said “I know how you feel son. Sometimes I felt that I have two hungry wolves fighting inside me. One is joyful, peaceful, loving, kind, compassionate, thoughtful and full of empathy. The other is angry, envious, greedy, arrogant and full of resentment.” The boy thought for a moment. “But grandfather, which one will win?” The grandfather looked him in the eye and said, “the one I feed.”

There are many trainings available in conflict management. But training alone is not sufficient. It must be embedded in a culture of mutual learning and respect for it to leverage the benefits of diversity. There are also trainings available in understanding group dynamics and processes. These too can help leaders to better manage their diverse teams. And they are most effective in an organizational context that values diversity.

#6 Focus on building organizational culture and human resource practices that are needed to translate diversity into positive results.
Ask yourself the following questions:
How can I help to implement management and practices that will further ingrain a culture of mutual learning and cooperation? How can I improve data collection and measurement in my organization on the relationship between diversity and business performance? What are the more nuanced data collections that are needed? What are the conditions in my organization that will improve performance for my diverse team?

Leaders and HR can partner to design experiments, interventions and evaluations for leveraging diversity. Experiment with HR practices that might work in your organization, given its culture and business strategy.

It is, after all, the leader’s task to orchestrate this symphony of diversity -- to help diverse teams get over the initial “diversity time lag”, channel the non-productive conflicts into productive ones, and ensure that a suitable work environment, business strategy and HR practices are in place for diverse teams. Leaders, critical in helping their organizations to gain or retain an edge in our multicultural 21st century, must take the time to learn and master the interrelationships and nuances of diversity, just as any good conductor leverages the talent of her/his players within the orchestra, and studies the musical score and the composer who wrote it.
Endnotes

4 Williams, Katherine and O’Reilly, Carles 1998 Demography and Diversity in Organizations. Research in Organizational Behavior. Vol. 20, Greenwich, CT; JAI PRESS
7 Ibid.
8 Kochan,T; Bezrukova etc
9 Ipod Engineering website, 2005.
10 Frankel, Barbara 2005. The Top 50 Built to Win: The Methodology DiversityInc

Bibliography


