

# Diversity: Not just good, but good business.

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*[Special to North Jersey Media Group, April 15, 2007]*

It's been decades – six, in fact – since a chief executive took a formal step to bring diversity to his organization.

In 1948, fully 16 years before the historic Civil Rights Act of 1964, President Harry Truman, with a decision many historians consider more courageous and significant than that to use the atomic bomb to end World War II, desegregated the armed forces of the United States.

On July 31, 1948, the Chicago Defender, one of the most prominent black owned and edited newspapers of that time in America, published the headline "President Truman Wipes Out Segregation in Armed Forces." Executive Order No. 9981 issued by President Truman provided for "equality of treatment and opportunity in the armed forces without regard to race, color, religion, or national origin."

Although history views this event more as a civil rights action than a diversity initiative, it serves very well as a business model for organizations today. Truman (interestingly, the last American president without a college degree) knew he was doing the right thing not only for African-American soldiers, but for the military as well. It was good business, as it were: fairness for the individual and strength for the organization. The two became fatefully and inextricably linked by Harry Truman's pen.

Today, diversity in the workplace has actually expanded in scope to include gender, age, GLBT persons (that's gay, lesbian, bisexual, and transgender for those not yet familiar with this designation), and people with disabilities.

Aside from its solid moral foundation, does diversity make good business sense? As it did to Truman, it does today. DiversityInc Magazine has just released its 2007 Top 50 Companies for Diversity Index™, and makes the following observation. "Examined over a 10-year period, The 2007 DiversityInc Top 50 Companies for Diversity Index™ outperformed the Nasdaq and the Dow Jones Industrial Average by 48 percent and the Standard & Poor's 500 by 23.4 percent. Results for one-, three- and five-year performance were competitive as well."

Professor Cedric Herring of the Department of Sociology at the University of Illinois at Chicago has reached the same conclusion. An article from the Washington Post News Service cites a study by Professor Herring indicating that diversity does, indeed, make a difference.

Herring found that companies with a higher degree of diversity also have “more customers, a larger share of their markets, and greater profitability.” In graphing his results, Herring found a linear relationship between diversity and business success, predictably similar to the performance analysis by DiversityInc.

Herring’s study encompassed data about diversity levels and business performance from approximately 250 companies, and verified this data with independent, third-party statistics as well as documents filed with the federal government. While DiversityInc’s list includes companies with 1,000 or more employees, Professor Herring’s sample included companies with as little as ten. He found the same correlation between diversity and business success irrespective of the size of the company.

Herring cautions us that this “does not prove that companies do better because they are diverse.” The study does not link cause and effect, but does indeed show a correlation between diversity and business success. “The data I was using,” explained Herring in a recent phone interview, “would not let me tell which [diversity or business success] came first. It isn’t possible to disentangle them.” In other words, while diversity could be the cause of better business outcomes, according to Herring, “it is also possible, for example, that companies that are successful to begin with do a better job of attracting and retaining minorities.”

Note: attracting and retaining. In their sweeping survey, DiversityInc, also looks at recruitment and retention. In the global war for talent, intensifying as the 21st century moves forward, smart companies are finding ways not only to recruit talent, but to keep it. And that talent is increasingly diverse, as DiversityInc describes: “people of color, women, GLBT people and people with disabilities.” Add to that the factor of age, as the older worker becomes more of a factor in the overall workplace each year.

A key point derived from DiversityInc’s focus on recruitment and retention, especially in analyzing their top 10 companies in this area, is that “the top ten all demonstrate almost equal retention of the entire work force and management, regardless of race, ethnicity and gender.” Further, it was found that “twenty-seven percent of these firms’ management are people of color, compared with 12 percent people of color in management nationwide (Bureau of Labor Statistics).”

Even more specifically, 90 percent of the top 10 for recruitment and retention have a resource group for GLBT employees, and 70 percent of these companies’ nondiscrimination policies include gender identity, compared with 24 percent of the Fortune 500 companies.

A quick (albeit unscientific) analysis of the DiversityInc leads to an interesting observation, namely an apparent correlation between industries that have shown consistent job growth and their representation on the list.

For example, the healthcare industry, which has added jobs to the economy every month for the last 14-plus years, has eight companies on DiversityInc’s list. The financial

services industry, despite its employment ups and downs related to outsourcing, has still created jobs consistently, and has 11 companies on the list. Other job growth areas which are also prominent on the list (with number of entries) are food and food services (6), technology (5), professional services (3), communication and broadcasting (3), and hospitality and leisure (3).

How were companies selected for the DiversityInc list or for Professor Herring's study? Companies compete to appear on the list, earning their spots based on their responses to more than 200 detailed questions on human capital, CEO commitment, corporate communications and supplier diversity, as described on the DiversityInc web site. This year, questions were added on work/life, mentoring, Native Americans, people with disabilities, and GLBT people. This coming year, any company that fails to offer domestic-partner benefits to same-sex partners is automatically excluded.

In the case of the Herring study, a scientifically chosen sample of 250 companies, nationally representative of all US business with 10 or more employees, was used. Professor Herring's study has been hailed as one of the five best citations on this subject.

Globally, diversity matters, perhaps with even greater ramifications. Richard Florida, Hirst Professor at George Mason University's School of Public Policy, has authored two landmark books, *The Rise of the Creative Class* (2002) and *The Flight of the Creative Class* (2005). In discussing the global competition for talent, Florida focuses on the role of creativity as an economic engine, and – simply – the most powerful magnet for talent. It is what made America the dominant world power in trade, science, arts, entertainment, invention, and so on for 200 years.

Florida's exhaustive research led him to the conclusion that creativity – and subsequently economic development – depends on three Ts: technology, talent, and tolerance. The first two require no comment here, but the third – tolerance – is germane. It was always because of America's tolerance to new and different people, ideas, thoughts, and ways of doing things that we attracted the Albert Einsteins of the world, and – historically, Irving Berlin, the families of Cyrus McCormick and Andrew Carnegie, and – of recent day – Sergei Brin, one of the two founders of Google.

Florida's second book documents America's gradual loss of members of the creative class to new creative centers in the world such as Finland, Ireland, The Netherlands, Israel, Australia, New Zealand, and Canada. All these countries are opening their doors and actively recruiting the creative class, while America – especially in the last six years – is making it harder and less attractive for the next generation of creative leaders to come here.

"Where America was once the first destination for foreign students and the last stop for scientists, engineers, musicians, and entrepreneurs wishing to engage in the most robust and creative economy on the planet," according to Florida, "it has now become only one place among many where cutting-edge innovation occurs. The resulting global business trends are evident."

Domestically, Florida's research turned up a startling phenomenon. In the creative centers within the US – Silicon Valley, Austin (TX), Seattle, New York, Boston, Washington, DC, to name a few – there also happen to be significant gay populations. Not that you have to be gay to be creative or visa versa, but the tolerance factor just keeps showing up and persistently yields no ground in logical assessments of the relationship between diversity and business advantage.

This all adds up to the unassailable position that diversity matters – personally, organizationally, and globally. Whether diversity is the cause or the effect of business success – the proverbial chicken or the egg – cannot, as Professor Herring says, be determined by these studies or surveys. But, in correlating diversity and business performance, as you continue to remove one variable after another – industry, sector, size of company, longevity, and others – the correlation remains.

And so does the conclusion that diversity is not just good, it's good business.