

Firms embracing diversity may trade short-term pain for long-term gain

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Short-term pain for long-term gain: That might be one way to describe the results of new research from the Alberta School of Business on the impact of diversity and inclusion (D&I) practices on business firms.

Such practices—adopted to support people of different ethnicities, religions, abilities, genders and sexual orientations—are generally, and rightly, viewed as beneficial in business, says Hoa Briscoe-Tran of the school's Department of Finance. In addition to bringing about a measure of social justice, they may strengthen firms by providing varying perspectives and approaches to problem-solving.

But there has been little research on the short-term impact of D&I on a company's ability to make quick decisions in the face of changing economic conditions. According to a [study](#) by Briscoe-Tran, available as a working paper in *SSRN Electronic Journal*, many firms become less nimble as they adjust to the cultural shift.

Briscoe-Tran investigated how firms embracing D&I practices responded to the COVID-19 crisis in 2020—an unexpected shock to the economy that allowed him to observe their flexibility in real time.

To find those firms, Briscoe-Tran used an AI-driven approach to gather more than 10 million employee ratings from a career intelligence website called Glassdoor.com, which pioneered a D&I rating in 2020 that allowed him to extend the rating going back to 2008. He found those firms with high D&I ratings had larger declines in operating efficiency than firms with low D&I ratings after a big economic shock.

The results caught even Briscoe-Tran somewhat off guard.

"When I first started this project, I thought D&I might be able to increase flexibility," he says, citing psychology experiments since the 1960s demonstrating that the more diverse a group or team, the more creative they are in arriving at decisions, and the better those decisions tend to be.

That may be true in the long run, but it takes a while to get there, he

says.

"When you allow for diverse opinions, it takes longer for people to reach consensus" and collect the necessary supporting information. "Diverse teams may encounter communication issues, and the process of integrating differences among employees may require time and resources that hinder swift decisions."

Workforce-related decisions such as hiring and firing can also become more time-consuming as companies adopt equity measures to counter bias, he says.

"If a company is really committed to D&I hiring, they need to look beyond what they normally look at, such as a more diverse pool of candidates with varying experience and backgrounds, and that's going to take longer as well.

"You can't just look at a basic test score—you have to look beyond the obvious."

Firing can be more complicated as employers are required to make a stronger case and more carefully document their decision, says Briscoe-Tran. Harassment training for employees and other D&I initiatives also take time away from daily work.

All these considerations add constraints that "slow down decision-making and hinder adaptability"—a short-term consequence for which firms need to be prepared.

None of this should discourage firms from pursuing D&I practices, he stresses, since they are important for social and ethical reasons and can add value to a company on the stock market over time.

"There could be many potential benefits of D&I that future studies can examine, such as higher innovation and higher efficiency during normal times," says Briscoe-Tran.

"Understanding these trade-offs is important for [business leaders](#) as they navigate the evolving landscape of diversity and inclusion in the corporate world."

More information: Hoa Briscoe-Tran, Are Firms Sacrificing Flexibility for Diversity and Inclusion?, *SSRN Electronic Journal* (2023). [DOI: 10.2139/ssrn.4536237](https://doi.org/10.2139/ssrn.4536237)

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