There is no question that organizations are becoming ever more diverse. But how does this affect organizations? As we will see, diversity provides both opportunities and challenges for organizations.

**Diversity and Competitive Advantage**

Many organizations are also finding that diversity can be a source of competitive advantage in the marketplace. In general, six arguments have been proposed for how they contribute to competitiveness. These are illustrated in Figure 4.

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The cost argument suggests that organizations that learn to manage diversity generally have higher levels of productivity and lower levels of turnover and absenteeism. Those organizations that do a poor job of managing diversity, on the other hand, suffer from problems of lower productivity and higher levels of turnover and absenteeism. Because each of these factors has a direct impact on costs, the former organization remains more competitive than will the latter. Ortho Pharmaceutical Corporation estimates that it has saved $500,000 by lowering turnover among women and ethnic minorities. 12

The resource acquisition argument suggests that organizations who manage diversity effectively become known among women and minorities as good places to work. These organizations are thus better able to attract qualified employees from among these groups. Given the increased importance of these groups in the overall labor force, organizations that can attract talented employees from all segments of society are likely to be more competitive. Table 1 lists companies that have an especially good reputation as a good place for minorities to work.

### Table 1

#### America’s Best Companies for Minorities

<table>
<thead>
<tr>
<th>Rank 2000 (Rank 1999)</th>
<th>Company’s 1999 Revenues (millions)</th>
<th>Number of Minorities</th>
<th>Percentages that are Minorities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Board of Directors</td>
<td>Top Fifty Paid</td>
<td>Officials and Managers</td>
</tr>
<tr>
<td>1 (6) Advantica</td>
<td>Spartanburg, SC $1,735</td>
<td>4 of 11</td>
<td>8</td>
</tr>
<tr>
<td>2 (+) Levi Strauss &amp; Company</td>
<td>San Francisco, CA</td>
<td>2 of 12</td>
<td>7</td>
</tr>
<tr>
<td>3 (2) Fannie Mae</td>
<td>Washington, DC $36,969</td>
<td>N.A.</td>
<td>8</td>
</tr>
<tr>
<td>4 (4) Sempra Energy</td>
<td>San Diego, CA $5.435</td>
<td>5 of 16</td>
<td>6</td>
</tr>
<tr>
<td>5 (+) Dole Food</td>
<td>Westlake Village, CA $5,061</td>
<td>1 of 7</td>
<td>17</td>
</tr>
</tbody>
</table>

*Source: Fortune, July 10, 2000, pp. 190-193 © Time Inc. All rights reserved.*

The marketing argument suggests that organizations with diverse and multicultural workforces are better able to understand different market segments than are less diverse organizations. For example, a cosmetics firm like Avon that wants to sell its products to women and blacks can better understand how to create such products and effectively market them if women and black

managers are available to provide inputs into product development, design, packaging, advertising, and so forth.\textsuperscript{13} Similarly, both Sears and Target have profited by focusing part of their marketing efforts on building consumer awareness among Hispanics.\textsuperscript{14}

The \textit{creativity argument} suggests that organizations with diverse and multicultural workforces are generally more creative and innovative than other organizations. If an organization is dominated by one population segment, it follows that its members will generally adhere to norms and ways of thinking that reflect that segment. Moreover, they have little insight or stimulus for new ideas that might be derived from different perspectives. The diverse and multicultural organization, in contrast, is characterized by multiple perspectives and ways of thinking and is therefore more likely to generate new ideas and ways of doing things.\textsuperscript{15}

Related to the creativity argument is the \textit{problem-solving argument}. Diversity is accompanied by an increased pool of information. In virtually any organizations, there is some information that everyone has and other information that is unique to each individual. In an organization with little diversity, the larger pool of information is common and the smaller pool is unique. But in a more diverse organization, the unique information is larger. Thus, because more information can be brought to bear on a problem, there is a higher probability that better solutions can be identified.\textsuperscript{16}

Finally, the \textit{systems flexibility argument} suggests that organizations must become more flexible as a way of managing a diverse and multicultural workforce. As a direct consequence, the overall organizational system also becomes more flexible. Organizational flexibility enables the organization to better respond to changes in its environment. Thus, by effectively managing diversity within its workforce, an organization simultaneously becomes better equipped to address its environment.

\textbf{Diversity and Conflict}

Unfortunately, diversity in an organization can also create conflict. This conflict can arise for a variety of reasons.\textsuperscript{17} One potential avenue for conflict is when an individual thinks that someone has been hired, promoted, or fired because of her or his diversity status. For example, suppose that a male executive loses a promotion to a female executive. If he believes that she was promoted because the organization simply wanted to have more female managers rather than

\begin{itemize}
\item \textsuperscript{13} For an example, see “A Female Executive Tells Furniture Maker What Women Want,” \textit{The Wall Street Journal}, June 25, 1999, pp. A1, A11.
\end{itemize}
because she was the better candidate for the job, he will likely feel resentful toward both her and the organization itself.

Another source of conflict stemming from diversity is through misunderstood, misinterpreted, or inappropriate interactions between people of different groups. For example, suppose that a male executive tells a sexually explicit joke to a new female executive. He may intentionally be trying to embarrass her, he may be clumsily trying to show her that he treats everyone the same, or he may think he is making her feel like part of the team. Regardless of his intent, however, if she finds the joke offensive she will justifiably feel anger and hostility. These feelings may be directed at only the offending individual or more generally toward the entire organization if she believes that its culture facilitates such behaviors. And of course, sexual harassment itself is both unethical and illegal.

Conflict can also arise as a result of other elements of diversity. For example, when a US manager publicly praises the work of a Japanese employee for his outstanding work, the action stems from the dominant cultural belief in the United States that such recognition is important and rewarding. But because the Japanese culture places a much higher premium on group loyalty and identity than on individual accomplishment, the employee will likely feel ashamed and embarrassed. Thus a well-intentioned action may backfire and result in unhappiness. A joint venture between IBM (a US company), Siemens (a German company), and Toshiba (a Japanese company) had difficulties attributed to cultural differences in work hours, working styles, interpersonal relations, and communications.

Conflict may also arise as a result of fear, distrust, or individual prejudice. Members of the dominant group in an organization may worry that newcomers from other groups pose a personal threat to their own position in the organization. For example, when US firms have been taken over by Japanese firms, US managers have sometimes been resentful or hostile to Japanese managers assigned to work with them. People may also be unwilling to accept people who are different from themselves. And personal bias and prejudices are still very real among some people today and can lead to potentially harmful conflict.

Several high-profile problems involving diversity focused attention on the potential for conflict and how important it is that managers respond appropriately when problems occur. Shoney’s Inc., a southern restaurant chain, was charged with racism throughout its managerial ranks. Denny’s, another restaurant business, was charged with similar practices. At Texaco, senior executives used racial slurs on a tape subsequently released to the public. And a class-action lawsuit against the financial brokerage giant Smith Barney alleged widespread hostilities and discrimination toward women throughout the firm. In each of these cases, fortunately, the organizations involved have undertaken major programs designed to eliminate such problems in the future.

