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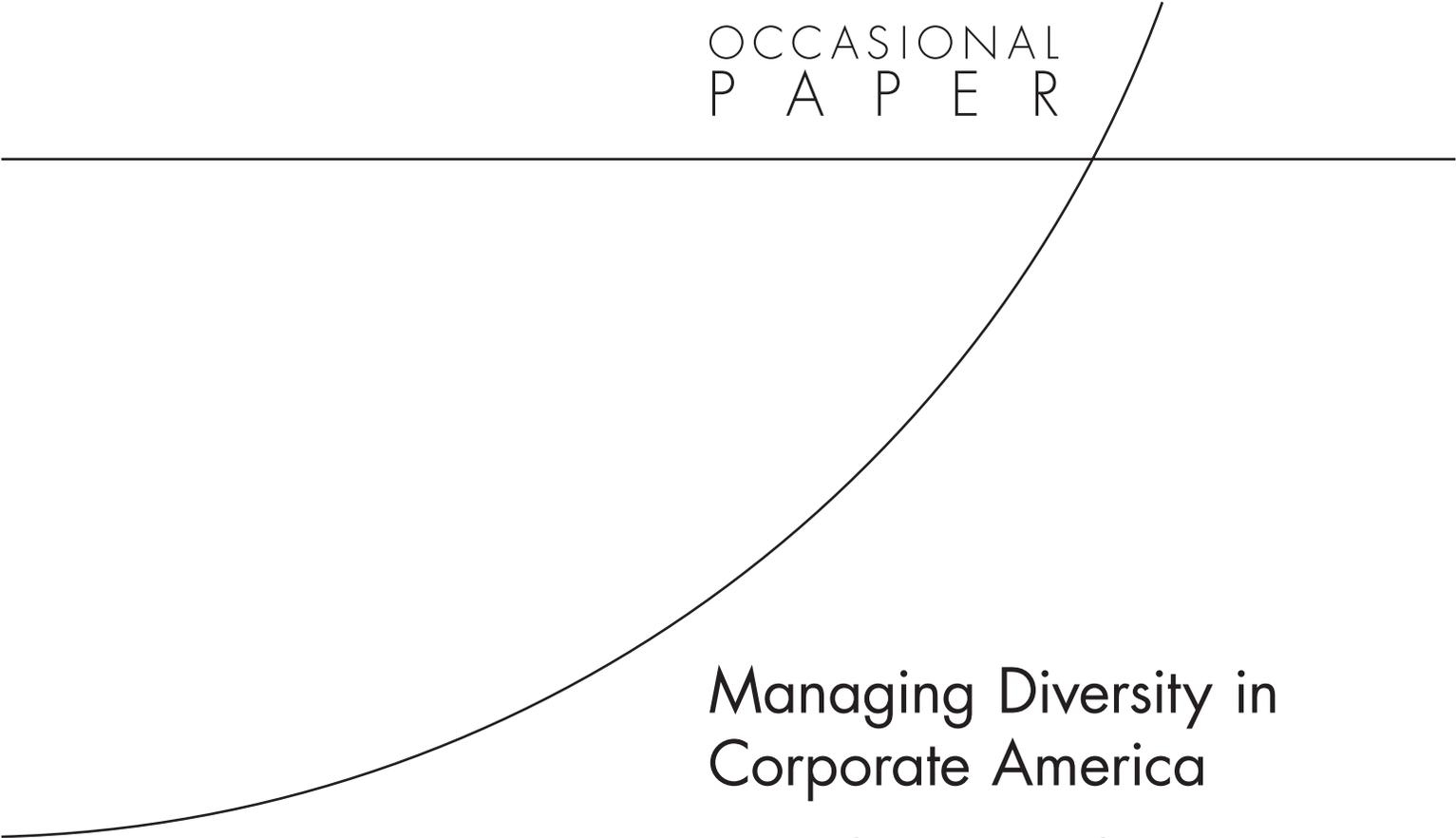
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# Managing Diversity in Corporate America

An Exploratory Analysis

Jefferson P. Marquis, Nelson Lim, Lynn M. Scott,  
Margaret C. Harrell, Jennifer Kavanagh



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The research described in this paper was conducted under the auspices of RAND Labor and Population and is the final product of an Independent Research & Development (IR&D) project and results from the RAND Corporation's continuing program of self-initiated research. Support for such research is provided, in part, by donors and by the independent research and development provision of RAND's contracts for the operation of its U.S. Department of Defense federally funded research and development centers.

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## Preface

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Managing diversity has become a primary concern of top U.S. corporations. As a result, a cottage industry of firms specializing in diversity management has emerged to help corporate executives identify appropriate diversity policies and programs. Generally, however, the diversity management literature consists of a laundry list of best practices that is not well organized, prioritized, or integrated. In contrast to this rule-based approach, the authors attempt to lay the groundwork for a fact-based approach to diversity management. We first establish a framework for evaluating approaches to diversity management on the basis of a synthesis of the best practices literature. We then use our diversity management model to determine whether diversity-friendly corporations really do stand out from other companies by analyzing the strategies pursued by 14 large U.S. companies recognized by Fortune magazine for their diversity or human resource (HR) achievements. Finally, to understand whether best practices alone make a company diversity-friendly, we compare a number of characteristics of best diversity companies, best HR companies, and other companies, using quantitative and qualitative methods.

Our principal findings are that firms recognized for diversity are distinguished by a core set of motives and practices that resemble those presented in the best practices literature, but that best practices per se may not enable a company to achieve a high level of diversity. Contextual factors, such as industry affiliation and company size, may be as significant as strategic factors in influencing the extent of a company's diversity.

This paper is the final product of an Independent Research and Development (IR&D) project on best practices in corporate diversity management and results from the RAND Corporation's continuing program of self-initiated research. Support for such research is provided, in part, by donors and by the independent research and development provisions of RAND's contracts for the operation of its U.S. Department of Defense federally funded research and development centers. This study was conducted under the auspices of the RAND Labor and Population Program, a division of the RAND Corporation. The paper should be of particular interest to business and government leaders, human resource professionals, and academic researchers interested in diversity management issues in large organizations.

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# Contents

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<b>Preface</b> .....	iii
<b>Figures</b> .....	vii
<b>Tables</b> .....	ix

## CHAPTER ONE

<b>Introduction</b> .....	1
---------------------------	---

## CHAPTER TWO

<b>The Diversity Management Literature</b> .....	3
Why Diversify? .....	3
Improves a Company's Bottom Line .....	3
Creates a Better Work Environment for Employees .....	4
What Does a Company Need to Do to Become Diverse? .....	4
Leadership .....	4
Formal Commitment: Ensure that Senior Leadership or Corporate Executives Express a Commitment to Diversity and Act in Line with the Stated Diversity Policy.....	4
Formal Objectives/Plan: Develop Corporate Objectives for Diversity and Integrate Them into the Business Plan .....	5
Leader Involvement: Involve Senior Leadership in Planning and Implementing the Company's Diversity Programs.....	5
Organizational Structure: Create a Diversity Office Focused on Promoting Diversity in the Firm.....	5
Communication: Use Internal Communication Programs to Support the Implementation of Diversity Programs and Articulate to Employees Why Diversity is Important .....	6
Initiatives.....	6
Recruiting, Promotion, Retention: Create Programs Focused on Recruiting Diverse Employees, Advancing Minorities to Management Levels, and Retaining Diverse Talent.....	6
Professional Development for Minorities: Establish Initiatives Focused on Developing the Skills of Diverse Employees.....	7
Workforce Education: Institute Programs Designed to Educate the Workforce in Ways that Create a Diversity-Friendly Environment.....	8
Supplier Diversity: Create Programs to Increase the Percentage of Minority-owned Businesses a Company Uses as Suppliers .....	8
Social Networks and Awareness: Use Affinity Groups to Strengthen Ties Among Minority Employees and Provide Forums to Increase the Awareness of Diversity in the Workforce as a Whole.....	9

Evaluation.....	9
Accountability: Create Compensation and Performance Evaluation Programs that Function as Accountability Mechanisms.....	9
Program Assessment: Use Formal Quantitative and Qualitative Methods to Design the Company’s Diversity Policies and Measure their Effectiveness.....	9
 <b>CHAPTER THREE</b>	
<b>Does the Diversity Literature Hold Up in Practice?</b> .....	11
Reasons for Diversity: Are Companies in Our Sample Pursuing Diversity for the Reasons Promoted in the Literature?.....	12
How Do the Practices of Actual Firms Compare with What the Literature Recommends as Best Practices?.....	14
Leadership.....	14
Initiatives.....	15
Evaluation.....	17
Summary.....	18
 <b>CHAPTER FOUR</b>	
<b>Are Best Practices Enough?</b> .....	19
Where the Literature Falls Short.....	19
Beyond Best Practices.....	20
The Importance of Context to Diversity Success.....	20
Diversity as a Form of Organizational Change.....	24
 <b>CHAPTER FIVE</b>	
<b>Conclusion</b> .....	25
 <b>APPENDIX A</b>	
<b><i>Fortune’s</i> Criteria for the “Best Companies for Minorities”</b> .....	27
 <b>APPENDIX B</b>	
<b>Diversity Manager Interview Protocol</b> .....	31
 <b>References</b> .....	33

## Figures

---

4.1	Percentage of Companies in Best Diversity and Best HR Categories by Industry .....	22
4.2	Percentage of Companies in Best Diversity and Best HR by Number of Employees .....	23



## Tables

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3.1	Motivations.....	13
3.2	Leadership .....	15
3.3	Initiatives .....	16
3.4	Evaluation .....	17



## Introduction

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The challenge of creating a multicultural, diverse organization is becoming an increasingly prominent concern for the chief executive officers (CEOs) of companies in the United States. Top executives such as IBM's Lou Gerstner and his successor Sam Palmisano have expended considerable energy and company resources on achieving diversity (Thomas, 2004). Many of their competitors have followed suit, seeking to replicate what they perceive to be best practices in diversity management. By the end of the 1990s, three out of four Fortune 500 companies had launched diversity programs (Caudron, 1998). Today, a cottage industry of consulting firms specializing in diversity management has emerged—along with a plethora of articles in academic and professional journals—to help corporate executives identify the keys to diversity and launch diversity programs in their companies.

Why are companies moving in this direction? For those unfamiliar with the notion of diversity, the need to meet federally mandated Equal Employment Opportunity and Affirmative Action (EEO/AA) standards is often a first guess. Indeed, the term “diversity” is frequently used interchangeably with EEO/AA regulations, but they are not the same. Required by law, EEO/AA programs tend to be focused on short-term recruiting to attain a certain percentage of minority employees, ensure that a company's HR policies are not discriminatory, and keep the company out of legal trouble. Some degree of diversity will be the end result: a workforce composed of a heterogeneous mix of people of different race-ethnicities and genders.<sup>1</sup> But for a company setting out to build a diverse workforce and use it to advantage, the raw diversity numbers are only the start of the story.<sup>2</sup> Diversity management initiatives are long-term and strategic in focus; strive not only to recruit but to actively develop, promote, and capitalize on the different skills and perspectives of minority employees; and involve fundamental organizational change.

In the diversity management literature, the most commonly cited motivation for a firm to increase its emphasis on diversity is to improve its business performance. Research has suggested that diverse working groups can be more innovative, flexible, and productive; can offer valuable perspectives on important issues; and can better appeal to a consumer base likely to include a growing number of minorities. Groups made up of diverse personnel do a better job

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<sup>1</sup> This paper focuses on demographic diversity, especially racial and ethnic diversity. Broadly defined, however, diversity can encompass a wide range of nondemographic traits, including education, experience, and attitude.

<sup>2</sup> The abundant literature on diversity generally takes a dim view of EEO standards as a reason to diversify. While companies with a legal motivation may emphasize fairness in recruiting and retaining minority candidates, according to Harvey and Allard (2002), they are by and large unable to leverage diversity to their advantage. Dass and Parker (1999) suggest that such EEO practices as using hiring targets to fill out historically disadvantaged groups can even be counterproductive if they lead a company to hire unqualified personnel or substitute surface for real diversity.

of analyzing and attacking problems (Cox, 2001). More than one source suggests that to be competitive today, businesses must maintain a cadre of personnel who are both highly qualified and highly diverse (Hubbard, 2004). Generally, however, studies of diversity outcomes in the business world have shown that “the positive impact of diversity was dependent on explicit and effective diversity practices,” whereas unmanaged growth in diversity tended to reduce corporate performance (Kochan et al., 2003; Riche et al., 2005, pp. 2–3).

So what does a company have to do to reap the benefits of diversity and lessen the costs? Do companies recognized as leaders in fostering diversity follow a distinct set of best practices that translate into a proven record of business success? On the basis of the numerous articles and books offering readers ample “how-to’s” and recommendations that hint at “this is all you’ve got to do,” the answer would seem to be yes.

But is it? In general, the diversity management literature consists of a laundry list of best practices that are not well organized, prioritized, or integrated. Nor are they linked to the situations of individual firms in ways that might provide companies seeking guidance with deeper insight into the complex details of implementation. What the diversity literature lacks at this point is substantive, data-driven research, with empirical evidence for what constitutes an effective strategy and appropriate measures of achievement. Currently, companies are relying on beliefs, not facts.

To help organizations that are seeking more than superficial prescriptions for diversity success, the authors attempt to lay the groundwork for a fact-based approach to diversity management. We do not intend this as an academic exercise in establishing the causal relationships among the many variables affecting organizational diversity (e.g., we will not prove that policy  $x$  increases the representation of group  $y$  by  $z$  amount). Our purpose is largely practical: to understand what the diversity literature as a whole says about appropriate motivations and effective strategies (Chapter 2); to compare what the literature recommends with the practices employed by successful corporations (Chapter 3); to investigate whether factors other than best practices—such as a firm’s industry, size, or history—might have a significant impact on diversity (Chapter 4); and to discuss the challenges involved in achieving substantive as opposed to surface diversity (Chapter 5).

## The Diversity Management Literature

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### Why Diversify?

An important topic in the diversity management literature is the rationale generated inside a firm for improving its diversity. The two most commonly mentioned reasons are that a diverse workforce improves a company's bottom line and that it enhances the work environment.

#### **Improves a Company's Bottom Line**

The literature suggests that workforce diversity positively affects a company's bottom line by increasing the skill base and range of talent among employees. In part, this may be because companies that recruit from a wider pool of candidates have access to and are able to hire a larger number of exceptional personnel (Hubbard, 2004). Morrison (1996) extends this argument by suggesting that effective diversity programs can also reduce certain types of personnel costs. Minority employees at firms with such programs are more likely to be satisfied and stay with the firm, reducing turnover.

Additional benefits accrue when a firm's leadership is diverse, the literature claims. As Morrison observes, "more effective methods of leadership development, applied to a larger group of candidates...can enhance organizational productivity, profitability, and responsiveness to business conditions" (1996, p. 58). Davis suggests that hiring minority executives is an effective way to "get a leg up on the competition. Because of changing demographics and fierce competition in the job market, a growing number of companies are starting to regard minority executives as an underused and undertapped resource" (2000, p. 50).

Yet another profit-oriented argument made in the literature is that by developing a diverse workforce that mirrors its consumer market, a firm can increase its customer base and appeal. Corporations can boost market share by having a workforce similar to their target clientele. Minority employees might be better able to communicate with and understand the needs of minority consumers, thereby increasing the quality of customer service and relations. Some companies that specialize in service-oriented industries, like mortgage lending, argue that minority borrowers are more likely to pursue a loan from a firm if they can work with a lender of their own ethnicity (Cleaver, 2003). In the health care industry, Cohen, Gabriel, and Terrell (2002) argue that a more diverse workforce would increase the likelihood that minorities would receive high-quality medical attention: Minority patients would be more likely to seek medical services from minority doctors and, in theory, minority doctors would be more interested in serving heavily minority populations and better able to address their specific needs.

### **Creates a Better Work Environment for Employees**

A common premise in the diversity literature is that a more diverse workplace promotes personal development and higher levels of job satisfaction. Effective diversity programs can improve the quality of the work environment and increase the job satisfaction and performance of both minority and nonminority personnel. Diversity programs that contribute to overall fairness can also improve the work environment and help companies better use their employees. Cox (2001) suggests that “multicultural organizations” are the most flexible firms—actively integrating minorities into the company structure and building an appreciation among employees for individual differences. These types of firms tend to consider diversity in an inclusive manner that encourages unity.

Still, diversity in numbers alone (surface diversity) will not be likely to contribute to workplace harmony. Diversity must be accepted and integrated into the firm’s social and business fabric. Research by Brock and Sanchez (1996) supports the hypothesis that a diverse environment can increase worker satisfaction only as long as real or perceived discrimination does not exist. But by making diversity a priority and increasing the acceptance of differences within the organization, they suggest, firms can increase the commitment of minority employees, which can contribute positively to minority retention and personnel development.

### **What Does a Company Need to Do to Become Diverse?**

To make the best practices advocated in the diversity literature more manageable, we grouped them into three main categories: leadership, initiatives, and evaluation. The literature implies that to create an effective diversity-management program, a company must integrate elements from all three areas.

#### **Leadership**

The diversity literature cites leadership more frequently than any other element of an effective diversification strategy.

#### **Formal Commitment: Ensure that Senior Leadership or Corporate Executives Express a Commitment to Diversity and Act in Line with the Stated Diversity Policy.**

- The company’s leadership should cultivate a mindset that acknowledges that diversity requires long-term cultural change, views diversity as good for people, and interprets diversity to include all people (Loden, 1996).
- A group of managers and executives within the firm should become vocal advocates for diversity programs (Morrison, 1996). Making a formal commitment in this way can bind a company’s management to taking actions that contribute to diversity. The number of diversity policies that senior managers initiate and explain, and their communication—including memos, public statements, and company speeches—with employees on the topic, reveal the degree of executive commitment to diversifying the workforce (Baytos, 1992).
- Corporate leaders should embrace diversity within their own ranks. Diversity at the top level signals the leadership’s willingness to value and capitalize on it. Placing minority personnel in leadership positions will remind other managers and employees of the com-

pany's commitment to diversity and will increase overall involvement in diversity initiatives (Morrison, 1996).

**Formal Objectives/Plan: Develop Corporate Objectives for Diversity and Integrate Them into the Business Plan.**

- The leadership of a company should develop a set of diversity objectives linked to its business and operating goals.
- Include diversity principles in the corporate mission statement to integrate diversity into the corporate philosophy, day-to-day practices, and way of doing business (Naff and Kellough, 2003). Incorporating diversity principles into the corporate philosophy will help catalyze the organizational change needed for a diversity program to be successful (Coleman, 1994).
- Develop a clear business rationale for diversity policies. This will create a more focused direction for the diversity program and a deeper level of firmwide commitment (Baytos, 1992). Employees are more likely to accept diversity initiatives if they are given economic and business justifications in addition to moral and legal ones (Loden, 1996).
- Have managers write up specific diversity plans for their departments (Morrison (1996).

**Leader Involvement: Involve Senior Leadership in Planning and Implementing the Company's Diversity Programs.**

- Loden (1996) says that rhetorical statements advocating diversity will not by themselves motivate change. Extensive management involvement in the implementation of diversity programs is needed to help diffuse diversity principles throughout the organization and into the attitudes of employees. This involvement requires time and energy on the part of senior leaders and is the most significant sign that diversity is a high priority in an organization. Gilbert, Stead, and Ivancevich (1999) describe CEO involvement as the crucial initiation phase of diversity management.
- To ensure leadership participation in diversity initiatives, create a separate senior executive position focused on diversity objectives (Cox, 2001). A diversity director should be involved in all aspects of the firm and should attempt to make diversity an overall business requirement.
- Arrange for the CEO to participate in meetings and feedback sessions relating to diversity. Managers should be personally involved in diversity training sessions for junior-level personnel. Direct and visible leadership participation sets "diversity-competent" role models for the rest of the firm. By committing their own time to diversity initiatives, company leaders demonstrate how important diversity is to the organization and encourage employees to make a similar commitment (Cox, 2001).

**Organizational Structure: Create a Diversity Office Focused on Promoting Diversity in the Firm.**

- Establish a diversity office or department as a means of introducing a new diversity agenda (Caudron, 1998). The department must be integrated into the mainstream of the organization. If it is a peripheral entity to which diversity concerns are simply siphoned off, the diversity agenda is likely to become marginalized.

**Communication: Use Internal Communication Programs to Support the Implementation of Diversity Programs and Articulate to Employees Why Diversity is Important.**

According to the literature, successful diversity programs require extensive internal communication networks, allowing the management to articulate diversity policies, objectives, and rationales, and communicate them directly and clearly to the rest of the firm.

- Have senior leaders communicate their commitment to diversity through a corporate mission statement as well as memos, public statements, and speeches (Baytos, 1992).
- Present diversity initiatives directly to employees with a clear strategic vision (Kirby and Richard, 1996). Kirby and Richard's research found that white employees who were not provided with a justification and rationale for diversity programs tended to feel more resentment toward newly hired minority personnel and interacted less effectively with them than employees who were thoroughly informed of the objectives behind diversity programs. Those who did not receive information on diversity policies also tended to have less attachment to the firm and lower morale.
- Use communication—diversity newsletters, informational intranet, seminars, and direct memos from the CEO—as an “internal marketing campaign” to win the support and enthusiasm of employees and define what “managing diversity” will and will not mean in the context of the firm (Hubbard, 2004).

## **Initiatives**

To be effective, research suggests that diversity practices need to be implemented at all levels and in all aspects of the organization. Without properly designed and articulated initiatives, diversity objectives and leadership involvement will be wasted.

**Recruiting, Promotion, Retention: Create Programs Focused on Recruiting Diverse Employees, Advancing Minorities to Management Levels, and Retaining Diverse Talent.**

According to the literature, corporate diversity begins (but does not end) with initiatives to recruit, promote, and retain a diverse group of employees.

### **Recruiting**

- Create an organizational environment that appeals to candidates from diverse labor markets (D'Netto and Sohal, 1999). A company with a diverse workforce and minority executives can help to convince potential hires that its work environment is diversity-friendly (Cole, 2002).
- Use a diverse team of recruiters to spearhead the recruitment effort. They are likely to have connections with a variety of professional organizations and be able to communicate effectively with diverse candidates (Cole 2002).
- Establish long-term relationships with minority organizations, professional groups, and colleges that can provide access to minority candidates (Digh, 1999).
- Use minority publications—magazines, newspapers, and Web sites—to identify and attract personnel from diverse labor markets (Digh, 1999).
- Interview potential candidates for “diversity competency” to ensure that new hires will be able to support the culture of diversity in the organization. Cox (2001) defines diversity-

competent people as those who readily recall working with, and learning from, culturally-different individuals.

### **Promotion**

- Pay special attention to promoting minority personnel. This does not mean that persons in certain ethnic or racial groups should be promoted with lower credentials or given better performance ratings for lesser work. Rather, promotion boards and performance evaluation should take cultural or ethnic differences into account and capitalize on individual differences (Cox, 2001). Bowen, Bok, and Burkhart (1999) suggest that race, ethnic background, and gender help to define an individual and so should be considered in an evaluation or promotion process.
- Ensure that those in line for a leadership position are diversity-competent; that is, they understand and have internalized the firm's diversity principles (Cox 2001, p. 123).
- Place minority managers on promotion panels to protect the objectivity of the promotion process while ensuring that diversity concerns are represented (D'Netto and Sohal, 1999).

### **Retention**

- Provide effective mentoring and support programs, a diversity-friendly environment, and plenty of promotion opportunities to retain more diverse employees (Davis, 2000).
- According to DiversityInc (2003), policies that can effectively encourage minority employees to stay with a firm include
  - skill and managerial training,
  - reimbursement for educational cost,
  - commitment of senior management,
  - making diversity a central aspect of the business strategy,
  - existence of a large base of minority employees, and
  - financial support for diversity initiatives.

### **Professional Development for Minorities: Establish Initiatives Focused on Developing the Skills of Diverse Employees.**

- Give minority employees any special preparation—including language and technical training—they need to do their jobs effectively and ensure that they are accepted into the organization (D'Netto and Sohal, 1999). Minority personnel might need additional professional development opportunities because they may not have had exposure to the same opportunities as white employees.
- Determine the personal development needs of each minority employee and create an individualized employee training, development, and progression plan (Wentling and Palma-Rivas, 2000).
- Establish mentoring programs for minority employees that give them feedback on their performance, map career options, and provide support and encouragement (Wentling and Palma-Rivas, 2000). Mentoring can help minority employees cope with job stresses and challenges that derive from their minority status (Morrison, 1996). Thomas (2001) says that employees of color advance through the corporate hierarchy more slowly than white employees, particularly in the early years of their career. Having a mentor, particularly

someone of their own ethnicity, can help speed their development and place them on par with whites.

**Workforce Education: Institute Programs Designed to Educate the Workforce in Ways that Create a Diversity-Friendly Environment.**

Diversity training programs for a company's workforce are among the most frequently mentioned initiatives in the literature.<sup>1</sup>

- Administer diversity training at all levels of the firm, from management to entry level. “[T]raining programs have a role in extending a commitment to diversity from a few top managers to those who have day-to-day responsibilities for hiring, developing, promoting, and supporting” minority employees (Morrison, 1996, p. 114). Training can make personnel aware of stereotypes and barriers and allow all groups to address the obstacles that prevent minority employees from advancing or integrating.
- Use diversity training to teach employees how to appreciate personal differences and work in diverse groups. Training should increase individual awareness about diversity issues and help prepare employees for organizational change (Thomas, 1991).
- Beyond raising sensitivity and awareness, aim diversity training at communicating important skills such as mediating cross-cultural conflict, interviewing diverse job candidates, and providing feedback on diversity issues (Loden, 1996).
- At the management level, design training to teach managers to maximize the benefits of diversity while minimizing potential conflict, respect and value differences, and understand the style and behavior of other cultures (Coleman, 1994).
- Teach HR personnel how to use recruiting tools that target minorities and prevent various forms of bias (Digh, 1999).
- Although diversity training will have to begin as a separate program, most authors recommend integrating this specialized training into a company's normal new hire orientation and management development programs.

**Supplier Diversity: Create Programs to Increase the Percentage of Minority-owned Businesses a Company Uses as Suppliers.**

Supplier diversity programs signal to both the external and internal communities that diversity is an important corporate objective.

- Establish explicit written company or department goals for the use of minority suppliers. Programs should originate at the senior level, and information about them should be disseminated throughout the organization. Evaluate the performance of programs frequently (Morgan, 2002).

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<sup>1</sup> The literature indicates that training is not a complete solution to diversity problems. For example, research conducted by Hood, Muller, and Seitz (2001) found that Hispanics experienced increases in self-esteem—and white women exhibited an increase in tolerance—after receiving a diversity training seminar. But white men demonstrated less tolerance toward minorities and women after the same training. Improper training can actually have negative effects on diversity support and awareness. Loden (1996) says that training can help increase individual consciousness about diversity but cannot replace communication, proper incentives, leadership commitment, and supportive policies in building a culture that promotes and values diversity. Although training programs are one of the most frequently cited and used diversity initiatives, “organizations seem to be unwilling to adopt appropriate diversity practices to manage their training and development function more effectively” (D’Netto and Sohal, 1999, p. 542).

- Keep diversity supplier programs mainstream so that they do not lose momentum (Murphy, 1998a). Where such programs are unsuccessful, the literature attributes it to a lack of leadership support or employee awareness or both.

**Social Networks and Awareness: Use Affinity Groups to Strengthen Ties Among Minority Employees and Provide Forums to Increase the Awareness of Diversity in the Workforce as a Whole.**

- Use affinity associations to help minority employees build support networks and professional connections (Digh, 1999). Although critics fear that such groups promote a negative, divisive message, most often they encourage positive outlooks and allow employees to articulate their concerns in ways that are acceptable to the larger organization (Wentling and Palma-Rivas, 2000). Furthermore, all employees can benefit from the existence of forums that address cross-cutting issues that all groups share, such as child care.
- Recognize that affinity groups take a variety of forms and range in their relationship to the parent company. Some firms choose to formally recognize and even fund a minority or employee network, while in other companies affinity groups remain informal and have a less established relationship with the firm (Cole, 2003).

## Evaluation

**Accountability: Create Compensation and Performance Evaluation Programs that Function as Accountability Mechanisms.**

- Make performance on diversity initiatives part of an employee's performance evaluation and tie it to pay, including raises and bonuses. This helps organizations increase accountability for diversity outcomes, ensure that diversity objectives are a priority for all employees, and speed the acceptance of diversity programs (Carter, Giber, and Goldsmith, 2001). Coleman (1994) notes that rewards for top diversity performers can help solidify the firm's commitment to diversity.
- Develop accountability mechanisms that give individual managers direct responsibility for the success of diversity policies (Morrison, 1996).
- Make sure that corporate executives, managers, and employees are able to clearly articulate the company's diversity policies. The ability to express diversity objectives is a prerequisite for accountability, signaling that personnel have accepted and understood the goals and requirements of the diversity program (Bowen, Bok, and Burkhart, 1999).

**Program Assessment: Use Formal Quantitative and Qualitative Methods to Design the Company's Diversity Policies and Measure their Effectiveness.**

Companies need frequent measurement, assessment, and benchmarking to design effectively targeted initiatives, determine the success and progress of diversity programs, and identify areas where additional initiatives might be useful.

- Gather data as a diagnostic tool before implementing a diversity initiative. The diagnostic and program-design phases of a diversity program require an understanding of the company's current demographics, employee attitudes, and potential problem areas. Data on

company demographics can also serve as a benchmark against which to compare future statistics (Carter, Giber, and Goldsmith, 2001).

- Seek input from employees about the needs and priorities of a diversity program. Staff surveys and focus groups can help determine where diversity programs are most needed and what constitutes a reasonable diversity goal (Carter, Giber, and Goldsmith, 2001). Surveys can ask personnel about the level of communication, the frequency of conflict, the use of informal networks, power distribution, and the existence of stereotypes. This information can help firms design specialized diversity agendas that fit their workplace environment (Cox, 2001). If employees have participated in the formation of a diversity program, they are more likely to make the sacrifices needed to promote organizational change.
- Use diversity task forces as sounding boards for potential diversity policies and have them recommend their own diversity initiatives and agendas (Baytos, 1992). They can also assist in program evaluation (Caudron, 1998). The group should be “made up of individuals representing a cross-section of genders, races, functional disciplines, and organizational levels. Because of its composition, the diversity group is likely to develop a broader perspective” on diversity issues than the firm could get through more limited discussions (Baytos, 1992, p. 94).
- Use data as an indicator of the effectiveness over time of ongoing diversity programs. Data collection “is the most crucial step of the evaluation process because without data, there is no evidence of the diversity initiative’s impact and therefore no need for an evaluation” (Hubbard, 2004, p. 69). Program evaluation requires demographic information, including hiring and promotion statistics by ethnicity/race, employee turnover rates, and employee satisfaction levels.
- During an evaluation process, ascertain employees’ reactions to the company’s diversity program, their level of learning, the current stage of implementation, and the policy’s business impact. Input from employees on how diversity programs are working can help a company redirect or fine-tune its diversity policies to better achieve its goals (Hubbard, 2004, p. 69).
- To make evaluation easy, design diversity programs to have an observable or measurable outcome (Morrison, 1996).

In sum, the literature on diversity covers two general topics: (1) the reasons for organizations to pursue diversity and (2) the methods by which they can achieve greater diversity. The primary argument for diversity is to improve business performance; the secondary reason is to create a better work environment for employees. According to the literature, to successfully diversify, companies must follow best practices in three categories of activities: leadership; initiatives related to recruitment, promotion, professional development, and so on; and evaluation.

## Does the Diversity Literature Hold Up in Practice?

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Are the practices recommended in the literature more prevalent in some types of firms than in others? Specifically, are companies known for their diversity management capabilities saying and doing what the diversity literature suggests? And are companies without a reputation for diversity behaving in ways that run counter to theoretical tenets and practical advice regarding diversity?

We looked to *Fortune* magazine as the source of potential candidates for our comparative analysis. *Fortune* publishes an annual list of the “50 Best Companies for Minorities”—firms recognized for successfully recruiting and managing an ethnically diverse workforce. The magazine approaches the Fortune 1,000, as well as the 200 largest privately held U.S. companies with a survey composed largely of questions about their diversity numbers; for example, the number of minorities among senior management and the rate at which minority employees are hired and promoted. Several survey questions address what diversity programs and policies the company has in place.<sup>1</sup> The magazine statistically evaluates the data from the companies that respond and derives the top 50.

From the *Fortune* list, we reviewed firms in different industries that represented a range of sizes and were headquartered in different geographical regions of the United States; we selected eight companies for in-depth study. This small sample would give us enough data, we believed, to form a preliminary sense of whether the theoretical literature correlates with actual company practice. We considered the *Fortune* list a good first step because the rankings are highly visible and well accepted. The top 50 companies have achieved a certain level of diversity and have a number of programs in place. Still, the rankings are based primarily on a company’s demographic profile—that is, how diverse each company looks on the surface.<sup>2</sup> More substantive criteria are missing, such as an evaluation of whether a numerically diverse workforce affects performance, whether the diversity initiatives in place are working well, and whether they lead to positive business outcomes. *Fortune* makes no claim that the companies on its list of “50 Best Companies for Minorities” are best at turning diversity to competitive advantage. Achieving a high degree of surface diversity is one thing; using it for profit is another. Minority employees may be happy and enjoy many advantages in a company without the company experiencing any correlated boost in performance or revenues. A scientific study with a repre-

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<sup>1</sup> See Appendix B for a complete list of the criteria *Fortune* used to select its list for 2003. The magazine does not publish the actual formula it uses to derive the ranking.

<sup>2</sup> In addition, *Fortune* does not draw a random sample of firms. The Fortune 1,000 plus the 200 largest privately held U.S. companies are not a representative sample of the business population. Further, not all companies respond; *Fortune* reported only 141 respondents out of 1,200 in 2003.

sentative sample of companies would investigate the more substantive topics related to business outcomes. We view our analysis as laying the groundwork for such a study.

Having chosen eight case studies, we first compared their diversity practices against the practices that the diversity literature recommends. We then did a second comparison, with the goal of deepening our understanding of which of these practices—if any—distinguish best diversity companies from companies recognized as excellent places to work but not exemplars of diversity management. To compile this second comparison pool, we turned again to the 2003 edition of *Fortune*. The magazine also publishes an annual list of the “100 Best Companies to Work For.”<sup>3</sup> From the 2003 list, we selected six firms (none of which appeared on the “Best for Minorities” list for that year). In this way, we established two clearly delimited groups: one known for successfully managing diversity and one not. To the extent possible, we paired each “best diversity” firm with a “best HR” firm on the basis of industry, number of employees, age, and geographic location.<sup>4</sup>

For the 14 companies in our sample, we analyzed written statements about how they manage diversity. We drew these statements from several sources:

- **company Web site**, including corporate commitments to diversity, mission statements, and write-ups of diversity programs
- **company HR and recruiting Web pages**
- **company annual report**
- **reports from the news media**, including recognition for particular diversity efforts and lawsuits filed for discrimination.

In addition, senior diversity managers from eight best diversity companies<sup>5</sup> gave us 90-minute interviews about their firms’ diversity-management programs and practices.<sup>6</sup> Several of these executives also gave us supplementary materials, such as the briefings used for internal diversity training.

## Reasons for Diversity: Are Companies in Our Sample Pursuing Diversity for the Reasons Promoted in the Literature?

The diversity literature strongly advocates the business case for diversity: Having a diverse workforce will improve a company’s performance and boost its bottom line. Likewise, the

<sup>3</sup> Employees nominate their companies and *Fortune* creates the ranking on the basis of responses from randomly selected employees (see [http://money.cnn.com/magazines/fortune/bestcompanies/full\\_list/](http://money.cnn.com/magazines/fortune/bestcompanies/full_list/)).

<sup>4</sup> The companies came from the following industries: banking, drug, finance, home, hotel, insurance, mail, and retail. Unfortunately, we were not able to find comparable best diversity and best HR companies in every industry. For example, we do not have an example of a best diversity company in the retail industry; nor do we have best HR examples in the drug and mail industries.

<sup>5</sup> These companies were in five industry sectors: household and personal products manufacturing, finance and insurance, accommodation and food service, transportation and warehousing, and retail trade.

<sup>6</sup> See Appendix C for the complete list of questions. The interviews added a great deal of depth to our data about those companies and filled gaps left by the Web and news media searches. Companies not interviewed may suffer from omissions of data. To determine whether the interview data affected our results, we conducted additional analyses excluding the information we gained during interviews. We found that the interview data did not alter the major trends we observed.

majority of firms in our sample stated that they were pursuing diversity strategies because they believed them to be instrumental to successful business outcomes (Table 3.1).

**Table 3.1**  
**Motivations**

	Competitive Advantage	Consumer Service	Work Environment
Bank 2 (HR)	X	X	X
Bank 3 (Div)	X	X	
Drug 2 (Div)	X	X	X
Finance 2 (HR)	X	X	
Finance 3 (Div)	X	X	X
Home 2 (HR)			X
Home 3 (Div)	X	X	X
Hotel 2 (HR)		X	X
Hotel 3 (Div)	X	X	X
Insur 2 (HR)			X
Insur 3 (Div)	X	X	X
Mail 2 (Div)	X	X	X
Mail 3 (Div)	X	X	X
Retail 2 (HR)			

NOTE: dark gray = best diversity firms; light gray = best HR (but not best diversity) firms.

Ten out of 14 companies in our sample cited both competitive advantage and consumer service as motivations for diversity. Of the best diversity companies, all eight cited both motivations. Seven of the eight offered a third reason as well: an improved work environment. Statements drawn from our interviews further illustrate how corporate executives at best diversity firms tie diversity to business performance:

[We] must have diversity to mirror the labor market and get the right talent.

I'd rather have an office with a mixture of people that sell...so that we each bring to the table something unique. This makes for a richer product, a richer discussion. We're in this because the world looks like this.

It's about staying alive in a diverse marketplace. Different groups require different marketing approaches.

According to several of our interviewees, the senior leaders at the best diversity companies believe that a workforce that mirrors the marketplace enables innovative thinking and provides insights into the needs and buying habits of an increasingly diverse customer base.

In contrast, the best HR companies in our sample (those that don't place a particular emphasis on diversity but focus on making their companies good places to work for all employees) tended to emphasize the work environment more than the direct business case: four out of

six stated improved working conditions as a motivation. Only one of these four also cited both competitive advantage and consumer service. One of the best HR firms offered no business reasons for diversity and two cited just a single business reason.

The difference between the mix of diversity motives expressed by best diversity and best HR companies in our sample generally conforms to the diversity literature: the majority of best diversity companies favored diversity for all the reasons cited in the literature, but mostly for reasons related to business performance. Most of the best HR firms had fewer reasons for pursuing diversity than did the best diversity companies or made a nonbusiness case for diversity. That said, half of the best HR companies mentioned two or more reasons for promoting diversity, and at least one of these reasons was connected to achieving a competitive advantage or improving consumer service.

## **How Do the Practices of Actual Firms Compare with What the Literature Recommends as Best Practices?**

### **Leadership**

Seven out of eight best diversity companies in our sample pursued all five of the leadership best practices advocated in the diversity literature (see Table 3.2). The eighth company pursued three out of five. In three of the eight firms, the CEO was directly responsible for starting the diversity management program. In four firms, the CEO is either the chair or co-chair of a diversity council that approves and monitors the progress of diversity initiatives. The CEO of one firm was an active sponsor/advisor for a diversity affinity group.

In general, the senior leaders we interviewed from best diversity firms thought broadly and deeply about diversity. They distinguished between diversity management and HR management programs designed to comply with EEO/AA guidelines and requirements. For them, diversity encompassed more than race and gender; it included age, sexual orientation, disability status, national origin, and even style of thinking. They believed diversity management was an essential component of their overall business strategy—enabling them to tap into diverse labor markets, compete with more innovative products and services, and market to more diverse customers. These executives believed that diversity management warranted a considerable expenditure of their time and effort.

In contrast to the best diversity group, just one of the six best HR companies in our sample pursued all five leadership best practices. Three of the six best HR companies pursued none of them, and the other two pursued one each.

**Table 3.2**  
**Leadership**

	Leadership Involvement	Formal Commitment	Formal Objectives/Plan	Organizational Structure	Communication
Bank 2 (HR)		X			
Bank 3 (Div)	X	X	X		
Drug 2 (Div)	X	X	X	X	X
Finance 2 (HR)	X	X	X	X	X
Finance 3 (Div)	X	X	X	X	X
Home 2 (HR)			X		
Home 3 (Div)	X	X	X	X	X
Hotel 2 (HR)					
Hotel 3 (Div)	X	X	X	X	X
Insur 2 (HR)					
Insur 3 (Div)	X	X	X	X	X
Mail 2 (Div)	X	X	X	X	X
Mail 3 (Div)	X	X	X	X	X
Retail 2 (HR)					

NOTE: dark gray = best diversity firms; light gray = best HR (but not best diversity) firms.

In the case of leadership, practice generally aligns with theory. Best diversity companies were much more likely than best HR companies to subscribe to the full range of leadership best practices. However, leadership practices did not completely separate best diversity firms from best HR firms. Our sample contained one best HR company whose leadership performed as well as any best diversity company with respect to diversity. It is unclear whether this was an anomaly or an example of a company that was moving forward in the process of becoming a best diversity firm.<sup>7</sup>

### Initiatives

Half of the eight best diversity companies in our sample pursued all six of the best practices involving initiatives advocated in the diversity literature (see Table 3.3). Three pursued all but supplier and franchise diversity. The eighth company has implemented four of the six best practices.

Our interviews of executives at best diversity companies identified several firms that leveraged existing HR programs in support of diversity initiatives. In a firm with an established training program that focused on improving horizontal working relationships, diversity managers developed mentoring programs designed to enhance vertical relationships between majority managers and minority subordinates. A firm that had successfully established cross-functional teams extended that approach to diversity management. Another firm incorporated diversity goals into its existing national growth strategy. Several of the firms hired consultants

<sup>7</sup> Finance 2 (HR) behaved like a best diversity firm as defined by the literature in terms of its motivations, leadership practices, and evaluation procedures.

to provide products and services that supplemented existing diversity programs or fulfilled the requirements of programs that these companies had already designed.

In contrast to the best diversity cases, none of the six best HR companies in our sample pursued all six types of diversity initiatives. In fact, one of them did not have a single one of these initiatives in place. One firm in this group has implemented four; another has implemented three; three have implemented just one. The most commonly promoted initiative involved recruiting, retention, and promotion—this was implemented by five of the six best HR firms.

**Table 3.3**  
**Initiatives**

	Recruiting, Promotion, Retention	Professional Development for Minorities	Workforce Education	Supplier and Franchise Diversity	Educational and Community Outreach	Social Networks and Awareness
Bank 2 (HR)	X		X		X	
Bank 3 (Div)	X	X			X	X
Drug 2 (Div)	X	X	X		X	X
Finance 2 (HR)	X	X		X	X	
Finance 3 (Div)	X	X	X	X	X	X
Home 2 (HR)	X					
Home 3 (Div)	X	X	X		X	X
Hotel 2 (HR)	X					
Hotel 3 (Div)	X	X	X	X	X	X
Insur 2 (HR)	X					
Insur 3 (Div)	X	X	X	X	X	X
Mail 2 (Div)	X	X	X	X	X	X
Mail 3 (Div)	X	X	X		X	X
Retail 2 (HR)						

NOTE: dark gray = best diversity firms; light gray = best HR (but not best diversity) firms.

As predicted by the diversity literature, the best diversity companies in our sample generally launched more kinds of diversity initiatives than did their best HR counterparts. It is difficult to say which set of diversity initiatives distinguishes best diversity firms from best HR firms, as every kind of initiative has been implemented by at least one best HR company. However, the data indicate that a best diversity firm must do more than pursue best practices in the area of recruiting, promotion, and retention—something that was done by almost all the firms in our sample. Supplier and franchise diversity did not seem to be a necessary criterion for a best diversity firm, but our interviews suggested that best diversity firms seeking to improve their standing added this initiative to their repertoire.

### Evaluation

Five of the eight best diversity companies in our sample implemented both accountability and program assessment—the two evaluation best practices advocated in the diversity literature (see Table 3.4). Two companies implemented program assessment but not accountability. One best diversity company had not implemented any evaluation best practices.

Several of our best diversity interviewees said that the chief executives in their companies had established accountability for their diversity initiatives. Either they or members of their board of directors conducted formal quarterly or semiannual diversity progress reviews, and they rewarded managers who achieved diversity objectives with formal recognition, bonuses, and stock options. In two of the firms we studied, the CEO or president administered sanctions to managers who failed to meet diversity objectives.

In contrast, five of the six best HR companies in our sample had not implemented any evaluation best practices. Only a single firm in this group conducted both accountability and program assessment.

**Table 3.4**  
**Evaluation**

	Accountability	Program Assessment
Bank 2 (HR)		
Bank 3 (Div)		
Drug 2 (Div)	X	X
Finance 2 (HR)	X	X
Finance 3 (Div)	X	X
Home 2 (HR)		
Home 3 (Div)		X
Hotel 2 (HR)		
Hotel 3 (Div)	X	X
Insur 2 (HR)		
Insur 3 (Div)	X	X
Mail 2 (Div)		X
Mail 3 (Div)	X	X
Retail 2 (HR)		

NOTE: dark gray = best diversity firms; light gray = best HR (but not best diversity) firms.

As one would expect from the literature, the best diversity firms in our sample were more likely to focus on diversity evaluation than were the best HR firms. Nevertheless, evaluation may not be as strong an indicator of best diversity status in the business world as diversity initiatives or leadership practices. That said, our interviews with best diversity companies suggested that diversity evaluation is a topic that some firms choose to discuss in-house and thus might not appear in their companies' public record. Other explanations for the relative lack of emphasis on evaluation by our sample of best diversity firms are equally plausible. For example, evaluation programs are difficult to establish and maintain compared with many diversity

initiatives and leadership practices and thus would appear later in the diversity process. Alternatively, some best diversity firms may not be interested in formal mechanisms for assessing their diversity programs or holding their staff and leadership accountable for achieving diversity goals.

## Summary

On the whole, the results of our analysis of documented corporate business practices are consistent with diversity management theory. Firms recognized as leaders in diversity management were much more likely than companies known for their superior HR practices to support the rationales and policies outlined in the diversity literature. Best diversity companies tended to favor diversity for a variety of reasons, but primarily because they believed diversity would improve their business performance. Possibly as a result of this bottom-line emphasis, top officials in best diversity firms demonstrated strong support for diversity in word and deed. A majority of best diversity companies conducted a variety of diversity-related initiatives and established at least some means of measuring outcomes. In contrast, best HR firms did not always consider diversity as a contributor to their business performance, which may explain their leaders' relative lack of involvement in diversity activities. Additionally, best HR firms pursued fewer kinds of diversity initiatives than best diversity firms (preferring to focus on basic recruiting, retention, and promotion programs) and had fewer means to evaluate company effectiveness with respect to diversity.

Despite clear differences between the two groups of companies, our analysis (which is largely based on documentation from a small sample of large firms) cannot identify the specific motives and practices that distinguish best diversity companies from their best HR counterparts. One or more best HR firms in our sample expressed every motive and performed every recommended practice discussed in the diversity literature. For their part, best diversity companies expressed a range of motives and conducted nearly every kind of leadership activity and diversity initiative. The evaluation picture was even murkier, with representatives of each group performing one or both recommended evaluation techniques and at least one member of each group having no means of diversity measurement that it publicly acknowledged. In sum, a scientific approach to diversity management will require a more detailed analysis of diversity programs and outcomes.

## Are Best Practices Enough?

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Our analysis of the diversity-related documentation of 14 companies indicates that the practices of best diversity firms match those commonly advocated in the diversity management literature. Moreover, the aggregation of these practices (if not the individual programs, organizations, and policies) distinguishes best diversity firms from best HR firms. But for a company that wants to build a more diverse workforce, is success simply a question of implementing the practices described in the diversity literature? Our answer is no.

While best practices may contribute significantly to achieving diversity, they are not a magic bullet. Not only does the literature itself have a number of limitations when it comes to explaining how to implement its recommendations, other significant factors that have little or nothing to do with the practices a company implements also play into outcomes. In addition, becoming a diverse company involves more than a shift in strategy by the leadership. It represents a form of change that affects the entire organization and business culture and thus often requires a continuous, long-term effort to overcome multiple layers of resistance.

### Where the Literature Falls Short

One of the most significant limitations of the diversity literature is its lack of practical advice and specific methods of implementation. The best practices it describes are often too abstract—general types of programs or policies without concrete examples of how to design and implement them. For example, pointing out the need for accountability mechanisms tied to pay and promotion does not address the actual process of redesigning compensation or performance evaluation systems. The literature also tends to focus on individual initiatives—for example, training, retention, or recruiting—rather than looking at how a range of programs and policies might work together in an overall diversity strategy. The ways in which the various motivations for diversifying might guide the choices a company makes about its diversity strategy is another aspect of a comprehensive perspective on diversity management that is missing from the literature. Nor does the literature offer much guidance on how to prioritize among best practices. For instance, is establishing a diversity department a better demonstration of leadership than disseminating a diversity mission statement?

Yet another shortcoming is that the literature does not anticipate and suggest solutions to the challenges companies are bound to come up against. Despite their commitment to diversity management, executives in most of the best diversity firms we interviewed described having encountered significant challenges as their companies attempted to diversify. These difficulties included the following:

- changing attitudes about diversity throughout the workforce,
- making management more diverse, and
- changing attitudes or raising diversity competency among managers.

According to the literature, a company's senior leaders are largely responsible for generating employee support for diversity. But what if large or important groups of employees do not buy into management's new diversity initiatives or do not understand its new policies? A company seeking ways to cope with these sorts of challenges would be hard-pressed to find them in the literature on diversity.

Most of the executives we interviewed in best diversity firms sought to hire and manage a more diverse workforce by developing a formal strategy composed of the same basic best practices. However, they did not always establish or develop them in the same way. Firms that started with a diversity business plan, followed by program development and accountability mechanisms, had a long history of confronting diversity issues. They also served a global marketplace and managed a large, diverse workforce. Companies that began by developing diversity programs and subsequently established accountability mechanisms and business plans were smaller and more homogenous and had a more recent commitment to diversity management. Firms engaged in diversity management for some time tended to have comprehensive programs tied to business outcomes. Firms with less experience with diversity management were highly focused and pursued practices that either were extensions of successful past practices or could be executed relatively easily.

## **Beyond Best Practices**

As the previous section suggests, part of the problem is that each company is unique—with, for example, different goals, resources, number of employees, business locations, product lines, and customer bases. It is difficult to give a sense of priority among policies without knowing the individual circumstances of a given firm. But in considering whether to commit to increasing diversity and then designing a strategy and programs, companies should not overlook the ways in which contextual factors may contribute to the overall equation.

## **The Importance of Context to Diversity Success**

As a case in point, two of the best diversity companies in our sample—a hotel chain and a household products company—pursue highly similar diversity strategies:

- The diversity directors of both companies emphasized that pursuing diversity is a business necessity, not just the right thing to do from a social or moral standpoint.
- The top leadership of both companies was strongly committed to achieving diversity goals; they demonstrated their commitment through regular meetings with their diversity directors to track how the company was progressing.
- Both organizations established diversity goals and metrics derived from rigorous benchmarking within and outside their respective industries.
- Both companies had broadly defined diversity strategies. The role of their diversity departments was not limited to recruiting, promoting, and retaining diverse employees; it also

involved diversity-related educational and community outreach programs and, in the case of the hotel chain, even supplier diversity.

Yet, despite their similar diversity strategies, the two companies achieved markedly different outcomes. Although both firms made *Fortune's* list of best diversity companies, the hotel achieved a higher rating, with more than twice the percentage of minority officials and managers than the household products firm. What accounted for these different outcomes, given the similarities in approach?

One theory of organizational adaptation suggests that change results from the interplay of strategy (i.e., best practices) and context (Hrebiniak and Joyce, 1985). If building a more diverse company is considered a form of organizational change, context may play an important role in determining outcomes. To explore this idea, we expanded our sample of companies to include all of the firms on *Fortune's* lists of best diversity and best HR firms, plus companies on *Fortune's* lists of the largest 1,000 publicly held and the 200 largest privately held U.S. companies. The primary goal of the analysis was to explore possible associations between firms' attributes and their presence on one or both lists of *Fortune* best companies.<sup>1</sup>

We found that best diversity firms were concentrated in certain industries, such as accommodation/food and arts/entertainment. In contrast, best HR firms tended to be in the health care and professional services sectors (see Figure 4.1). A broad swath of U.S. industry—including mining, construction, agriculture/forestry, and administrative/supply—had no representatives on *Fortune's* lists of best diversity or best HR companies. Interestingly, there was very little overlap between best diversity and best HR firms with respect to industry.

Although it is possible, even likely, that firms from certain industries chose to participate in the *Fortune* surveys at a higher rate than firms from other industries, the results of this analysis suggest that becoming a leader in diversity management may be easier, or more rewarding, for a hotel chain than for a mining company or, to a lesser extent, a household products manufacturer. We can only speculate at this point as to why this might be. In our interviews, hotel executives indicated that potential minority customers were increasingly making their accommodation and convention decisions on the basis of their perceptions of the racial composition of hotel management and staff. Additionally, these executives said, territorial expansion in the hotel business is greatly facilitated by hiring managers and staff members who match the ethnic/racial composition of surrounding communities. Companies in industries with less face-to-face interaction between employees and retail customers may experience less financial pressure to promote diversity.

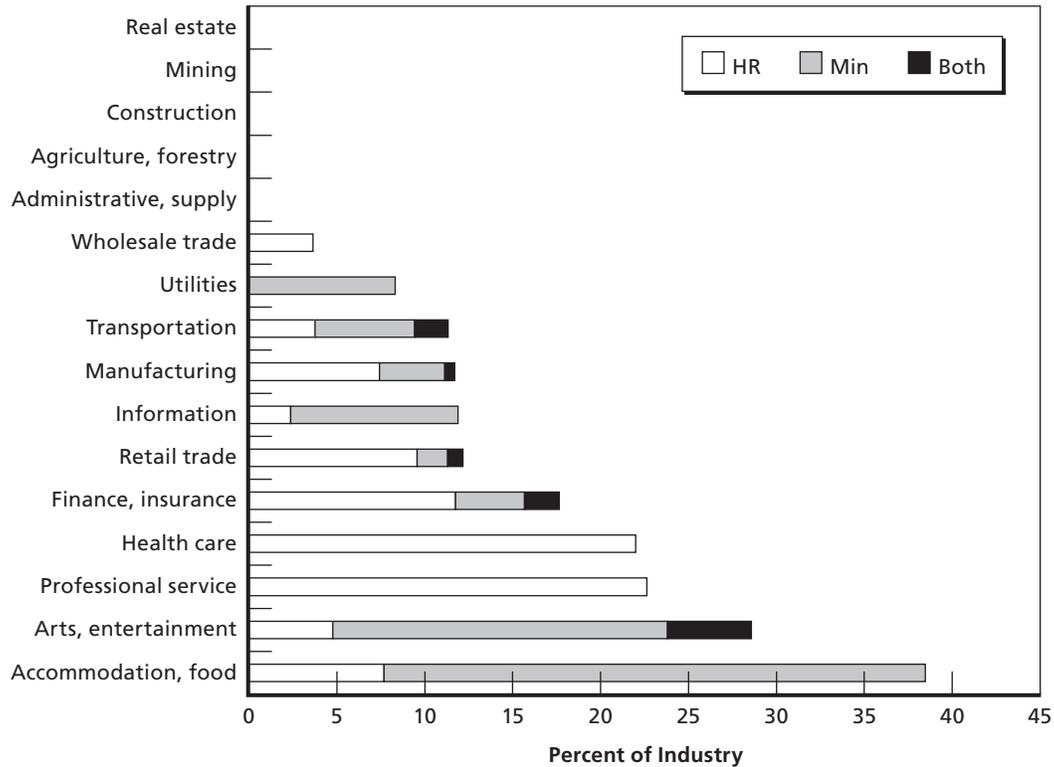
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<sup>1</sup> We developed two exploratory multivariate logistic regression models, which can be depicted as:

$$P = \frac{\exp(Z)}{1 + \exp(Z)}$$

where  $P$  refers to probability of being a best diversity (or best HR) company and  $Z$  refers to a collection of firms' attributes, including industry, total revenue, and total number of employees. The functional forms of variables in  $Z$  are estimated using multivariable fractional polynomials.

**Figure 4.1**  
**Percentage of Companies in Best Diversity and Best HR Categories by Industry**



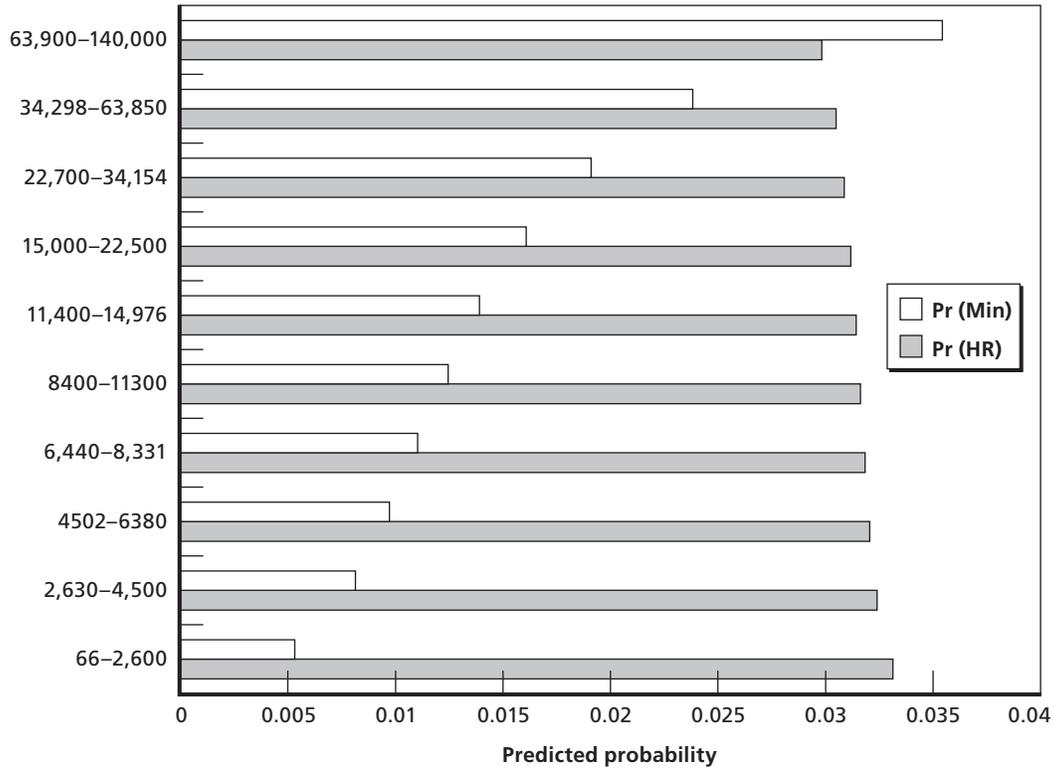
RAND OP206-4.1

The size of a firm's workforce also seems to have an influence on its success in diversifying. When we controlled for variations in revenue, companies with larger workforces tended to be diversity-friendly—especially very large companies (64,000–140,000 employees). On the other hand, relatively small companies (less than 2,600 employees) were more likely to be included on the best HR list (see Figure 4.2).<sup>2</sup>

This suggests that very large firms may have a disproportionate incentive to focus on diversity, either because their existing workforces are already quite diverse and management believes that diversity programs will reduce internal strife and increase productivity or because they have a diverse customer base whose purchases may be determined in part by their perception of the diversity practices of these high-profile firms—or both. For their part, small companies may be more interested in retaining particular high-value employees of whatever background than in promoting diversity; in addition, they may be less concerned about adverse customer reaction to their diversity policies than large firms because of their lower public visibility.

<sup>2</sup> Controlling for the number of employees, the relationship between company revenue and the probability of being on the best diversity or the best HR list are similar. This suggests that the size of a firm's workforce has a stronger impact than its revenue on diversity.

**Figure 4.2**  
**Percentage of Companies in Best Diversity and Best HR by Number of Employees**



RAND OP206-4.2

In addition to the **type of industry** a company is in and a company’s **size** (especially number of employees), other characteristics of a company or its environment may influence its success with diversity. Our interviews suggest the following:

- The **age** of a company may play a role. Newly established companies may not have had enough time to grow the minority component of their workforces. Conversely, an old company with a low turnover rate may find that it takes longer to change the composition of its workforce.
- A company’s **location** may increase or decrease its opportunities to build a more diverse workforce. For instance, a company located in certain parts of the Midwest or New England may find it difficult to recruit minority employees, whereas a company with locations in multiracial metropolitan areas throughout the country and overseas can likely hire from a large pool of minority candidates.
- A company’s **history with diversity issues** can prod senior managers into making large changes that affect their company’s diversity policies. In several of our interviews, company executives mentioned particular catalytic incidents: an employee climate survey that exposed perceived inequities directed at specific ethnic groups, the identification by the NAACP (National Association for the Advancement of Colored People) of a particular industry sector as being unfriendly to minorities, and civil rights protests that directly affected business operations.

- **Demographic trends** may also shape diversity outcomes in the future. Today's minority groups will likely be the majority in the United States by the middle of the 21<sup>st</sup> century. As the overall pool of available candidates changes, it may become easier for companies to hire applicants who are both high-quality and diverse.

### **Diversity as a Form of Organizational Change**

Much of the diversity best practices literature neglects the larger issue of organizational change; but several authors have suggested that the success of diversity policies is contingent on building a large support base throughout the corporation—in effect, transforming the corporate culture. Although leadership and management commitment are very important to the success of diversity programs, diversity should be viewed as the shared responsibility of everyone in the organization, not just top managers and human resources directors. Coleman (1994) observes that “it must be clear that managing diversity is not just the responsibility of top management or human resources directors.” Because of their scope and complexity, diversity policies cannot simply be implemented or imposed but must be supported by fundamental changes in the organizational culture and both top-down and bottom-up commitment in the firm (Cox, 2001; Ely and Thomas, 2001).

Organizational change is not a spontaneous or single-step process. First, the need for change and the type of change required must be specified. Next, the organization must determine its capability for change, in terms of employee and manager attitudes and resources. Executives and unit managers must articulate a set of objectives and an implementation plan to the rest of the firm. Finally, the principles of change must diffuse downward, eventually changing the way work is done and altering the behavior of individuals. Porras and Silvers (1991) note that individual behaviors are a response to the signals received from the corporate vision and the workplace environment. To alter individual actions and motivate true change at the most basic levels of the firm, transforming policies must affect both of these organizational components.

Because organizational change is usually a gradual process, it is useful to consider ways that the momentum for change can be maintained and individual resistance minimized. Beckhard (1975) suggests that the most important requirement for continued organizational development is regular feedback on the progress of transformation objectives and information on the goals of specific policies. Feedback should come from individual performance evaluations and meetings among groups of employees throughout the organization. Kanter (1984) says that even small and expected changes can cause decreases in organizational productivity, and steps must be taken to address these causes of employee dissatisfaction, which typically stem from employee resentment or unwillingness to adapt to new policies.

In sum, the literature stresses the importance of leadership commitment to changes in the corporate culture. Second, employee involvement and support is cited as an essential factor in successful organizational change. Finally, the long-term and gradual nature of transformation is emphasized. By contrast, many diversity management specialists seem to take a “cookbook” approach to their subject, providing recipes for new and exotic dishes without acknowledging the difficulties of altering established tastes. The dangers of adopting such an approach are, on the one hand, that managers will become frustrated by the apparent failure of various diversity initiatives and abandon them or allow them to fade into insignificance or, on the other hand, that they will become complacent about their diversity efforts, believing that a superficial adherence to best practices is equivalent to achieving the real thing.

## Conclusion

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Our exploratory analysis of demographic diversity in large U.S. businesses resulted in two principal findings. First, a core set of motives and practices exists that distinguishes firms that are recognized for diversity. These include the following:

- A conviction among senior managers that workforce diversity positively affects business performance.
- A strong leadership commitment to diversity planning and implementation.
- A range of diversity initiatives that encompasses more than standard minority recruiting, promotion, and retention programs.
- Formal mechanisms for evaluating and holding company personnel accountable for diversity outcomes.<sup>1</sup>

That said, we cannot demonstrate which best practices are essential or most important to diversity success. Nor can we say how or in what order diversity elements should be implemented. In fact, our interviews with executives in best diversity companies suggest that the path to diversity success varies according to a company's history, culture, and mission. For example, some companies pursued a comprehensive approach to diversity management early on, while others preferred a building-block approach, focusing initially on certain aspects of the diversity framework and incorporating additional elements over time.

Our second major finding is that best practices in themselves may not enable a company to achieve a high level of diversity. Although considerably more empirical research will be required to understand the connections among the various determinants of diversity, contextual factors (such as industry affiliation and company size) may be as significant as strategic factors in influencing the extent of a company's diversification. Additionally, the organizational change literature indicates that achieving more than a surface level of diversity (i.e., transforming diverse individuals into integrated, highly productive work groups) requires fundamental changes in the corporate culture and a top-down and bottom-up commitment in the firm.

Turning diversity to business advantage is a difficult undertaking for many firms. Ironically, while a belief in the importance of diversity to the corporate bottom line is a defining characteristic of best diversity companies, the limited empirical research conducted so far shows that diversity has had a mixed impact on business performance. Cox (2001) describes diversity as a "double-edged sword": while it can contribute effectively to firm performance, it also can

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<sup>1</sup> The authors acknowledge that the sample of large corporations selected by *Fortune* magazine for its "Best" surveys was not fully representative of U.S. companies. It is possible that the diversity situations of small or multinational companies may be significantly different from those of the *Fortune* firms.

bring significant costs. In their literature review of the business case for diversity, Riche and her colleagues (2005) found that heterogeneous teams made better (i.e., more creative and innovative) decisions than homogenous groups in laboratory studies. But field research indicated that simply increasing the representation of traditionally underrepresented groups most often resulted in increased conflict and turnover among employees, with minority employees being the most likely to leave. Richard, McMillan, Chadwick and Dwyer (2003) contend that racial diversity must be set in an appropriate context (for example, companies seeking new products or markets) to realize its full financial benefit. Nevertheless, the argument for paying close attention to diversity relies at least as much on demographic trends as it does on analyses of performance outcomes. Even if the business case for diversity is not apparent, the U.S. workforce will inevitably become more diverse, and it seems appropriate to carefully manage the process of diversification (even without gains in performance) rather than suffer the negative business consequences that derive from inattention to diversity issues.

## ***Fortune's* Criteria for the “Best Companies for Minorities”**

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Below is a list of the criteria used by *Fortune* magazine to determine the “Best Companies for Minorities” in the United States in 2004. These criteria are grouped into three categories: minority representation, diversity programs and policies, and financial reciprocity vis-à-vis minority-associated organizations.

### **Representation Categories**

- **Board of directors:** Percentage of minorities on the board of directors.
- **Corporate officers:** Percentage of minorities among corporate officers.
- **Top 50 paid:** Percentage of minorities among the 50 highest paid employees at the company.
- **Officials and managers:** Percentage of minorities among officials and managers (or “in management”).
- **Total workforce:** Percentage of minorities in the workforce as a whole.
- **Glass ceiling:** The ratio of the percentage of minorities in management to the percentage of minorities in the workforce. A value of 1 indicates parity in representation at the management level compared with that for the workforce as a whole. A value of less than 1 indicates that minority representation is lower in management than in the workforce as a whole. A value of greater than 1 indicates that minority representation is higher in management than in the workforce as a whole.
- **New hires:** Percentage of minorities among employees hired in the last calendar year.

### **Programs and Policies**

- **Participation in diversity training:** The percentage of employees who underwent diversity training during the calendar year in question.
- **Number of companies requiring diversity training of managers:** The number of companies that make diversity training mandatory for managers.
- **Number of companies with a formal mentoring program:** The number of companies that have a formal mentoring program, which includes minority employees among those mentored.

- **Minority employees mentored as a percentage of the workforce:** The number of minority employees mentored in the calendar year in question as a percentage of the total workforce.
- **Number of companies tracking minority candidates for management:** The number of companies that have a succession planning program or management tracking program that tracks high-potential minority employees for promotion into management positions.
- **Minorities as a percentage of all employees tracked:** The number of high-potential minority employees being tracked for possible promotion to management as a percentage of all employees being tracked.
- **Number of companies with company-sponsored employee support networks/affinity groups:** The number of companies that have corporate-sponsored affinity groups or support networks for specific minority employee groups.
- **Number of companies where job reviews include diversity criteria for minorities:** The number of companies that conduct job reviews for at least some managers that include formal consideration of the manager's progress on diversity goals for the hiring, promotion, and retention of minorities.
- **Percentage of managers whose job reviews include diversity criteria for minorities:** The number of officials and managers whose job reviews include formal consideration of the manager's progress on diversity goals for the hiring, promotion, and retention of minorities as a percentage of all employees in the official and manager employment category.
- **Number of companies where bonus includes diversity criteria for minorities:** The number of companies where bonus/compensation for at least some managers is based in part on formal consideration of the manager's progress on diversity goals for the hiring, promotion, and retention of minorities.
- **Percentage of managers whose bonus includes diversity criteria for minorities:** The number of officials and managers whose bonus/compensation is based in part on the formal consideration of the manager's progress on diversity goals for the hiring, promotion, and retention of minorities as a percentage of all employees in the official and manager employment category.
- **Number of companies with internship programs aimed at minorities:** The number of companies that have formal internship programs aimed at least in part at minorities.
- **Minority interns as a percentage of all interns:** The number of minority interns at the company as a percentage of all interns employed by the company.
- **Minority interns as a percentage of minorities in the workforce:** The number of minority interns at the company as a percentage of all minority employees at the company.

## Financial Reciprocity

- **Companies using a minority-owned investment firm:** The number of companies that used a minority-owned investment firm to manage any part of their portfolios or pension funds.
- **Companies using minority-owned underwriter in the past five years:** The number of companies that have retained a minority-owned firm as a major underwriter for corporate issuances or debt distribution in the previous five years.
- **Formal program for purchasing from minority-owned firms:** The number of companies that have a formal program in place for purchasing goods and services from minority-owned businesses.
- **Percentage of purchasing done with minority-owned firms:** The amount of purchasing done with minority-owned businesses as a percentage of total purchasing dollars.
- **Charitable contributions to minorities:** The amount of charitable cash contributions given to organizations or programs that primarily benefit minorities as a percentage of total cash contributions.



## Diversity Manager Interview Protocol

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1. Can you briefly tell us about your role in the organization?
2. How does your company define diversity? Who was involved in determining this definition?
3. What is the value of diversity to your company?
  - Competitive advantage or business success (widen employee skill base, access to different perspectives, increase innovation)
  - Consumer service (mirror consumer base, attract wider customer base, meet needs of diverse population)
  - Improve work environment (give individuals ability to develop, reach full potential, grow as individuals)
  - EEO compliance (avoid legal problems, comply with regulations)
  - Social agenda (contribute to positive community atmosphere, increase quality of life for diverse groups)
  - Other
4. How do you know that is so?
5. Do you believe employees recognize the importance of diversity to your organization? Why do you say that?
6. How was the diversity strategy developed and who was involved in the development?
7. What is your strategy? How does your organization pursue diversity?
  - Recruiting policies
  - Promotion policies
  - Retention policies
  - Professional development programs
  - Diversity education programs
  - External outreach programs
  - Social networks and diversity awareness programs
8. Which of those activities, in your opinion, are most important? Why?
9. Which programs have been less effective? Why do you think that is so? What difficulties have you faced?

10. Have you tried diversity programs that failed and are no longer used? Why did they fail?
11. How diverse is your organization—we're especially interested in your managers and professionals.
12. What kind of diversity metrics do you use?
  - Percentage of minorities, EEO targets
  - Change in minority representation
  - Representation of minorities at different levels of firm
  - ROI for diversity initiatives
  - Employee satisfaction surveys

13. What are assessments used for?

- Nothing
- To redesign and redirect diversity programs
- Accountability purposes only
- To assess effectiveness of current programs
- To demonstrate commitment to diversity to employees or external audiences

Who sees the assessments?

14. Does the level of diversity differ between skill groups or professions in the company? Why do you think that is?
15. What share of your overall workforce is composed of managerial or professional employees (i.e., those with higher technical degrees)?
16. Are there differences in the level of diversity by seniority? Why do you think that is?
17. Do you have a vision of how diverse, ideally, you'd like your organization to be?
18. What types of obstacles do you encounter as you pursue diversity? Why do you think these obstacles exist? Can they be overcome?
  - Employee resistance to changed policies
  - Diversity programs remain peripheral, not central in employee's minds
  - Difficulty in recruitment, retention of minority personnel
  - Difficult to secure funds for diversity programs
  - Lack of senior leadership support
19. What types of limitations do you see on your firm's diversity? Why do you think they exist? Can they be overcome?
  - Lack of qualified minority applicants
  - Geographic location
  - Nature of firm culture prevents diversity

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