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WORLD CHANGING IDEAS

Want A More Innovative Company? Simple: Hire A More Diverse Workforce

A new study adds to the research that a variety of backgrounds and experiences in the workplace leads to business success.

BY BEN SCHILLER 2 MINUTE READ

Companies may have somewhat fluffy reasons for hiring and promoting diverse workforces. A mix of skin colors, genders, and sexual orientations looks good in marketing photo shoots and presents a brand as representing modern America's rainbow coalition. But diversity is important for another big reason, according to new research: It helps businesses to become more innovative and more successful. "There is a business case for diversity," says Richard Warr, a professor of finance at North Carolina State University and coauthor of the research. "It's not just about trying to be nice. It's good for business. It not only helps in terms of perception. It actually produces better outcomes."

The study looks at the performance of 3,000 publicly traded companies in the years 2001-2014 across nine measures of diversity. That includes whether firms have women and minority group CEOs, whether they promote women and people of color to "profit and loss responsibilities," whether they have positive policies on gay and lesbian employees (say, offering benefits to domestic partners), and whether they have programs to hire disabled employees.

Companies are marked down for diversity failures: For example if they paid fines for discrimination or they hired no women to their boards. The researchers judge innovativeness from patent and patent citation data and the number of new products companies announced over the time period. And they normalize the results for company size, presuming that larger companies file more patents and produce more new products than smaller ones.

The big takeaway: Companies that fulfill all nine positive diversity requirements announce an average of two extra products in any given year, which about doubles the average for a major company (those that tick fewer boxes are less innovative proportionally). Moreover, the researchers find that companies with pro-diversity policies were also more resilient in terms of innovation during the 2008 financial crisis.

The main sample excludes companies in California because, in designing the study, the researchers worried that a “Silicon Valley effect” would skew the results. That is because technology companies tend to have more-progressive-than-normal workplace policies and to be more innovative than mainstream U.S. companies, Warr says.

According to Warr, there are three main reasons why more diverse companies may be more innovative. First, teams with a broader range of people have a wider range of interests, experiences, and backgrounds to draw upon. They understand potential users of products better than less diverse teams. And they tend to be better problem-solvers, coming up with blue-sky solutions more often. “They think about problems in a different way that might have been expected,” Warr says.

Second, more diverse companies tend to attract and retain more diverse talent. “If your company is all about old, white people, you are cutting yourself off from other types of people–they don’t want to come to work for you,” Warr says. And third, more diverse companies have a sort of “halo effect,” Warr says. They’re more attractive not only to women and minorities, but also to people who are not women or minorities, who want to work for more enlightened organizations. The paper, coauthored by Roger Mayer, also of NC State, and Jing Zhao of Portland State University, has limitations. First, the relationship between diversity and innovation is somewhat speculative. Through various complex statistical techniques, the researchers try to prove causation rather than correlation, but it’s arguable if they succeed. It’s possible that diverse companies are innovative for a host of reasons–say, because they invest in R&D–not just because they’re diverse. But the research echoes other work showing a link between diversity and financial performance (like this report from consultants McKinsey). So perhaps we shouldn’t be too skeptical.

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