Diversity in Organizations:

Tangible Impacts of Multiculturalism on Aspects of Organizational Performance

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The following research investigates the question, if multiculturalism and diversity benefits often presumed to increase organizational creativity, critical thinking, and problem-solving capabilities can be unanimously substantiated and quantified within the context of typical business-oriented organizational performance indicators, such as sales-to-goal achievement, new customer acquisition, diversification, and return on capital. The article first outlines the psychological underpinnings of multicultural diversity integration, and then discusses the prevalent conflict of positions in current scientific literature on its positive and negative effects on organizational performance. Only one study was found to indirectly relate quantifiable economic outcomes to positive or negative effects of multiculturalism and diversity. It is therefore concluded that, any performance effects predominantly consist in an organization’s improved cognitive and psychological functioning, and that the qualitative direction of both positive and negative effects greatly depends on the organizational and industrial contexts, strategy, corporate culture, and resultant human resource policies.
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Diversity in Organizations

Merriam Webster (2010) defines diversity as the inclusion of a variety of individuals differing in race, gender, or culture in a group or organization. Variety constitutes some inherent degree of uniqueness; a noticeable difference from others, which allows for new, potentially unconventional problem evaluation, constructive disagreement, and the deriving of new solutions and approaches to persistent challenges. Herein lies diversities greatest strength, as it closely resembles Porter’s (1985) definition of an organization’s competitive advantage; namely, a product or organizational attribute that is unique, defendable over time, and important in the eyes of external stakeholders of a firm’s relevant market. Diversity, therefore, can become the engine behind creativity, allowing new voices to be heard, and thereby increasing an organization’s critical thinking capabilities, as well overall job satisfaction and commitment.

While most organizations will acknowledge the importance of diversity in business considerations, the full potential of a diverse workforce appears to have not yet been leveraged and exploited. Such suboptimal utilization may stem from organization’s general level of uncertainty of how to best quantify diversity-related advantages within the context of typical business-oriented key performance indicators, such as ROI, employee turnover, level of innovation and product development, etc. The following pages will therefore investigate personnel psychology’s scientific position on the existence and type of quantifiable effects of diversity on organizational performance. Beginning with an outline of the psychological underpinnings of multicultural diversity integration, the article will discuss the prevalent conflict
of positions in current literature on the positive and negative effects relative to performance, and concludes with a quintessential cost-benefit analysis.

**Diversity and Multicultural Issues in Organizations**

Cultural diversity describes a social system comprising people with distinctly different group affiliations of cultural significance (Amaram, 2007). In organizations, such multiculturalism is often approached by conveying the expectation - either openly or implied - of minority culture members to adapt to the cultural requirements of the majority group (p. 1). Depending on the psychological readiness and self-concept of culturally diverse employees, such acculturation process can be productive or unproductive, as well as quick or drawn-out, thus have a noticeable impact on overall organizational performance on both an individual and group level.

*Psychological Concepts Affecting Diversity Outcomes*

Kochan and colleagues (2002) found that, the predominant psychological concepts behind diversity initiatives revolve around two main principles. The first centers on recognizing, understanding, and overcoming in-group-out-group dynamics, while the second aims to improve attribution and the resulting attitudinal-behavioral linkages of the majority group. According to the authors, workplace related in-group-out-group dynamics occur whenever the cohesion of an existing group is challenged by the arrival of some type of foreign, outside influence. For example, due to culturally-oriented physical, cognitive-emotional, or behavioral traits, an Asian manager joining a predominantly Caucasian workgroup may be perceived as different or non-
equivalent by members of the majority group. With possibly only limited exposure to diverse employees and their individual idiosyncrasies, majority group members may trust in, and provide more attention to their in-kind colleagues, which thus forms the in-group. Such dynamics carry the high potential for discrimination and suboptimal utilization of group member’s diverse knowledge, skills, and abilities (Tesluk & Mathieu, 1999). Especially when joining previously established groups, out-group members may never have a fair chance to demonstrate how significantly they could contribute, thus cannot establish sufficient mutual trust necessary for productive cooperation. This lack of trust may lead to either underutilization or micromanagement of the out-group members, or a substantial overutilization of in-group members, which may cause feelings of increased burn-out. As a result, productivity and performance may actually suffer in both in- and out-groups.

Attribution and resulting attitudinal-behavioral linkages reflect the second psychological concept grounding diversity initiatives. According to Kassin, Fein, and Marcus (2008) attribution describes the process of how individuals perceive their environment. While in the first step of personal attribution perceptions of others originate from the premise that individuals are completely responsible and in control of an action, the second step of situational attribution moderates such perception by taking into account environmental factors leading or contributing to a behavior. For example, the Asian manager might display self-effacing behaviors when dealing with the group leader, as is dictated by his or her cultural heritage. However, Western cultural, and more individualistically-oriented group members may perceive this as a sign of inferiority, and lack of critical thinking skills (i.e. personal attribution), instead of connecting such behavior with its cultural implications (i.e. situational attribution). Accepting diversity in
the workplace thus relies on the cognitive effort of the majority group to perform both attribution steps in order to avoid stereotyping or even overt or aversive discrimination.

Managing Multiculturalism and Diversity

In order to take full advantage of possibly existing positive effects on business performance, organizations need to develop and implement effective strategies to managing multicultural diversity. Dass and Parker (1999) outline the three most common strategic responses; each of them ultimately rooted in the particular organizational culture and the resultant values, beliefs, and behavior. Specifically, the strategies comprise defensive, reactive, and proactive approaches centering on resistant maintenance behaviors, - i.e. an open or underlying resistance to diversity, which considers any incongruence to the majority group as a threat to the status quo -; forced legal compliance with EEOC guidelines without applying culturally-rooted experiences, knowledge, and talents of diverse employees; and systemic integration, which focuses on proactively driving innovative pluralism throughout all processes within an organization. Each of these strategies consequently spawns different types of interventions geared towards diversity management. As the authors found, episodic interventions tailored to multicultural integration produced negative performance effects resulting in higher employee turnover, capacity shortages, and dysfunctional conflict (p. 72). Sustainable positive effects of multicultural diversity may therefore only be found in those organizations committed to a structural and cultural learning and transformation process spanning across a company’s value chain.
Diversity and Multicultural Effects on Organizational Performance

When researching the relationship of multicultural diversity on organizational performance, Richard, Barnett, Dwyer, and Chadwick (2004) found a U-shaped, parabolic connection between both variables. More specifically, any impact of cultural diversity on performance depended on the level of group heterogeneity. This suggests that, a moderately heterogeneous group primarily produces in-group-out-group dynamics, thus experiences reduced creativity and increased risk-intolerance. In turn, a highly heterogeneous group benefits significantly from multicultural influences, especially when these influences are connected to a common set of values and beliefs (i.e. a common group culture) congruent with overall organizational performance. Based on such relationship it could be concluded that cultural influences on performance are influenced by the level of diversity within a management group, and the industrial-organizational context (i.e. first-to-market focused versus adaptive-reactive orientation) in which the group operates.

Operational Selection of Factors Influencing Organizational Performance

Before any diversity or multicultural effects on organizations can be investigated, a delimited construct of factors influencing organizational performance will first need to be established and defined. As Robinson and Dechant (1997) state, organizational performance is directly related to team and subsequently to individual performance, as the sum of both ultimately defines the long-term financial standing and operational success. Therefore, any organizational performance measures selected to showcase tangible effects of diversity need to
encompass current and leading performance dimensions that consider individual and group-based parameters in areas of financial achievements, cognitive-creative capabilities, and interpersonal work behaviors. As such, the indicators of return on equity, creativity, and innovation in product development, and group decision-making and cohesion were selected to determine the impact of a culturally-diverse workforce. Each of these indicators will be analyzed next.

*Effects on Financial Key Performance Indicators*

Wright, Ferris, Hiller, and Kroll (1995) compared companies with exemplary diversity-management to those that had to pay legal damages to settle discrimination lawsuits. The researchers provide the only study found to-date to quantitatively measure multicultural and diversity benefits within the context of equity value and financial organizational performance. Their results show the exemplary firms performing better in net worth as measured by their stock prices. Such findings might thus suggest a correlation between successful, long-term diversity integration and competitive advantages.

*Effects on Creativity, Innovation, and Competitive Advantages*

Bassett-Jones (2005) describes the quite paradoxical relationships between diversity and innovation, and creativity. His conclusions support the notion that diversity in fact drives diversification, a critical focal point to a firm achieving competitive advantages. The positive effects, however, are significantly moderated by homogeneous group members’ need for social
identity. Since groups were found to be less cohesive than teams, multiculturalism and diversity may have a less positive impact on group performance than team performance. Jehn, Northcraft, and Neale (1999) found similarly paradoxical effects when conducting a study of 92 workgroups to analyze culturally diverse intergroup and intra-group performance. For example, informational diversity positively influenced critical thinking performance and moderated constructive (task) conflicts. In contrast, value and social diversity negatively affected team effectiveness and productivity by creating dysfunctional intra-group conflicts, as well as problems with task prioritization and delegation. Leveraging diversity’s benefits therefore seems to require a group’s commitment to collectively (rather than individual-competitively) achieve optimal results, a principled leadership, and the flexibility to reevaluate, revise, and implement decisions based on newly discovered alternatives (Bassett-Jones, 2005).

Effects on Group Cohesion and Performance

As showcased by Bassett-Jones (2005) diversity effects on group cohesion and performance are influenced by an organization’s inherent strategic negotiation between continuous innovation, and maintaining its social identity. Yet, another, quasi utilitarian motivator may likewise underlie and shape both nature and extend of such effects. For example, Alesina and La Ferrara (2005) describe diversity effects within the context of economic theory. Relating psychology’s social identity theory to economics the authors found that, the qualitative impact of diversity on performance depends on the allowed participation of culturally diverse individuals in a homogeneous in-group. In typical economic trade-off analysis, in-group
members evaluate the acceptance of out-group members based on the benefits of increased return (i.e. problem-solving contributions) versus their cost of adaptation. In other words, there may be an economically motivated component to aversive and overt racism leading to specific performance levels, and strategic preferences for or against diversity and multicultural integration in organizations. De Dreu, Bechthold, and Nijstad’s (2009) research seems to support such findings arguing that the actual type of diversity leads to differing performance outcomes. In essence, surface-oriented (physical differences) diversity typically causes rejection of heterogeneous group members and reduced performance, while deep-level diversity (e.g. cognitive capabilities, collectivistic orientation, personality traits, etc.) in contrast result in positive performance effects, particularly in intangible areas of innovation, problem-solving, and effective decision making. Interestingly, task and interpersonal cohesion, often viewed as diametrically opposed in culturally diverse teams were actually found to be complimentarily associated over time, which would suggest a process of intra-group acculturation. When viewed in context with Kochan and colleagues’ (2003) work, the influence of organizational context and strategic focus (i.e. cost leadership, quality leadership, or innovative differentiation) on the qualitative direction of multicultural and diversity effects becomes increasingly salient.

**Cost-Benefit Analysis of Diversity and Multicultural Management in Organizations**

Managing multicultural diversity naturally brings both opportunities and challenges to an organization, potentially leading to the realization of operational benefits as well as costs. Framing an analysis of diversity management within the context of strategic business planning
would therefore produce the conclusion that multicultural employee pluralism is only then to pursue, if the associated benefits outweigh its costs. According to Fassinger (2008), such considerations already came to the forefront of workplace psychological discussions during the integration and legislation of the Americans with Disability Act (ADA) in 1990. Stein Wellner (2005) supports Fassinger’s findings, and stresses the need for managerial flexibility when supervising diverse employees, as their potentially slow process of acculturation could be disruptive to the routine workflow, throughput, or other output-related performance metrics of an organization. In addition, any accommodations (i.e. intensive language training, on-the-job mentoring, cross-cultural sensitivity instruction, etc.) necessary to allow for similar performance compared to host-cultural colleagues are often equated to substantial financial investments without any quantifiable return. However, as both Stein Wellner (2005) and Fassinger (2008) found, such investments were either negligible or non-existent.

Cost Factors of Diversity and Multiculturalism

According to Kochan and colleagues (2003) cost factors associated with diversity and multiculturalism in organizations depend greatly on the organizational culture (i.e. reactive-conservative commodity-orientation) and strategy (i.e. cost containment versus differentiation), industrial context (i.e. business-to-business versus consumer-packaged goods), as well as HR policies conducive to systemic integration. In other words, costs of diversity may surface as active complexity costs, or passive opportunity costs. Amaram (2007), for example, states that diversity can lead to dysfunctional conflicts, reduced psychological identification, and guarded
communication, thus become counterproductive to the goal of each group member making optimal contributions to an effort. He argues, that the resultant confusion could create delays in project completion, thus increase overall project (complexity) cost. While such deductions certainly have merit, it is debatable, if such cost increase as a result of dysfunctional conflict could not likewise arise in mono-cultural groups with members exhibiting low emotional stability. Cost factors more directly related to diversity therefore seem to revolve around missed opportunities. According to Robinson and Dechant (1997) such opportunity costs typically manifest in the loss of culturally-diverse managers, and with them the reduction in creative problem-solving abilities, foreign market know-how, and ‘culturally-procedural knowledge’ of ethnically diverse buying behaviors. Such passive costs, in turn, quickly become active cost positions, as replacement costs often total 93% of a departing employee’s annual salary (p. 23).

Another cost factor of diversity and multiculturalism revolves around intra-team competitiveness. Similar to Amaram’s (2007) and Basset-Jones’ (2005) conclusions, Kochan and colleagues (2003) found that, the greater the focus on individual member competitiveness, the more negatively (thus costly) the overall team performance was affected by multicultural diversity in group members. Realizing such correlations the authors suggest for managers to develop the leadership and group process skills necessary to facilitate constructive conflict, effective communication, and an overall contributive spirit of winning collectively (p. 18).
Leveraging Benefits of Diversity and Multiculturalism

The beneficial effects of diversity and multiculturalism on organizational performance seem to generally consist in diversified, holistically improved cognitive and psychological functioning. For example, highlighting the competitive need for greater diversification in a firm’s product and solutions portfolios, Amaram (2007) found the greatest benefits in areas of talent acquisition and retention, creativity, critical thinking, and sound decision-making. Similar to the suggestions made by Kochan et al (2003), Amaram proposes a more collectivistic approach to goal achievement, and individual performance in order to reduce ethnocentric stereotyping while maximizing the potential of every, culturally heterogeneous group member. In conjunction, Siciliano (1996) provides an interesting new dimension on the benefits of multicultural diversity specifically relevant to non-for-profit organizations, where organizational performance is measured in terms of social performance (i.e. the signaled commitment to promote social interactions and collectivistic development). While specific benefits were found to be intangible and quite in kind with those of cross-functional teams, which leverage occupational diversity and related knowledge, skills, and abilities for optimum performance, no significant correlation was found between diversity and concrete financial organizational performance (i.e. revenues and profitability. It is hypothesized, however, that such findings may have their roots in the nature of non-for-profit organizations, which tend to focus less on achieving revenue and profit growth beyond their operational, zero-based budgets.
Conclusion

As showcased throughout this article, the multicultural and diversity-oriented impact on organizational performance typically occurs on the firm’s costs and benefits sides, and thus can be quite paradoxical. Factors such as better utilization of talent, increased market place understanding, creativity, but also turnover and opportunity costs need to be considered before contemplating a strategy for leveraging increased multicultural integration. For example, Richard, Barnet, Dwyer, and Chadwick (2004) identified that, highly diverse management groups, - due to their heterogeneous cognitive functioning and slower consensus-building abilities -, may have difficulties operating successfully within an organizational culture focused on risk taking and proactiveness. This could indicate that, the particulars of diversity effects are industry-specific; in essence, a highly innovative industry such as computer software might benefit more from increased diversity than a firm operating in a commodity, and highly risk-averse market. Regardless, the continuing globalization will require organizations to become as (culturally) diverse as their customers, thereby tasking them to extend diversification strategies beyond product and services to likewise include the planning, recruitment, training, and development of a diverse pool of employees in order to sustain and potentially enhance current and prospective competitive advantages (Dass & Parker, 1999; Basset-Jones, 2005). Considering these future challenges it is therefore plausible to conclude that diversity-oriented, cross-cultural competencies will become a critical management and leadership skill.
References


