Understanding the Value of Diversity in Organizations: A Capability-based Framework of Heterogeneity and Firm Performance

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Diversity's dividend

What's the likelihood that companies in the top quartile for diversity financially outperform those in the bottom quartile?¹

- **Gender-diverse companies**: 15% more likely to outperform
- **Ethnically diverse companies**: 35% more likely to outperform

¹Results show likelihood of financial performance above the national industry median. Analysis is based on composite data for all countries in the data set. Results vary by individual country.

Source: McKinsey analysis
An initial review of the literature reveals approximately 75 published articles, which highlight relationships between diversity and a variety of performance indicators, including margins (e.g., Boone & Hendriks, 2009; Hartenian & Gudmundson, 2000), returns (e.g., Li, Chu, Lam & Liao, 2011; Richard, 2000), and valuation (e.g., Roberson & Park, 2007; Talke, Salomo & Rost, 2010).
What We Know

Using a meta-analytic(ish) approach, we identified the underlying theories used and diversity types, foci, theories, outcomes and intervening variables examined in research-to-date. Several patterns emerged:

• Research on board diversity primarily focuses on firm ownership and insider/outsider status. Those studies that explore effects of other diversity characteristics primarily focus on gender and race, and draw upon a wide range of theoretical foundations.

• Research on TMT diversity primarily focuses on deep-level characteristics, draws upon upper echelons and strategic choice theories, and highlights the moderating effects of firm and team size.

• Research on managerial diversity is scant; two studies examine the effects of race on performance outcomes and highlight the importance of environmental munificence and firm strategy.

• Research on employee diversity primarily focuses on the effects of gender and race, and draws upon the value-in-diversity hypothesis and related theories. Across these studies, there is also variability in performance outcomes, control variables, and moderators.
What We Don’t Know

Boards of Directors
Top Management Teams
Managers
Employees

Diversity

Sales growth
Tobin’s Q
Returns
Margins
Load Factors
Productivity
Market share
Market value
EPS
Value in Diversity Hypothesis (Cox & Blake, 1991)

Diversity

Creativity
- Problem-solving
- Understanding of diverse consumer markets
- Ability to respond to the external environment

Performance

Strategy fulfillment, product & service offerings, and functioning (Ely & Thomas, 2001; Thomas & Ely, 1996)
Organizing Framework: Dynamic Capabilities

Dynamic capabilities represent a firm’s ability to manipulate its resources to adapt to ever-changing market conditions (Eisenhardt & Martin, 2000). Such capabilities are represented by processes and routines for acquisition, integration and recombination (Teece et al., 1997)
Intended Contributions

1. Integrate theory and research across teams, HRM, and strategy domains
   a) Highlight key findings, commonalities and equivocalities
   b) Present an organizing framework

2. Articulate the mechanisms through which diversity affects firm performance

3. Highlight environmental contexts in which firms may realize the (dis)advantages of demography

4. Set a future research agenda
THANK YOU!!

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