THE CASE FOR DIVERSITY:
ATTAINING GLOBAL COMPETITIVE ADVANTAGE
The Hudson Highland Group Thought Leadership Series addresses timely, relevant topics and issues surrounding human capital management and workplace performance. Published periodically by the company, these articles showcase the perspectives and insights of our industry experts around the world. Their content is intended to spark new ideas—and ultimately innovation—for business leaders and managers.
THE CASE FOR DIVERSITY:
ATTAINING GLOBAL COMPETITIVE ADVANTAGE

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DIVERSITY IS NOT AN OPTION, BUT A BUSINESS IMPERATIVE.

In an era in which competition literally comes from everywhere as a result of globalization, consolidation and new technology, businesses that view diversity primarily as a compliance issue are positioning themselves for failure.

Today’s companies must figure out where and how they want to compete—who are their customers? Then the challenge becomes building a workforce that reflects their desired customer base. Recruiting, retaining and fully taking advantage of the skills and perspectives of the right mix of people is a critical success factor in the 21st century.

Changing demographics, emerging markets and new buying trends all point to the need for more diverse workforces, suppliers and markets. To sustain a culture of success, companies need to incorporate the concept of diversity into every operation, system and process. No business decision should be made without the input of diverse perspectives, or without serious consideration of how it will affect diverse constituencies.

Motorola learned the importance of this in 1996. The company initially sent three representatives to Atlanta to present a proposal to become an official communication sponsor of the summer Olympics. The proposal did not include how Motorola planned to contribute to the Atlanta community. The planning committee, which was among the most diverse in Olympic history, sent the company back to the drawing board.

Three weeks later, Motorola returned to the committee with a team of six people that represented a cross section of race and gender. The presentation included details about Motorola’s ongoing scholarship and internship programs for students at Atlanta’s historically black colleges and its success in offering full-time jobs to interns. The team presented information about the Motorola Foundation’s work in the city, as well as data about minority hiring at the company’s Atlanta-area plant. Motorola ended up walking away with a contract worth millions and the deal was tied directly to its diversity efforts.

Companies define diversity in different ways. To Ford Motor Co., diversity is “all the differences that make us unique individuals. Not limited to physical aspects of race, ethnicity, gender, age, disability, and sexual orientation, it includes culture, religion, education, experience, opinions, beliefs, language, nationality and more.”

Ford was named the #1 Corporation of the Year on Diversity Inc’s most recent list of “Top 50 Companies for Diversity.” The company maintains a diverse workforce not only because it is the right thing to do, but because it is good for business. Diversity leads to better products, increased customer value and improved global competitiveness.

Jim White, senior vice president of Deere and Co., noted in a recent speech that the company’s customers “are a far more diverse group than they were when we were mostly making machinery for U.S. and Canadian farmers.” He pointed out that “it’s difficult to remain the market leader with people of like background and thinking.
Employees with diverse backgrounds, talents and perspectives are in the best position to help the company understand customer needs and identify ways to most effectively meet those customers’ expectations.2

Most CEOs recognize that diversity provides a competitive advantage, according to a recent survey conducted by Diversity Best Practices, an organization of diversity practitioners. Ninety percent said that it improves employee retention. A significant majority also said diversity is important in achieving “employer of choice” status (85%); increasing valuable talent pools (82%); receiving awards and citations in the media (75%); improved corporate image (75%); and reduction in litigation (70%).3

However, only 60 percent recognized diversity as a competitive advantage in “penetration into new diverse markets,” and 45 percent saw it as an advantage in “operating in a global environment.” These numbers are likely to rise as companies grasp the potential of a vastly expanded customer base enabled by new technology.4

EMERGING MARKETS

The world is becoming a single marketplace. Anyone with a cell phone and access to the Internet is a potential customer. Wireless technology is exploding globally, opening up markets that were available only to local companies just a few years ago. This technology levels the playing field for companies worldwide, dramatically increasing competition.

Cell phones and the Internet also have made it easier for customers to gather competitive information about businesses. As the technology continues to improve and the cost goes down, more and more people around the world will have access to more companies and more products. If companies can make their products attractive to a diverse marketplace, they will be better able to compete. Businesses need to know more about their customers than ever before so they can create and market the right products in this era of increased personalization. To understand their customers, they need diversity in the product development group—and throughout the organization.
Technological advances are occurring so rapidly that companies’ potential customer base is increasing at the speed of light. For example, it took 38 years for the telephone to reach 10 million customers, while the cellular phone took only nine years to reach the same mark. The fax machine took 22 years, the personal computer, seven, and the World Wide Web only two years. With this rapid adoption of new technology, the pace of competition will only increase.

At the same time that technological change is accelerating, buying power (disposable personal income) among people of color is growing rapidly. In the United States, it nearly doubled during the last decade to $1.3 trillion a year, rising at a much faster rate than overall U.S. buying power, according to the Selig Center for Economic Growth at the University of Georgia.5

Buying power among minority groups is growing at a much faster rate than their population growth, according to the Selig Center. While the number of African Americans grew by 21 percent between 1990 and 2003, their buying power increased 116 percent to an estimated $688 billion.

Similarly, the Asian American population grew 65 percent between 1990 and 2003, while its buying power increased 191 percent, to an estimated $344 billion. The Hispanic population increased 83 percent, while its buying power grew 194 percent between 1990 and 2003, to a projected $652 billion. The Selig Center estimated that people with disabilities had $220 billion in buying power in 2001.

Despite these staggering numbers, marketers give little attention and target few advertising dollars to people of color, gays and lesbians, or people with disabilities, according to Diversity Inc’s “Business Case for Diversity (4th edition).” However, this is likely to change as industries need to find new customers to compete.

Like other communication companies, Schaumburg-based Motorola now spends millions of dollars marketing its cell phone and two-way pager products to urban customers. But it took a long time for the company to realize the potential of that market. In the early 1990s, the hip-hop generation had embraced Motorola’s products,
raising them to the level of a cultural status symbol. Nevertheless, at the same time that Motorola was trying to recruit African American employees, it ignored the community as an emerging market.

It wasn’t until the company began listening to its own African American employees that it recognized the vast potential of the urban marketplace. In 1997, Motorola set up Business Councils, whose purpose was to assist the marketing department with strategies to reach diverse customers. Motorola created several products specifically for urban consumers, which it likely would not have done without the input of a diverse employee base.

**CHANGING DEMOGRAPHICS**

The changing buying trends in the United States reflect changing demographics. The most significant trend identified by the 2000 U.S. Census is that within a few years, Caucasians will be a minority in the United States. People of color already are a majority in 48 of the nation’s 100 largest cities, according to The Brookings Institution Center on Urban and Metropolitan Policy.6

Latinos now constitute the largest minority group, 35.3 million people representing 12.5 percent of the population. The Latino population increased by 58 percent between 1990 and 2000, while the U.S. population as a whole increased 13.2 percent, according to census figures.

The number of African Americans totals 34.7 million people, or 12.3 percent of the population. Asian Americans are the third largest minority group in the United States, with 10.2 million people representing 3.6 percent of the population. Asians were the fastest growing ethnic group between 1990 and 2000, increasing 48 percent.

According to the Hudson Institute, a global leader in employment research, people of color represent 16 percent of the workforce today; by 2020, they are projected to surpass 30 percent of the total U.S. workforce. By 2008, almost 70 percent of new entrants into the workforce will be women, people of color and immigrants.7
The perspective of diversity as the right thing to do is converging with a compelling business case. Business leaders look to the numbers, and the numbers are saying that industry must act,” said Dr. Vance D. Coffman, chairman and CEO of Lockheed Martin Corp., at a recent summit on diversity sponsored by Diversity Best Practices.8

While many companies are hiring people of color to fill lower level positions, the numbers in the management ranks remain low. According to the U.S. Equal Employment Opportunity Commission’s 2001 private employment survey (the most recent available), 56.9 percent of corporate senior officials and managers are Caucasian men; 3.5 percent are black men and 35.9 percent are women.9

**Relationship Recruitment**

As the size, buying power and participation in the economy of minorities increase, enlightened companies are moving to ensure that their workforce reflects their customers. They are evaluating how well they are performing on factors such as the following:

- Percentage of people of color in the workforce, among the most senior officials and among highest paid employees
- Percentage of new hires and rates of promotion for people of color
- Percentage of executives with global experience
- Percentage of multi-lingual managers and employees
- Financial accountability of managers for meeting diversity goals
- Integration of people of color into succession plans
- Strength of purchasing programs with minority-owned businesses
- Percentage of corporate charity going to programs benefiting people of color
- Domestic partner benefits for same-sex partners

By gathering this type of data, companies are able to assess their strengths and weaknesses, and formulate a diversity strategy.
The single biggest challenge in achieving diversity—regardless of industry—is the scarcity of experienced minority candidates. Of Fortune 1000 companies, 2 percent of executives were minorities in 1999, according to “Breaking Through: The Making of Minority Executives in Corporate America,” by David A. Thomas and John J. Gabarro.10 The pipeline is also relatively small. Last year, only 13 percent of students enrolled in full-time MBA programs were black, Latino or Native American, according to the Association to Advance Collegiate Schools of Business.11

This means that recruiters are going after the same small pool of skilled minority candidates. Most of these individuals already have jobs, and while they may be open to opportunities that come their way, they are not actively sending out resumes or walking down the aisle of a career fair.

The key to hiring these experienced minority candidates is to build relationships with them over time. Like in a courtship, there needs to be interest on both sides. "Relationship recruiting" involves getting to know candidates, learning about their personal and career goals, and matching those aspirations with opportunities in the organization. Recruitment relationships may take one month or several years.

Companies that hire for talent, skill set, experience, potential, etc., will have better success hiring diverse candidates than those that are just trying to fill a job. Deloitte & Touche routinely sources diverse candidates and alumni of the firm, and hires to fit the practice first. Then it finds the appropriate role for the employee.

All corporate executives want their employers to have proactive strategies in career planning, mentoring, coaching, community involvement, support of diversity and inclusion, competitive compensation, professional development and exposure. However, the relationship that is developed throughout the recruitment process also determines what companies are successful.

Diverse candidates want to know whether there are senior managers in the organization who “look like” them, how quickly they can expect to advance and what level positions they can expect to attain. Done right, relationship recruitment also supports retention—the better the fit between the individual and the organization, the more likely he or she is to stay.

The CEO and other senior management should be directly involved in building relationships with potential minority employees, recruiting them and, once they are hired, making sure their careers continue to advance and that they are given the right exposure.

Many companies are choosing to participate in informal networking events to reach experienced people of color, recognizing that direct recruiting is not the best approach. For example, the Hudson Highland Group and its partners recently began sponsoring networking events to connect companies with experienced African American professionals in a wide variety of industries. Networking receptions were held in New York, Chicago, Atlanta, San Francisco and Washington, D.C., and are scheduled for five more cities in 2004.

Each event was attended by a select group of more than 250 professionals, from among 500 to 1,200 in each city who were invited to register by filling out a personal profile. Invitees included members of black professional organizations, civic associations and network groups.

The attendees represented industries including accounting, law, health care, finance, public relations, entertainment, government, engineering, marketing and sales. They typically were managers or directors with more than five years of experience, earning from $75,000 to $250,000 a year. Corporate sponsors included Dell, Johnson Controls, GE Medical Systems, Motorola, Microsoft, Nike, SBC, Apple, Deloitte Touche Tohmatsu, PricewaterhouseCoopers, General Mills, Quaker, Johnson & Johnson, DaimlerChrysler, Hewitt and Kaiser Permanente.

The payoff for these organizations should accrue over time, as people of color who attended the events seek advancement opportunities at companies that value diversity.

Smart companies support recruitment through diversity messages in all their public relations, community relations and advertising campaigns. For example, Verizon does a good job gearing its marketing messages specifically toward various ethnic markets and these messages double back to support recruitment.
Nike, on the other hand, which has very strong loyalty among African American consumers, needs to make a stronger connection between brand loyalty and recruitment. African Americans buy the shoes, but don’t seriously consider working for the company, which is headquartered in Beaverton, Ore., a location not particularly attractive to minorities.

According to Diversity Best Practices, “Diversity is evolving so quickly as a strategic function that in the past few years alone, the number of CEOs who articulate it as a business goal of the company has increased 100 percent.”

CEOs can help ensure their management team’s commitment to diversity goals by actions such as providing training and education on diversity issues; aligning attainment of diversity goals with compensation and bonuses; and requiring participation in employee affinity groups, mentoring programs and diversity councils.

Many companies are taking leadership roles in addressing a variety of issues related to diversity. Below are just a few examples:

- BellSouth crafted an effective vision statement that summarizes the importance of diversity to the company. Written by BellSouth EVP and General Counsel Charles Morgan, the statement has been adopted by more than 340 corporations, including General Motors, Lucent, Delta Airlines, Phillip Morris and Bank of America.

- Ford Motor Co. set a goal of increasing the percentage of minority dealers to match the percentage of the company’s customers (12 percent). The company’s current percentage of minority dealers is 7 percent, compared to an industry average of 4 percent. Ford also sets goals for spending with minority-or women-owned business enterprises (MWBEs). In 2000, the company spent $3.5 billion with MWBEs, the highest of any U.S. company. In addition, Ford expects its primary suppliers to purchase at least 5 percent of all goods and services from certified minority-and women-owned companies.

- To create a culture in which minority employees and prospective employees feel welcome, Ford sponsors Employee Resource Groups, which provide support and fellowship, contribute to professional development and sponsor organized events.

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“My responsibility as CEO is to establish values, set the cultural tone within the company and keep diversity in front of all employees,” said Ivan G. Seidenberg, CEO of Verizon Communications.
activities. There are groups for African Americans, Asian Indians, Chinese, Hispanics, professional women, women in finance, parents, Middle Easterners and gay, lesbian or bisexual employees, as well as an interfaith network.¹⁷

• Procter & Gamble committed to spending at least $1.5 billion annually with diverse suppliers by 2005, about 11 percent of its total procurement budget.¹⁸

• American Express measures how well managers embrace diversity in its annual goal-setting and review process. Annual employee satisfaction surveys also include questions that help track diversity gains and deficiencies.¹⁹

• British Telecom initiated a program to appoint gender, race and disability “champions,” who are responsible for increasing understanding of these issues while helping to change employee attitudes and behaviors.²⁰

• Texas Instruments’ employees participate in more than 20 diversity councils. Each council has a representative who sits on the company’s overall Diversity Network, which provides a forum to share ideas and build coalitions. The groups also share information through a publication devoted exclusively to diversity news.²¹

• At General Electric, every GE business leader and his or her direct reports serve as mentors to at least one minority and/or female employee. The program also tracks progress in promotions and advancement, using the Six Sigma model of data-driven results.²²

CONCLUSION

Increased globalization leading to new markets, intensified competition, changing demographics, and the need for fresh perspectives fuel the case for diversity in corporate America. Unless diversity is integrated into every aspect of a company’s business, and all stakeholders understand that it is critical to success, companies will be left behind. By adopting strategies such as relationship recruitment and setting goals for minority hires and promotions, businesses can improve their competitiveness in an increasingly tough environment.
"The Internet Revolution has leveled the playing field and created unprecedented opportunities for companies, countries and individuals around the world. It has also created a borderless society that provides universal opportunity for everyone by enabling access to information," said Cisco CEO John Chambers. "We recognize that diversity not only makes good business sense, but that it is essential to maintain our momentum and help us continue to grow as a corporation."23

Companies that embrace diversity will create an inclusive culture that supports sustained business success.

ENDNOTES

1. Ford Motor Co. web site (www.ford.com)
2. Deere and Co. (www.deere.com), speech to Society of Hispanic Professional Engineers, November 7, 2005
4. Ibid
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