

## 4.12: Benefits of Diversity

### Learning Objectives

- Discuss the benefits of a diverse workforce



UC Berkeley’s Greater Good Science Center’s (GGSC) definition of diversity captures not only that essential element of difference but why it matters. To quote: “‘diversity’ refers to both an obvious fact of human life—namely, that there are many different kinds of people—and the idea that this diversity drives cultural, economic, and social vitality and innovation.”<sup>[1]</sup> From a human resource management standpoint, it’s important to note that diversity benefits both the organization and individuals. GGSC cites research indicating that “individuals thrive when they are able to tolerate and embrace the diversity of the world.” Of course, the opposite is also true: intolerance undermines our well-being.

In the Executive Summary of their 2018 “Delivering through Diversity” report, McKinsey & Company consultants Vivian Hunt, Sara Prince, Sundiatu Dixon-Fyle and Lareina Yee observe that “While social justice, legal compliance, or maintaining industry-standard employee environment protocols is typically the initial impetus behind these efforts, many successful companies regard I&D [inclusion & diversity] as a source of competitive advantage, and specifically as a key enabler of growth.”<sup>[2]</sup> In this follow-up to prior research conducted in 2015, the authors found the business case for diversity and inclusion remains compelling. Specific findings:<sup>[3]</sup>

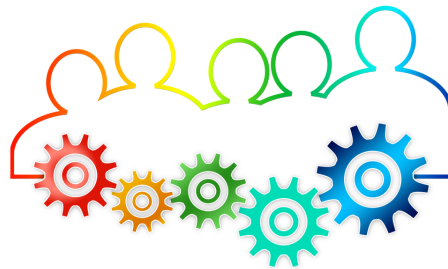
- **Diversity drives business performance.** There is a “statistically significant correlation between a more diverse leadership team and financial outperformance.”
- **Executive diversity (gender++) matters.** “Companies in the top-quartile for gender diversity on executive teams were 21% more likely to outperform on profitability and 27% more likely to have superior value creation.” The authors note that the connection between executive diversity and performance isn’t limited to gender. “Companies in the top-quartile for ethnic/cultural diversity on executive teams were 33% more likely to have industry-leading profitability.” The authors conclude that executive diversity in “the myriad ways in which diversity exists beyond gender (e.g., LGBTQ+, age/generation, international experience) can be a key differentiator among companies.”<sup>f</sup>
- **Lack of diversity impairs business results.** As the authors phrase it, “There is a penalty for opting out [of diversity].” Specifically, “companies in the bottom quartile for both gender and ethnic/cultural diversity were 29% less likely to achieve above-average profitability than were all other companies in our data set.”

For human resource management, in particular, it’s important to understand what’s driving higher performance.

### Practice Question

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The authors believe that the positive relationship between I&D and performance is due to the fact that “more diverse companies are better able to attract top talent; to improve their customer orientation, employee satisfaction, and decision making; and to secure their license to operate.” To expand on those findings, here are seven benefits drawn from Hult International Business School’s blog:<sup>[4]</sup>

1. Greater creativity and innovation—diversity of thought—for example, different experiences, perspectives and cognitive styles—can stimulate creativity and drive innovation. Hult blogger Katie Reynolds notes that “cosmetic giant L’Oréal attributes much of its impressive success in emerging markets to its multicultural product development teams.” The *Harvard Business Review* article she references, “[L’Oréal Masters Multiculturalism](#),” is a recommended read for any student interested in international business.

2. Improved competitive positioning—"local knowledge"—everything from local laws and customs to connections, language and cultural fluency—can increase the probability of success when entering a new country or region.
3. Improved marketing effectiveness—having an understanding of the nuances of culture and language is a prerequisite for developing appropriate products and marketing materials. The list of gaffes is endless...and the financial and brand impact of errors can be significant, from a line of Nike Air shoes that were perceived to be disrespectful of Allah to the poor Chinese translation of KFC's "Finger lickin' good" tagline: "so tasty, you'll eat your fingers off!"
4. Improved talent acquisition & retention—this is particularly critical in a competitive job market: embracing diversity not only increases the talent pool, it improves candidate attraction and retention. A Glassdoor survey found that 67% of job seekers indicated that diversity was an important factor when evaluating companies and job offers. Reynolds also cites HR.com research that indicates diversity, including diversity of gender, religion, and ethnicity, improves retention.
5. Increased organizational adaptability—hiring individuals with a broader base of skills and experience and cognitive styles will likely be more effective in developing new products and services, supporting a diverse client base and will allow an organization to anticipate and leverage market and socio-cultural or political developments/opportunities.
6. Greater productivity—research has shown that the range of experience, expertise and cognitive styles that are implicit in a diverse workforce improve complex problem-solving, innovation and productivity. Additional benefit: responsiveness—A study conducted in Australia found that "when diversity is recognised and employees feel included they have a better responsiveness to changing customer needs."<sup>[5]</sup>
7. Greater personal and professional growth—learning to working across and leverage differences can be an enriching experience and an opportunity to build a diverse network and develop a range of high-value soft skills including communication, empathy, collaborative problem-solving and multicultural awareness. To that point, GGSC reports that a study published in Psychological Science found that "social and emotional intelligence rises as we interact with more kinds of people."<sup>[6]</sup>

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1. "Diversity Defined: What is Diversity?" *Greater Good Magazine*. Accessed September 14, 2019. ↵
  2. Hunt, Vivian, Sara Prince, Sundiatu Dixon-Fyle, and Lareina Yee. "Delivering Through Diversity." McKinsey & Company. January 2018. Accessed September 14, 2019. ↵
  3. Ibid. ↵
  4. Reynolds, Katie. "13 benefits and Challenges of Cultural Diversity in the Workplace." Hult International Business School. February 2019. Accessed September 14, 2019. ↵
  5. Grey, Justin. "Study Finds Diverse, Inclusive Workplaces More Productive." MyBusiness. January 21, 2013. Accessed September 14, 2019. ↵
  6. "Diversity Defined: Why Practice It?" *Greater Good Magazine*. Accessed September 14, 2019. ↵

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