

stars insights: 29 November 2017

Diversity – A Double-Edged Sword

Prof. Dr. Sabine Boerner, Professor for Management especially Strategy and Leadership, University of Constance, Germany

Dr. Hendrik Hüttermann, Institute for Leadership and Human Resource Management, University of St. Gallen, Switzerland

Max Reinwald, M.A., Graduate School of Decision Sciences, University of Constance, Germany

During the last decades, diversity in the workforce has been steadily increasing. Due to demographic, legal, and socio-economic developments, employees are more likely than ever before to collaborate with colleagues who are different from themselves, for example in terms of age, gender, education, nationality, or ethnicity. While the encouragement of diversity for normative reasons (i.e., the "moral justice case") is undisputed, diversity is also expected to yield a competitive advantage (i.e., the "business case"). In pursuit of the business case, diversity is deliberately promoted in many organizations for stimulating productivity and innovation. However, whereas practitioners predominantly tend to expect positive business outcomes of diversity, research in organizational behavior has produced mixed results: Diversity can have both positive and negative effects on performance. In the following, we (1) delineate contrasting expectations about the consequences of diversity on the performance of teams in organizations, (2) present findings from recent international research on diversity effects and (3) provide suggestions for successful leadership of diverse workforce.

Effects of Diversity on Team Performance: Competing Perspectives

Diversity can potentially have both positive and negative effects on team performance: On the one hand, diversity is associated with different knowledge, backgrounds, and experiences of team members. Therefore, in teams with high levels of diversity, a broad range of information and perspectives is available as well as better access to information from outside the team. This enlarged pool of internal and external resources may stimulate creativity, innovation, and well-informed decisions which can boost performance.

On the other hand, diversity can jeopardize team performance when personal differences impair communication and cooperation between team members. Indeed, diversity may provoke the formation of subgroups in teams, for example between younger and older employees. Thereby, members of one's in-group (e.g., "we as the younger employees") tend to be preferred over members of the out-group (e.g., "they as the older employees") when it comes to trustworthiness and the exchange of information in the team. Low levels of trust and exchange between different subgroups in a team may induce conflicts which distract team members from problem solving. As a consequence, the diversity of knowledge, experiences, and perspectives cannot be fully exploited; rather, diverse teams may even perform less than homogenous teams.

Effects of Diversity on Team Performance: Research Findings

Research on the effects of diversity on team performance has produced mixed results: Personal differences between team members can lead to both positive and negative effects, depending on the diversity attribute under consideration. *Functional diversity*, that is, differences between team members regarding their affiliation to functional backgrounds (e.g., marketing, finance, production), has shown slightly positive effects on team performance, especially for teams working on complex tasks such as R&D teams. Similarly, *diversity in educational backgrounds* tends to have small positive effects on team performance, but only in teams at the top management level. Thus, for both functional diversity and diversity in educational backgrounds, the positive effects discussed above tend to outweigh the negative effects to some extent. However, for other diversity attributes, the results are less promising. While *ethnic diversity* leads to slightly negative effects on team performance, research on *gender diversity* and *age diversity* has revealed inconsistent effects or no effects at all. Given these inconclusive findings across diversity attributes, the truism of diversity as a "double-edged sword" has emerged in research over the years.

Implications: Leaders in Charge for Diversity Management

Given the two faces of diversity for performance, it becomes obvious that the positive potential of diverse teams does not unfold automatically. Rather, diverse teams have to be managed carefully in a way that enhances positive effects of diverse resources for better and more innovative solutions while preventing negative effects on team collaboration. Recent scientific evidence suggests that leaders play a key role for realizing the potential of diverse teams. Both team leaders and top managers can exert their influence to make diversity at work a success.

For leaders of diverse teams, research has revealed that so-called relational leadership styles can be helpful to realize the diversity dividend. These styles include, among others, visionary, inspiring, and participative leader behaviors which result in high quality relationships in which team members feel individually valued. What these leadership styles have in common is that they activate team members' cognitive and motivational resources, thereby enhancing cooperation and exchange in the team. At the same time, they treat followers as individuals rather than as representatives of a particular demographic category, thereby preventing the emergence of subgroups, conflicts, and fluctuation in the team. The good news is that such relational leadership styles are learnable – however, even the best relational leadership training will be useless if leaders are guided by their own stereotypes when enacting relational leadership. In such situations, leaders may tend to prefer certain team members over others due to subliminal prejudices. Thus, it is vital that leaders are aware of their own "unconscious biases" and are well-equipped to minimize them.

Moreover, also top managers can contribute to the success of diversity by establishing a pro-diversity organizational climate. Such a climate generally describes in how far organizational policies, practices, and procedures signal to employees that their organization values diversity and socially integrates all personnel. Diversity climate is hence associated with the perception of fair and respectful treatment in work contexts where all organizational members have equal opportunities to succeed on their job and feel like equally valued individuals. Under such a climate, employees may on the one hand be more prone to see diversity as an asset for the organization which should be capitalized on. On the other hand, they may feel less threatened by the presence of different others and, thus, are less likely to react with rejection and subgroup formation.

Top managers can deliberately promote such a diversity-friendly climate in particular by critically reviewing existing Human Resource (HR) practices and evaluating the diversity-related signals they send. If these practices systematically disadvantage single socio-demographic groups, top managers should modify and consistently implement them throughout the organization. In this regard, also line managers on all ranks of the organization play a key role: Acting as interpretative filters for company practices, they should assist their employees in making sense of diversity-related organizational practices, for example by explaining the policies and how they contribute to yielding a competitive advantage.

Disclaimer: The views expressed here are solely those of the author and they do not necessarily represent or reflect the views of the stars Foundation.

stars insights are exclusive contributions by business leaders and experts who scan the horizon to discuss geopolitical, economic, technological and further trends and developments which will impact society and business in the next few years.

www.the-stars.ch