2-2010

Paving the Path to Performance: Inclusive Leadership Reduces Turnover in Diverse Work Groups

Center for Advanced Human Resource Studies, ILR School, Cornell University

Paving the Path to Performance: Inclusive Leadership Reduces Turnover in Diverse Work Groups

Abstract
Key Findings:

• Inclusive leaders—characterized by the high-quality relationships they form with their employees—can significantly reduce the high turnover costs seen in diverse work groups.

• While it's tempting to only develop great relationships with the best employees, a manager who plays favorites in a diverse work group will see more employees leave.

Keywords
diversity, inclusion, employee engagement, turnover, retention, satisfaction, performance management

Comments

Suggested Citation

Center for Advanced Human Resource Studies. (2010, February). *Paving the path to performance: Inclusive leadership reduces turnover in diverse work groups* (CAHRS ResearchLink No. 3). Ithaca, NY: Cornell University, ILR School.

Cornell University
ILR School
Center for Advanced Human Resource Studies

ResearchLink

No. 3 February 2010

Paving the Path to Performance: Inclusive Leadership Reduces Turnover in Diverse Work Groups

THE TOPIC: REDUCING HIGH TURNOVER COSTS ASSOCIATED WITH GROUP DIVERSITY

The changing demographics of today's workforce make managing diversity effectively a key strategic issue for organizations. But after over two decades of testing the "value in diversity" hypothesis—where greater workforce diversity leads to better organizational performance—researchers have found there is little consistent evidence to support it.

KEY FINDINGS

- **Inclusive leaders—characterized by the high-quality relationships they form with their employees—can significantly reduce the high turnover costs seen in diverse work groups.**
- **While it's tempting to only develop great relationships with the best employees, a manager who plays favorites in a diverse work group will see more employees leave.**

Although diversity sometimes leads to better performance, it often does not. Despite much effort to determine how diversity influences performance, most research findings have been ambiguous. And research showing actual objective, bottom-line outcomes associated with diversity is scarce. This is largely due to researchers' single-minded focus on finding direct effects of diversity on outcomes, versus examining how other factors might moderate the relationship between diversity and outcomes.

Leadership is a prime candidate for being one of those moderating factors. While research has shown that leaders are very influential in shaping team processes and outcomes, surprisingly few studies explore how leaders can influence the outcomes associated with group diversity.

To fill this gap, this study examines how leadership—specifically, inclusive forms of leadership—is critical for successfully leveraging diverse human capital to improve performance. In addition to the moral argument for developing an inclusive work environment, the results of this study suggest that inclusive leaders can also help the bottom line.

The researchers studied how the quality of the relationships a leader develops with group members (*leader-member exchange*) can minimize the negative outcomes associated with greater diversity—specifically, high turnover.

CENTER FOR ADVANCED HUMAN RESOURCE STUDIES
Cornell University
ILR School
193 Ives Hall
Ithaca, NY 14853

Tel: 607-255-9358
www.ilr.cornell.edu/cahrs
cahrs@cornell.edu

Leaders can develop a wide range of relationships with their subordinates, ranging from a **low-quality** one based on exchanging work for money (in which employees are only motivated to do what's formally required by their job descriptions, but little more), to a very **high-quality** personal one in which both members share power and have mutual trust, respect and obligation.

This is the first data-based study to focus on how the quality of relationships that a leader has with subordinates can affect turnover rates in diverse groups. The study explores a new area of diversity research, which aims to identify factors that explain the conditions under which diversity is more or less likely to be associated with certain outcomes and why.

THE STUDY QUESTIONS

In this study, the researchers asked the following questions about groups that are diverse in terms of demographics (race, gender, and age) and organizational tenure:

- Can leaders help reduce the high turnover costs associated with diverse work groups by building higher quality, more inclusive relationships with their employees?
- Are the high turnover costs associated with diversity in work groups exacerbated when leaders develop relationships of varying quality with group members (i.e. have high-quality relationships with some employees and low-quality ones with others)?
- How does the overall level of inclusiveness in leaders' relationships with employees interact with how much those relationships differ among employees (i.e. the degree of variation in the quality of those relationships among employees) to affect turnover in diverse work groups?

THE RESULTS

The high turnover costs associated with diverse work groups can be significantly reduced when leaders develop a high overall level of inclusiveness in their relationships with group members (see Figure 1).

Turnover is higher in diverse groups when leaders are inconsistent in the quality of relationships they develop with group members (i.e. have high-quality relationships with some employees and not others) (see Figure 2).

Leaders can help reduce—or even reverse—the positive relationship between diversity and turnover by developing consistently high-quality relationships with all their employees.

Conversely, when leaders have high-quality relationships with only a select few employees in a diverse group, this could actually increase turnover—and do more damage than a leader having consistently low-quality relationships with all group members.

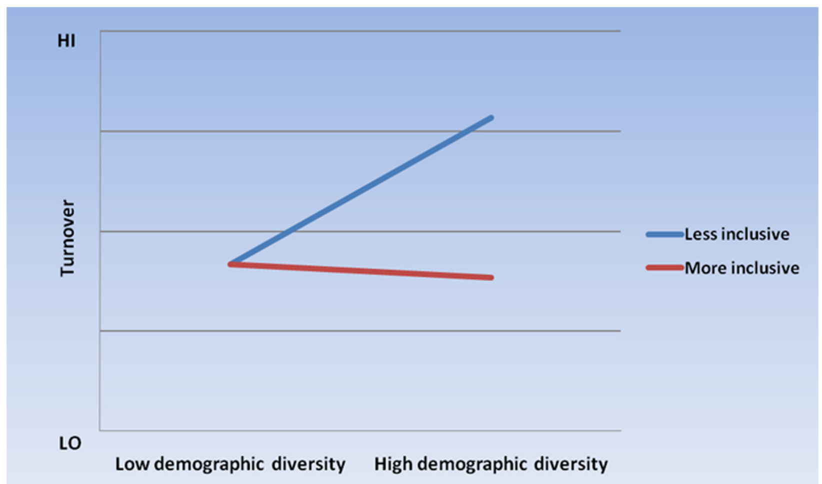


Figure 1.

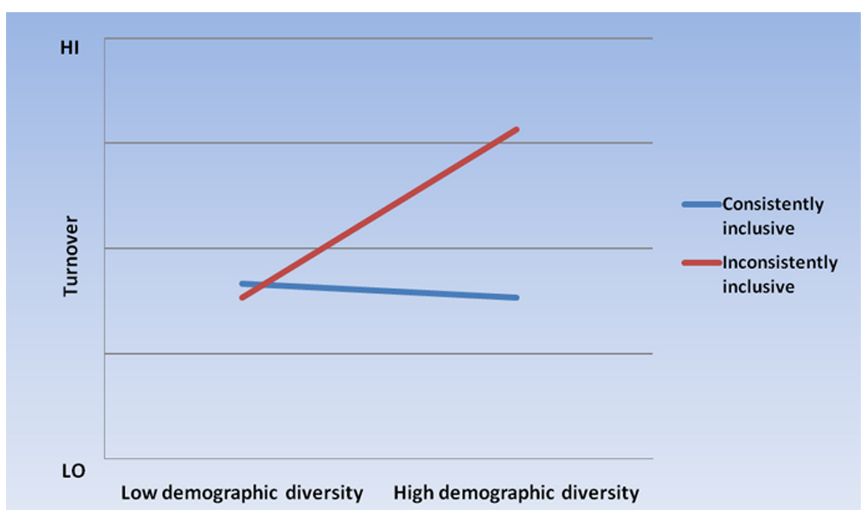


Figure 2.

THE DIVERSITY-TURNOVER RELATIONSHIP

It's particularly difficult to retain employees in work groups that are diverse, regardless of whether that diversity is primarily demographic (i.e. race/ethnicity, gender, age), or tenure-based (i.e. employees working together with varying lengths of service in the company). Previous researchers have found that the more diverse the workgroup, the higher the turnover.

Why do diverse groups have more turnover? One reason is that people have a habit of categorizing others based on inherent characteristics and generalizing about them—"all women are emotional" is an example of this sort of thinking. When stereotypical thinking is used in the workplace, groups tend to fragment into in-groups and out-groups.

Groups that travel this road tend to engage in favoritism toward similar coworkers, experience more conflict, less cohesiveness, and poor communication. Not surprisingly, employees in this environment are more likely to leave—as such negative group processes increase turnover.

The same is true of groups with a mix of longer tenured employees and newcomers to the organization. Like those who are demographically similar, people are attracted to others from their cohort, since they share the same frame of reference and organizational experiences. Tenure also affects how people think, and the longer an employee stays at a job, the more entrenched and less flexible she or he becomes about dealing with issues or deviating from long-standing routines.

Finally, more seasoned employees are given higher status because group members assume they're more effective, have more sway with influential people in the organization, and have greater expertise and performance. Since higher status group members tend to be more assertive, critical, and outspoken, and to exert influence over lower status members (Levine & Moreland, 1990), newer employees tend to participate less in decision making, become more frustrated, and ultimately withdraw from the group, as seen in higher levels of turnover.

The financial and organizational consequences of turnover

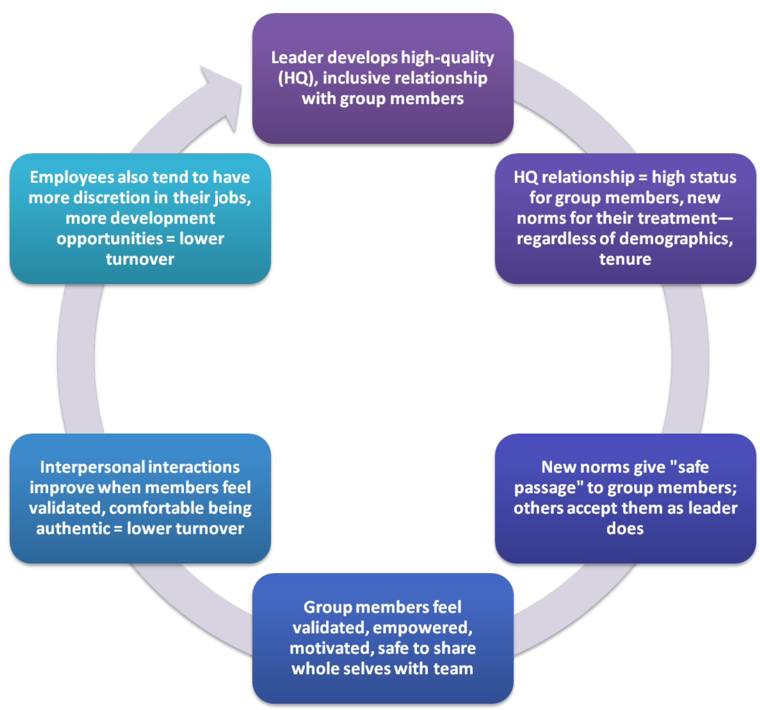
According to the U.S. Department of Labor (2008), the costs of turnover include administrative costs, coworker costs, advertising and temporary agency fees, selection and orientation costs, and lost productivity. The cost of turnover for sales positions is estimated to be as high as 200–250 percent of annual pay. Put into perspective (based on this study's survey sample), the Bureau of Labor Statistics (U.S. Department of Labor, 2009) states the average entry level supermarket employee earns roughly $17,069 annually. Assuming that turnover costs are 200 percent of annual compensation, this suggests that for every employee who leaves, the cost to the organization could be as high as $34,138. If costs are greater than 200 percent or the employees leaving earn more than $17,069 due to tenure, the cost of turnover would be even higher.

Using these statistics, the financial costs associated with the *pattern of a leader's relationships with employees* can be substantial. On average, the turnover rate in groups where a leader develops consistently high quality relationships with all employees is 2.4 percent *lower* than in groups where leaders only develop high quality relationships with a select few employees. With an average department size of nine employees, this difference in turnover rate translates into a cost savings of almost $90,000 per year, per department. Across the 348 departments that participated in this study, the implications of this cost difference are impossible to ignore.

How inclusive leaders make the difference: status, norms, and power sharing

Managers make a big impact on the inclusiveness of their workplace climates through the relationships they develop with their employees. When managers develop high-quality relationships with subordinates, they essentially confer high status to those individuals.

The relationships that a leader has with group members essentially create norms about the status and treatment of those members (Elsass & Graves, 1997; Scandura, 1999). Managers, by developing high-quality relationships with employees regardless of their background, can help to delegitimize power and status inequalities traditionally associated with demographic differences. Such leaders provide "safe



passages" (DiTomaso & Hooijberg, 1996, p. 170) for group members by triggering others to follow leader-established norms about their acceptance.

The more group members feel validated and accepted because of their high-quality relationships with the leader (and the support implied by that relationship), the more they feel empowered, motivated, and psychologically safe about engaging in risk taking and sharing with other group members (Gomez & Rosen, 2001; Schyns, Paul, Mohr, & Blank, 2005). When employees feel validated and more comfortable being authentic, their interpersonal interactions should improve, as reflected in lower turnover. Additionally, employees who work for inclusive leaders are less likely to leave because they tend to be more empowered, enjoy greater discretion in their jobs, and have more opportunities to expand their skills and responsibilities.

Do no harm: differentiation matters in developing inclusive relationships

Encouraging leaders to develop high-quality relationships with employees is not always a magic bullet for reducing turnover in diverse groups. In fact, done in an inconsistent or selective way, it can actually *increase* turnover and have adverse effects for both individuals and the group as a whole.

When leaders develop high-quality relationships with some group members and low-quality relationships with others, this sends an especially harmful message of exclusion for members of diverse groups. And when resources are disproportionally allocated to the leader's in-group (defined by those enjoying high-quality relationships with the leader), out-group members are likely to feel unfairly treated (Liden et al., 2006; Scandura, 1999) and dissatisfied (McClane, 1991)—leading cooperation, teamwork and retention rates to suffer (Cogliser & Schiresheim, 2000; Ford & Seers, 2006; Liden et al., 2006; Schyns, 2006).

However, by developing relationships of similar quality with group members, leaders can give similar status to employees and help neutralize—rather than make worse—the politics of power and distorted communication patterns that characterize diverse groups.

Of course, it is possible that some turnover observed in diverse groups is functional. It may be that managers opt to develop high-quality relationships with most of their employees except the especially low-performing or problematic ones. In turn, it may be these employees who turn over, and such turnover would be desired.

THE TAKEAWAY

How can HR practitioners help managers of diverse workgroups retain employees?

- **Measure the quality of leader-member relationships and raise awareness of its effects on group processes and turnover.** Given extensive research evidence that leader-member relationships impact individual and group outcomes in important ways, organizations may benefit from including measurements of the quality of leader-member relationships in employee surveys. This can help them identify groups where damaging leader-member relationship patterns have formed (such as when only a select few are included in a leader's high-quality exchanges), and encourage managers of those groups to develop more consistently high-quality relationships with employees.

- **Human resource and organizational leaders need to be aware that contrary to what they might expect, high-quality relationships can lead to higher levels of turnover, depending on their distribution within departments.** Leaders who are inclusive of only a select few followers may actually increase turnover.

- **Actively manage the quality of leader-member relationships within departments through training.** Expand traditional diversity training beyond addressing people's stereotypes and assumptions to train managers on the advantages and disadvantages of different leader-member relationship patterns. By training managers to understand the characteristics of high-quality leader-member relationships, managers in diverse organizations may be able to make a significant difference in improving the links between group diversity and outcomes.

- **Managers can be trained to develop high-quality relationships with employees.** Research shows that managers who were trained to exhibit diversity role behaviors (i.e. attempting to personally get to know each employee, to remove barriers for all employees, not use language that excludes some employees) are much more likely to be rated as developing high-quality relationships with group members (Chrobot-Mason, 2004). Employees of such trained managers have higher productivity, leader loyalty, satisfaction, intrinsic motivation and reduced job problems and stress.

THE DATA SOURCE

The researchers studied 4,500 employees at a large U.S. supermarket chain. They chose this industry because other research shows that turnover can cause the quality of customer service to decline greatly in this setting. Retaining experienced employees is essential for service firms to succeed.

These employees, who came from 348 departments such as grocery, meat, and produce, responded to a voluntary survey during work hours. Their responses were combined with data about voluntary turnover rates from the company.

THE RESEARCHERS

This study was conducted by:

- Lisa H. Nishii, Assistant Professor, Human Resource Studies, ILR School (Industrial and Labor Relations), Cornell University
- David M. Mayer, Assistant Professor of Management and Organizations, Stephen M. Ross School of Business, University of Michigan

For an in-depth discussion of this topic, see:

Nishii, Lisa H. & Mayer, David M. (2009). Do Inclusive Leaders Help Reduce Turnover in Diverse Groups? The Moderating Role of Leader-Member Exchange in the Diversity to Turnover Relationship. Journal of Applied Psychology, 94(6), 1412-1426.

◇ **Questions about this research should be directed to Lisa Nishii at lhn5@cornell.edu.**