

Bottom line may be boosted by diversity at the top

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Racial diversity at a corporation's top ranks may be good for business, according to new research conducted by a School of Management professor. Results from Dr. Orlando Richard's study suggest that racial diversity at the top may enhance a company's performance because such companies initiate more aggressive sales and marketing strategies.

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Richard is a professor of organizations, strategy and international management at UT Dallas. He and co-authors Goce Andrevski of Queens University, Walter Ferrier of the University of Kentucky and Jason Shaw of the University of Minnesota surveyed the competitive actions of 115 Fortune 1,000 companies during a three-year period for their study.

Their research paper, "Managerial Racial Diversity, Competitive [Aggressiveness](#) and Firm Performance," won a Best Paper Award in July from the Academy of Management.

The survey found that firms with more racially diverse leadership tend to launch more competitive actions such as new product introductions, creative advertising and promotions and sales incentives than firms with homogeneous management.

In fact, firms with highly diverse management mixes launched 71 competitive actions per year while companies with low diversity leadership introduced only 9, the research found.

Richard, a leading scholar in the area of racial diversity's bottom-line effects, says that previous research has not successfully explained why diversity impacts company performance. The professor and his colleagues believe that racial diversity fosters greater creativity and innovation because it combines an assortment of knowledge bases and experiences.

“We illustrate how racial diversity brings the organization creative variety and alternative knowledge bases, which lead to more competitive actions and ultimately increased shareholder returns and market share. We also show that racial diversity effects are more powerful in more resource-abundant environments than resource-scare ones,” Richard said.

Unlike previous research that lumps all racial minorities into one category to compare against whites, this study defines diversity as management group representation across five racial categories: whites, blacks, Asians, American Indians and Hispanics.

“We argue that greater distribution across these categories provides more creativity and problem-solving capabilities,” Richard said.

The study also found that diversity training may be a useful human resource management tool for organizations that are concerned with managing a racially diverse organizational setting.

Richard, who teaches MBA and PhD courses in organizational behavior and human resource management at the School of Management, said he came up with the idea for the paper about five years ago. He has been

conducting similar research for about 13 years and already had the racial diversity and company performance data, but asked Andrevski to collect the competitive action data for a three-year period.

A short version of the 40-page paper has been published in the Academy of Management's Best Paper proceedings and is available to all members of the organization. It will soon be available in libraries and the general public.

“As organizations become increasingly diverse and as the representation of racial minorities in the U.S. workforce rapidly grows, practicing managers are curious as to how racial diversity will affect their bottom-line performance,” Richard said. “This study provides a more complex relationship than a simple linear relationship between racial diversity and firm performance.”

Provided by University of Texas at Dallas

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