

# The Challenge of Managing Diversity

As we enter the twenty-first century, human capital has taken center stage in the business strategies of enlightened organizations. Attracting, retaining, and effectively using people are increasingly the top priorities of leaders in all kinds of organizations, from high-tech firms to universities, from government agencies to heavy manufacturing firms. In the United States a very tight labor market has intensified the focus on leveraging human capital in recent years. Compounding the challenges posed by more jobs chasing fewer people are additional challenges posed by the increasing diversity of people with the skills to do the work those jobs require.

Consider, for example, the case of gender diversity. In the 1950s three of every four college degrees in the United States went to men; in recent years the majority (around 54 percent) of college graduates have been women. Similarly, in 1971 U.S. women earned fewer than 4 percent of all graduate-level business management degrees; by the early 1990s this figure had multiplied more than sevenfold to around 30 percent. In hot technical fields like engineering, the rates of increase in the participation of women have been even greater.

The shift of worker identity is not limited to gender. Fueled by a variety of factors, including differential birth rates, work groups are increasingly diverse in terms of race and national origin.<sup>1</sup> In addition, more and more organizations are reorganizing work so that it is performed by teams composed of people from different organizational levels and work specializations.

These trends and others, such as increases in the number of working mothers and dual-career couples, make managing diversity a critical competency for today's organizations. Although forward-thinking executives have acknowledged the importance of an effective response to these trends for years, many are finding that the challenges of diversity are not easily met. After more than a decade of work following the clarion calls spawned by the Workforce 2000 report of the Hudson Institute in 1987,<sup>2</sup> many organizations are finding that the goal of creating a multicultural work culture that both welcomes and leverages diversity remains elusive.

This book tells the story of my experience with developing and implementing a process of organizational change for improving the climate for diversity. I do not claim to have all the answers; nor do I claim that the organizations I will discuss as examples have arrived at some final stage of diversity inclusiveness. The work is producing such promising results, however, that it is timely to share what I have learned with others who are embarked on this kind of transformational change.

I am speaking here to those who have responsibility for planning and implementing efforts to manage diversity. Ultimately, this includes all members of an organization, but I especially want to address *recognized leaders* of efforts to manage diversity, from CEOs to members of diversity task forces and steering teams, line managers, and HR professionals. Whatever your level of responsibility, my goal is to help you and your organization meet the challenges of diversity faster and do it more effectively.

Following this introductory chapter, the book is organized as a straightforward presentation of an approach to organizational change. Chapter Two explains the change model and why I believe it has high potential to help organizations. The remaining chapters give details on each aspect of the process, including tips for successful application and warnings of pitfalls to avoid. I conclude with thoughts about the future and words of encouragement for you to join the continuing quest for better knowledge and achievement.

### ■ Defining Diversity

The term *diversity* has many interpretations. I believe it is neither so broad as to mean *any* difference between people nor so narrow as to be limited to differences of gender and race. Diversity is not another name for affirmative action, nor a name for nontraditional or “minority group” members of organizations, nor a synonym for EEO (equal employment opportunity). Rather, I define diversity as follows:

Diversity is the variation of social and  
cultural identities among people existing together  
in a defined employment or market setting.

In this definition the phrase *social and cultural identity* refers to the personal affiliations with groups that research has shown to have significant influence on people's major life experiences. These affiliations include gender, race, national origin, religion, age cohort, and work specialization, among others. *Employment and market systems* include churches, schools, factory work teams, industrial customers, end-use consumers, baseball teams, military units, and so on. The geographic scope of the employment-market settings includes local, regional, national, and global settings.

As a characteristic of work groups, diversity creates challenges and opportunities that are not present in homogeneous work groups. By *managing diversity* I mean understanding its effects and implementing behaviors, work practices, and policies that respond to them in an effective way.

### ■ Problems and Opportunities of Diversity

Although the existence of diversity in the workforce is now widely recognized in organizations throughout the world, it is too often viewed only in terms of legal compliance and human rights protection. In reality the implications of diversity are much more demanding and much more interesting. Increasing diversity presents a double-edged sword; hence the challenge of managing diversity is to create conditions that *minimize* its potential to be a performance barrier while *maximizing* its potential to enhance organizational performance.

#### **Diversity as a Potential Performance Barrier**

Theory and research indicate that the presence of diversity in an organization or work group can create obstacles to high performance for several reasons. To begin, diversity can reduce the

effectiveness of communication and increase conflict among workers. Compared to more homogeneous work groups, workers in diverse work groups may also experience lower levels of social attraction and display lower levels of commitment to the group. In addition, diversity-related effects such as identity harassment and discrimination behaviors can increase organizations' costs.<sup>3</sup>

As leaders and managers, we may respond to diversity's potential for reducing performance in multiple ways. One is to simply avoid diversity. For example, in his list of eight possible strategies for responding to diversity in organizations, Roosevelt Thomas includes the exclusion of diversity as one option.<sup>4</sup> However, for most organizations, this approach is not only suboptimal—it is not feasible. The reality is that increasing diversity is not a choice but a fact of life. Given this inevitability, one important question becomes, How can organizations increase in cultural diversity without suffering significant adverse effects on performance? Answering this question is one of my goals for this book.

### **Diversity as Value-Added Activity**

The other side of the double-edged sword is that managing diversity well can improve the performance of organizations on a variety of criteria.

First and foremost in the minds of many executives I work with is the criterion of implementing the values of fairness and respect for all people. These values are ubiquitous in formal statements of policy in organizations throughout the world. Too often, however, they are just words on laminated cards that draw snickers from the workforce because they have no real substance. These values will never be anything but meaningless platitudes unless the organization has an effective and ongoing strategy for managing diversity.

Because the achievement of all core values is a key part of the mission of organizations, making fairness and respect for all people a reality is a part of business strategy in its own right, independent of the linkage of these ideals to financial performance. This is an important principle to which I will return at various points in this book.

In addition to fulfilling organizational values, well-managed diversity can add value to an organization by (1) improving problem solving, (2) increasing creativity and innovation, (3) increasing organizational flexibility, (4) improving the quality of personnel through better recruitment and retention, and (5) improving marketing strategies, especially for organizations that sell products or services to end users. If you are involved in organizational change work related to diversity, your work will be greatly helped by an in-depth understanding of these arguments for why diversity is a potential value-added resource. With this in mind, let's explore these connections in more detail.

### *Problem Solving*

First, diversity in work groups can increase revenues through improved problem solving and decision making. Diverse groups have a broader and richer base of experience from which to approach a problem. In addition, diversity enhances critical analysis in decision-making groups. In a series of research studies, Charlene Nemeth found that groups subjected to minority views were better at critically analyzing decision issues and alternatives than those that were not. The presence of minority views improved the quality of the decision-making process, regardless of whether or not the minority view ultimately prevailed. Although Nemeth was studying the effects of minority opinions and not differences of social or cultural group identity per se, the fact that members of minority identity groups often hold different worldviews from majority group members makes this research relevant to diversity in work groups.<sup>5</sup>

The prospective benefits of diversity in problem solving do not necessarily happen by simply mixing people together who are culturally different. Research also suggests that the effect of diversity on the quality of problem solving depends greatly on the extent to which the diversity is proactively managed. In one of the classic studies of this type, Harry Triandis and his colleagues compared the problem-solving scores of homogeneous groups with those of two types of more diverse groups: (1) diverse with training and (2) diverse without training. They found that the diverse groups that were not trained on the existence and implications of their differences actually produced lower problem-solving scores than the homogeneous groups. In contrast, the diverse groups that were trained produced scores that averaged six times higher than those of the homogeneous groups. A similar result was found in some recent research on diversity of ethnicity and national origin.<sup>6</sup> This research suggests that beyond simply diversifying the workforce, organizations need to manage diversity proactively in order to reap its potential benefits for better problem solving.

#### *Creativity and Innovation*

Creativity and innovation can enhance virtually all organizational activities. Process improvement, advertising, product design, and quality improvement are examples of organizational activities for which creativity and innovation are especially vital. If there is evidence suggesting that diversity in work teams promotes creativity and innovation, then diversity is a potential resource to improve these important organizational activities. I will cite a few examples of such evidence.

In her 1983 book *The Change Masters* (Simon & Schuster), Rosabeth Moss Kanter notes that high levels of innovation occur in companies that

- Have done a better job of eradicating racism, sexism, and classism

- Tend to have workforces that are more diverse with respect to race and gender
- Are more deliberate than less innovative companies in taking steps to create heterogeneous work teams

In a similar vein, research on educational institutions in the late 1970s shows that the most innovative schools are also the most tolerant of diversity.<sup>7</sup> My own research comparing ethnically diverse teams to all-Anglo teams doing a marketing task shows that the diverse teams outperformed the homogeneous ones by about 10 percent.<sup>8</sup>

#### *Organizational Flexibility*

The existence of diversity and the adaptations organizations make to accommodate it should lead to greater flexibility. One way that diversity can make organizations more flexible is through changes in the patterns of employees' cognitive structures, that is, their typical ways of organizing and responding to information. For example, there is some evidence that women tend to have more tolerance for ambiguity than men—a quality that has been linked to both higher levels of cognitive complexity and the ability to perform ambiguous tasks.<sup>9</sup> Similarly, studies on bilingual and monolingual cultural groups in various nations have shown that bilingual individuals tend to have higher levels of cognitive flexibility and of divergent thinking than monolinguals. Because diversifying the workforce increases the presence of people who speak two or more languages, it indirectly increases flexibility of thought.<sup>10</sup>

The responses an organization makes to diversity can also lead to greater flexibility as a kind of by-product. For example, broadening policies and reducing standardization tend to make the organization more fluid and adaptable. This increased fluidity should allow the organization to respond to environmental

changes faster and at lower cost. Although this line of reasoning is somewhat speculative and not based on research, the logic seems compelling.

### *Human Talent*

Given today's increasingly diverse labor market, organizations that are best at attracting, retaining, and using the skills of diverse workers will enjoy a competitive advantage. To illustrate this point, consider the analogy of making a fruit salad for some very important guests. Assume that you are selecting fifty pieces of fruit from five categories: apples, oranges, pears, strawberries, and peaches. In each category there is a full range of quality to select from but a limited number of pieces available. You naturally want the finest pieces so that the salad will be superb. If you select only one type of fruit—let's say apples—the range of quality will be 1–50. As the available amount of fruit is limited, some of the fruit will be of mediocre quality. However, if you select only the ten best pieces of fruit from each of the five categories, the salad will be much better.

Labor markets operate similarly, particularly when the rate of unemployment is low. Organizations that are effective at attracting, retaining, and using people from only one or two social-cultural groups will be at a disadvantage compared to those that are equally effective with people from a variety of backgrounds. This is a quality issue because the capabilities of employed people are a major raw material in all organizations. When the average quality of this crucial input falls, we can expect one of two consequences: (1) either we work harder to get the same outputs as competitors who have a higher average quality of inputs or (2) we accept lower levels of outputs. This is exactly what is happening today, but these effects are often masked by the complexity of factors that affect the ultimate performance indicators of organizations.

### *Marketing Strategy*

An important consequence of the rising globalization of business is that consumer markets, like the workplace, are becoming increasingly diverse. An automobile manufacturer in Japan cannot afford to ignore the fact that nearly half of all new-car buyers in the United States are women, regardless of the gender composition of car buyers in Japan. Likewise, no reasonable person in the consumer goods industry can afford to ignore the fact that roughly a quarter of the world's population is Chinese or that immigration to the United States from mostly Asian and Latin American countries is occurring at the rate of more than one million people per year. In the United States, Asians, blacks, and Hispanics now collectively represent nearly \$500 billion annually in consumer spending. Because research on consumer behavior has consistently shown that sociocultural identities affect buying behavior, marketing success will depend, to some degree, on the ability of companies to understand and respond effectively to the cultural nuances of the diverse marketplace.<sup>11</sup>

A well-used, diverse workforce can facilitate selling goods and services in the increasingly diverse marketplace in several ways. First, there is a public relations value in being identified as an organization that manages diversity well. Second, marketing efforts may gain from the insights of employees from various cultural backgrounds who can assist organizations in understanding cultural effects on buying decisions and in mapping strategies to respond to them. Third, broadly representative employees can help create strategies to enhance customer relations when working with people from a diversity of cultural backgrounds.

This brief review of some of the pertinent research makes the point that managing diversity well can lead to better results on a variety of performance dimensions. Achieving these results, however, requires that organizations manage the complex challenges of diversity far more effectively than most firms have

been able to. Why past efforts have often fallen short is the subject of the next section.

### ■ Why Past Efforts Have Failed

Although recognition of the potential problems and benefits of diversity has increased in recent years, many organizations have been disappointed with the results they have achieved in their efforts to meet the diversity challenge. A case in point is Alcoa Inc. When I was asked in December of 1996 to begin working with Alcoa's corporate diversity committee, the message to me went something like this:

We have been working on improving our company to include and utilize the full skills of people who are different from our traditional workforce for many years, but despite what seems to us like a lot of effort, we still have a workforce that is dominated by white, U.S.-born men, and our progress in moving people of other backgrounds into top positions in the company has been very slow. In addition, we continue to get feedback from the workforce, including some of our highest-ranking women and nonwhite men, that the company is not very hospitable to people who come from different social and cultural backgrounds than our traditional workforce. What are we doing wrong? How can we move this to another level of accomplishment?

Does this sound familiar to you? If it does, I am not surprised because my contacts with hundreds of managers from dozens of companies in recent years tell me that Alcoa is far from alone in its frustration about less-than-hoped-for results on diversity goals.

I have learned that there are three main reasons why many past efforts have been disappointing: (1) misdiagnosis of the problem, (2) wrong solution (that is, failure to use a systemic approach), and (3) failure to understand the shape of the learning curve for leveraging diversity work.

The lessons I have learned about achieving breakthrough results in managing diversity will be presented in the upcoming chapters. To set the stage for those discussions, let's briefly examine these three sources of past failures.

### **Misdiagnosis of the Problem**

The root cause of many failures to manage and leverage diversity is a misdiagnosis of the problem. The problem posed by diversity is not simply that there are not enough people of certain social-cultural identity groups in the organization. Nor is it primarily one of making insensitive people more aware that identity matters, although this is certainly a part of what needs to happen. Bigoted and insensitive people do exist, and they are a significant barrier to the presence of diversity and to realization of its benefits, but this is a very superficial diagnosis of the problem. The more significant problem is that *most employers have an organizational culture that is somewhere between toxic and deadly when it comes to handling diversity*. The result is that the presence of real diversity is unsustainable as a characteristic of the organization.

Let me say more about what I mean by *real* diversity. Research has shown that differences of social-cultural identity such as gender, national origin, race, and work specialization represent real differences in *culture*. These group identities should therefore be regarded as micro-culture groups.<sup>12</sup> Organizations, however, tend to hire people who are perceived as fitting the existing culture of their firm. Moreover, because many organizations deal with cultural differences by exerting strong pressure on new employees to assimilate to existing organizational norms (acculturation by assimilation), real differences tend to diminish over time.<sup>13</sup> Due to the pressure to conform, members who have high cultural distance from prevailing norms of the work culture tend to either leave the organization or modify their thinking—

and their behavior—to achieve acceptance. The result is that apparent differences of cultural groups, such as an increasing presence of women, may represent only small differences in worldviews.

The presence of a diversity-toxic culture is the ultimate cause of the failure of organizations to successfully embrace diversity in its members. Once you identify the problem in this way, you are more likely to avoid the other two main reasons for past failures to manage and leverage diversity.

### **Wrong Approach**

The second major reason for past failure to manage diversity effectively is the selection of the wrong approach to meeting the challenge of diversity. This mistake follows directly from the failure to accurately diagnose the problem. In the typical case, the problem diagnosis is limited to “insufficient diversity,” and the solution consequently focuses on changing inputs to the system. This involves such actions as creating multifunctional and cross-level work teams, placing foreign nationals on the board and in key developmental assignments in the host country, and recruiting more women and racial-minority men. There is no question that this change in the composition of human inputs is an important step toward changing the culture, especially if the changes include positions of high decision-making authority. However, this is only one element of the system. Systems theory tells us that the elements of a system are highly interdependent so that change in one element requires adjustments in all the others if the system is to function effectively (and, I would add, if the new elements are to survive and prosper).<sup>14</sup> Unfortunately, the approach of new inputs has usually not been accompanied by corresponding changes in the other elements of the system. The result is a predictable suboptimization or even outright failure of the change effort.



Here is a simple example to illustrate what I mean. Recruiting is an element of the organizational system that has received great emphasis in past efforts to manage diversity. A typical scenario in the United States is that the organization makes an effort to hire more racial minorities and women for management and professional jobs. However, as the hiring criteria remain otherwise unchanged, the organization continues to hire and promote people who have a low tolerance for working with women and racial-minority men. The result is that the cultural minority hires encounter unnecessary barriers to contribution that at best are overcome with extra effort and at worst lead to turnover or subpar job performance. Extend this logic to other system elements, such as employee development, performance appraisal, compensation, mentoring, and so on, and you can begin to see the startling implications.

What organizations need, therefore, is an approach to change that aggressively pursues the deliberate and knowledgeable alignment of all other elements in the system with the changes in human inputs. This concept of *systems alignment* will be illustrated throughout the book and is especially prominent in Chapter Six.

### **Misunderstanding of the Learning Curve**

The third major reason for past failures is misunderstanding the shape of the learning curve for leveraging diversity. Here I use the term *learning curve* in a broad sense to capture the development of the organization and its members toward competence to welcome and use diversity as a resource. Leaders often act as though the learning curve is steep, with the achievement of a high level of competence occurring after only a few months or a year of concerted effort. On the contrary, I have found that the learning curve on diversity work is much flatter, requiring years of conscientious effort to achieve a high level of proficiency. For

example, at the time of this writing, my work with Alcoa is entering its fifth year, and yet there is general agreement that many areas of the company are still in the early stages of the curve.

When leaders make the mistake of acting as though a flat learning curve is steep, their behavior becomes dysfunctional. They become impatient about seeing results, tend to shift their focus to other things, and prematurely withdraw attention to the process being used to create change. All of these responses are deadly to the prospect of creating real, sustainable change.

This point highlights once again how important it is to diagnose the problem accurately. Misdiagnosis leads to the wrong approach for action and the wrong timetable for seeing results. In addition, I challenge you to be sincere about what you are doing when you tackle the challenges of diversity. Leaders often say they understand that creating a welcoming climate for diversity is a culture change and requires years of intense effort, but their actions contradict their words. For instance, if after just one year of work, progress on diversity is no longer a topic of significant discussion when business plans are reviewed, this sends the wrong message about priorities and suggests a naïve notion of what it takes to institutionalize diversity competency.

Of course, meeting the challenges of diversity involves more than correctly diagnosing the problem and having the will and determination for long-term commitment to the effort. Those who lead this change work must know how to go about the process of changing the organizational culture. The next chapter presents a model to meet this need that is already producing measurable results.

#### **CHAPTER SUMMARY**

Even though theory and research suggest that diversity can be a resource to enhance organizational performance, there is a crucial distinction between merely having diversity in the workforce and developing the organizational capacity to leverage diversity as a resource. The challenge of



diversity is not simply to have it but to create conditions in which its potential to be a performance barrier is minimized and its potential to enhance performance is maximized.

The challenge can be simply stated, but sustaining an effective response is complex and difficult. Past efforts have often fallen short for three main reasons: (1) failure to recognize that the central problem is the presence of a diversity-toxic organizational culture, (2) a consequent failure to take a systems approach to meeting the challenge of diversity, and (3) the mistake of thinking that the learning curve is steep rather than flat. Avoiding these shortcomings and achieving better results is a formidable task. Nevertheless the stakes are high, especially in countries like the United States that feature high levels of cultural diversity, a democratic political tradition, and legal and value systems that place great emphasis on fairness, respect, and equal opportunity. How organizations can effectively meet the challenges of diversity is the subject of the remainder of the book.

### **Questions for Further Learning and Development**

1. What is wrong with this statement: "I have a diversity person for you to consider for your general manager job"?
2. Can the term *diversity* be defined too broadly? Why or why not?
3. Which of the arguments presented in the chapter on why managing diversity is a high priority for organizations apply to your organization? Which is the single most compelling argument?
4. If you have been involved in managing diversity efforts in the past, have the results met your expectations? If not, do any of the three most frequent reasons for failure cited in the chapter apply?
5. What steps can you take, alone or with the support of others, to reduce or prevent the three most frequent causes of failure cited in the chapter from blocking your efforts to manage diversity effectively?