Research links diversity with increased sales revenue and profits, more customers

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Workplace diversity is among the most important predictors of a business' sales revenue, customer numbers and profitability, according to research to be published in the April issue of the *American Sociological Review*.

In one of only a few studies to empirically examine the implications of organizational diversity, sociologist Cedric Herring found that a workforce comprised of employees of both genders and varying racial backgrounds resulted in positive business outcomes.

"Although previous research on diversity in the workforce has suggested diversity's negative impact on group dynamics and communication, this study makes the case for diversity in clear financial terms," said Herring, the interim head of the sociology department at the University of Illinois at Chicago and a professor of sociology and public policy at the University of Illinois' Institute of Government and Public Affairs.

Herring found that companies reporting the highest levels of racial diversity brought in nearly 15 times more sales revenue on average than those with the lowest levels of racial diversity. Gender diversity accounted for a difference of $599.1 million in average sales revenue: organizations with the lowest rates of gender diversity had average sales revenues of $45.2 million, compared with averages of $644.3 million for businesses with the most gender diversity.

For every percentage increase in the rate of racial or gender diversity up to the rate represented in the relevant population, there was an increase in sales revenues of approximately 9 and 3 percent, respectively. Herring found racial diversity to be a better determinant of sales revenue and customer numbers than company size, the company's age and the number of employees at any given work location.

Companies with a more diverse workforce consistently reported higher customer numbers than those organizations with less diversity among staff. In terms of racial diversity, companies with the highest rates reported an average of 35,000 customers compared to 22,700 average customers among those companies with the lowest rates of racial diversity. The difference is even larger for gender diversity rates. That is, companies with the highest levels of gender diversity reported an average of 15,000 more customers than organizations with the lowest levels of gender diversity. Herring also found that the smallest incremental increase in levels of racial or gender diversity resulted in more than 400 and 200 additional customers, respectively.

Although a corporate workforce's gender composition did not have a significant impact on a company's relative market share, Herring found that racial diversity was among the most important predictors of a company's competitive positioning relative to other firms in its industry.

According to the research, as racial and gender diversity levels increased in a company's workforce, its profits relative to those of its competitors also increased.

Herring analyzed data from the National Organizations Survey (NOS), reviewing a subset of 506 United States-based for-profit businesses that provided information about workforce diversity, sales revenue, customer numbers, market share and profitability between 1996 and 1997. The NOS contains information from a sample of the 15 million organizations in Dun and Bradstreet's Information Services' data file.

Herring's work in the April issue of the American Sociological Review is accompanied by two other studies relevant to race in the workplace; one is on equal employment opportunity and the other examines race discrimination lawsuits. On the topic of equal employment opportunity, sociologist C. Elizabeth Hirsh of Cornell University analyzed the direct impact of discrimination charges on workplace segregation, as well as indirect pressures presented by legal and organizational environments. She found that companies do not desegregate in the wake of sexual discrimination charges filed directly against them, but they do respond to Equal Employment Opportunity enforcement in their industries and in the broader legal environment.

Hirsh's findings also suggest that organizational factors are more pivotal to race desegregation than legal intervention. For example, larger companies and those with more females in management were found more likely to promote workplace integration. Hirsh concludes that by making an example of employers found in violation of the law, Equal Employment Opportunity enforcement creates a legal environment that encourages policy compliance among other employers.

Race discrimination lawsuits increase access to managerial jobs for African Americans, according to research from sociologist Sheryl Skaggs of the University of Texas at Dallas. Skaggs examined data on the supermarket industry from 1983 to 1998 and found that African Americans were more likely to enter management in the year following a lawsuit filing against a particular supermarket. Importantly, the initial increase in African American managers resulting from a lawsuit filing was shown to produce long-term benefits by bringing representation up to the industry average. Legal pressures from federal courts were also important. When circuit courts were made up predominantly of white males, they were less likely to create a legal climate signaling intolerance of workplace racial discrimination.

Source: American Sociological Association