

Study: Pro-diversity policies make companies more innovative and profitable

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While some may see corporate diversity initiatives as nothing more than glitzy marketing campaigns, a PSU business school professor's research shows that companies that hire a more diverse set of employees are rewarded with a richer pipeline of innovative products and a stronger financial position.

A variety of businesses large and small have launched initiatives to attract a more diverse and inclusive workforce. But no one has measured how diverse [business](#) practices actually impact a [company](#)'s bottom line. In her paper "Do Pro-Diversity Policies Improve Corporate Innovation?" published in the journal *Financial Management* in January 2018 and co-authored with two colleagues from North Carolina State University, Jing Zhao, assistant professor of finance in The School of Business at Portland State University, attempts to measure diversity's impact on Corporate America.

The study showed that companies that promote a diverse workforce and a culture of inclusion, specifically attracting and retaining minorities, women, the disabled and LGBTQ employees, were more efficient in generating new products and patents. Zhao found that diverse hiring practices increase the pool from which a firm is able to recruit talented and creative employees. The wider the range of views and backgrounds, experiences and expertise the company attracted, Zhao concluded, the more innovative the company was to solve problems. A diverse, inclusive culture attracts and retains talent and boosts [employee](#) morale, Zhao's research found.

Zhao and her coauthors scoured and analyzed data on publicly traded U.S. firms, looking at new product introductions, patents and other company milestones. They showed that pro-diversity policies enhance future firm value by spurring innovation.

"Top corporate leaders, academics and [policy](#) makers have long been wondering about the real economic benefits of corporate diversity policies," Zhao said. "Many didn't see how hiring a more diverse workforce positively affected shareholder value. Now we have strong evidence that creating a more diverse workplace today results in more innovative outcomes for companies tomorrow."

Zhao's findings also showed that companies with pro-diversity policies weathered the 2008 economic downturn far better than those without them.

More information: Roger C. Mayer et al, Do Pro-Diversity Policies Improve Corporate Innovation?, *Financial Management* (2017). [DOI: 10.1111/fima.12205](#)

Provided by Portland State University

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