

## Research Highlight

# Examining the Link Between Diversity and Firm Performance: The Effects of Diversity Reputation and Leader Racial Diversity

Few would argue the value of diversity in business today with an increasingly global economy and the rapid exchange of information across geographic boundaries. However, there is a lack of empirical research that measures the impact of diversity on an organization's performance. In a working paper authored by Quinetta M. Roberson and Hyeon Jeong Park, from Cornell and Georgia State respectively, longitudinal data from 100 firms is used to test the effects of diversity on a firm's financial outcomes.

We have seen an upsurge recently in the tendency of consumers to support companies who have a positive reputation for social responsibility, those known as 'green' or eco-friendly firms. This reputation has been linked in research to financial performance. In this white paper, the researchers anticipated that a similar link would be found between a firm's diversity reputation and its performance in the market.

Two aspects of diversity were explored: the firm's reputation for diversity and the racial diversity of

the firm's leadership. Given that companies invest substantial resources in diversity management and being recognized as a diversity leader, diversity reputation is defined as stakeholders' perceptions about an organization's ability to create value through its diversity action. Leadership diversity is based upon the makeup of the top leadership in terms of the proportion of minorities represented.

The impact of diverse leadership on a company's performance is quite complex and previous research results are vague. In some studies, there is a positive association between management team diversity and performance but other research shows that diversity may reduce social cohesion, decision making, speed and consensus-seeking behaviors, thereby limiting a company's ability to effectively manage change.

As this research was launched, Roberson and Park set forth two hypotheses: First, that diversity reputation will be positively related to firm performance, and second that leader racial diversity will be

## In This Issue

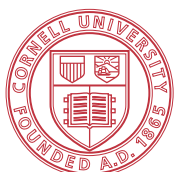
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negatively related to firm performance until a critical level of minority representation in leadership is reached, at which point leader racial diversity will be positively related to firm performance.

Regarding the first hypothesis, the study showed support for a relationship between diversity and book-to-market equity which indicates investor's confidence in future earnings. This book-to-market equity suggests that a company is less of a financial risk given that earnings and stock returns will be influenced by financial losses associated with not managing diversity. The results of not managing diversity effectively can be manifested as discrimination lawsuits, lost sales from diverse customers and inability to retain top talent, all of which can impact a company's bottom line.

In addition, investors may view a



Cornell University

*Up Close with ...*

## Hugh Mitchell of Royal Dutch Shell

Few industries today garner as much attention in the political and economic landscape as the oil and gas industry. Hugh Mitchell, the Human Resources Director of Royal Dutch Shell, believes both his academic background and nearly three decades with the company have helped prepare him for his company's and the industry's unique challenges.

Hugh started his career with Shell in 1979 and has primarily been in the HR function that entire time. His experience is evenly split between both ends of the business. The upstream which is exploration and production, and downstream which refers to trading, refining, marketing and retail. Currently located in The Hague, he has been assigned across the UK and Brunei during his career.

Royal Dutch Shell is one of the world's largest businesses, arising from the recent unification of the two parent companies overseeing the Shell Group. "The two companies, Royal Dutch Petroleum and Shell Transport and Trading, had been 'engaged' since 1907 and finally 'married' into a unified company last year. This has further simplified governance and accountabilities in the Company," says Hugh.

In his role, Hugh is responsible for all HR activities delivered through an integrated organization of HR professionals embedded in the businesses, and centrally led functional expertise in talent development, compensation and benefits, learning and organization effectiveness, and HR strategy and planning. He also has responsibility for Real Estate, the Headquarters and Shell Aircraft.

Hugh describes his leadership style as, "very open and direct. I also color most of my messages with stories and examples as this makes what we are trying to do be more real for people." Like many other HR leaders in his position, he is adamant that HR be engaged with the business. "I'm passionate that if there's a leadership table, an HR team member needs to sit there and be part of that business. HR people need to be in the heat of debate with leaders and their issues."

He is also passionate about Shell being a truly international company. "Our staff has to reflect the nationality and gender mix of the markets and societies in which we operate. This is also true for HR. So much of



Hugh Mitchell

HR is local, especially around attraction and recruitment, employee engagement, compensation and affiliation.. All of that is country specific and we must have HR people who are totally in tune with these dynamics everywhere we operate," he says.

Hugh also leads his organization to be forward thinking. "How do we meet the needs of today and address the challenges of tomorrow simultaneously? Deal with today's crises, but at the same time be proactive with political, economic, societal and demographic change." He cites last years

devastating hurricanes in the U.S. as an example. "Our HR people were front and center after the hurricanes. They had to be creative, resourceful and sensitive to many pressures as they worked to help all our people who were affected by this tragedy. At the same time we have teams of people building new relationships in India and Russia in support of our business developments in these growing markets." This seasoned HR executive also recognizes the challenge all HR leaders face: "We react and support well. We need to move more of our contribution into dealing with tomorrow. Sometimes that means pushing the business to do things it really does not want to do. It is the respect we earn in the professionalism of our day-to-day activity that gives us the mandate to promote a new and challenging people agenda in the company."

In contrast to many of his peers with business and technical degrees, Hugh graduated from Edinburgh University with a degree in modern history. He believes strongly that this more liberal arts background is very beneficial when you are leading a business. "History is a great teacher. It helps us understand why people come from the direction they are coming from. It teaches you that there is no single right answer but that we are all influenced by our own background in how we see the world and its issues. We can more easily understand the motives behind people's actions when we understand their history." In a global business with in excess of 100,000 staff in over 140 countries, it is clear the benefit that historically based paradigm would bring. It's a challenging shift in perspective for a culture that typically values more technical approaches to problem solving. [hr](#)

*Royal Dutch Shell joined CAHRS in 1993, the 'Up Close with...' profiles feature interviews with leaders of CAHRS sponsors.*

## *HR Professors Educate Around the World*


# CAHRS Global Reach

This past summer, our HR professors have been busy traveling to far off places to educate and learn more on the international HR front. CAHRS Executive Education Director and HR Professor, Scott Snell spent his time in India participating in the National Association of Software and Service Companies (Nasscom) HR Summit 2006, held in Chennai. The conference titled ‘The War for Talent: Building an HR Eco-System’ was attended by CEOs, consultants and academics. The main themes of the meeting were the manpower shortages in IT and, how HR should become the key driver that creates business value for the company. In addition to giving a keynote address and running a workshop for executives, Professor Snell contributed his knowledge as part of a six-member executive roundtable conducted by Business India. The topic focused on ‘The war for talent: redefining the role of HR.’ (*For more information on the India Nasscom Summit 2006, please read the article accompanying this newsletter.*)

After visiting India, Professor Snell traveled to Singapore where he gave an invited colloquium for faculty and executives at Nanyang Business School on how companies manage their human capital architecture to drive performance. In addition to this visit, Scott has served as an external advisor to Nanyang faculty for the past two years, and has worked with them on curriculum and instructional issues. After Singapore, Scott traveled to Australia for a conference sponsored by InfoHRM on ‘Future Driven HR.’ He gave the conference keynote address entitled, ‘HR Leadership: The Next Paradigm,’ and ran an executive workshop on HR’s role in building strategic capability.

While on sabbatical this year, HR Professor Quinetta Roberson spent three months at Bocconi University in Milan, Italy. As a visiting faculty

member at the Istituto di Organizzazione e Sistemi Informativi (IOSI), she was able to conduct research and teach at the top business and economics school in Italy. Her research activities included starting a project with Great Place to Work Institute (GPTW) to examine the effects of a GPTW designation and firm financial performance, as well as, the financial impact of different GPTW practice bundles. Given that past research has shown that company selection practices influence job search behaviors, she also began a project to explore the perceived fairness of different selection practices among Italian job seekers.

As a visiting professor, she was asked to teach twenty five hours in the Bocconis Masters program. Professor Roberson delivered three 3-hour guest lectures in the ‘People Management’ course on organizational justice, and two 8-hour seminars on conflict management. Given that the majority of the students had experience working in and with some large international firms including Loreal, San Pellegrino, and Piaggio, she found the students to be extremely professional, knowledgeable, and engaged. In the midst of these research and teaching activities, she was also able to engage in a bit of personal development. Although she attempted to learn more than a tourist’s amount of Italian before her trip, Bocconi provided her with twenty five hours of language instruction. Thankfully (for both her and her students), her classes were in English. Professor Roberson said, “Overall, my time in Italy was a wonderful experience. I developed my research pipeline as well as my teaching skills. I made indispensable professional contacts and met other interesting people along the way. I expanded my worldview and learned more about the importance of cultural competence.” 

Spring Sponsor Meetings 2006

# The Talent Management Challenge

The CAHRS Spring Sponsor meeting held May 10th and 11th, was attended by more than fifty-five HR professionals from 28 sponsor companies. The topic, "Talent Management" has been one of the primary issues that HR professionals and sponsor companies have been wrestling with and will continue to face over the next decade.

Chris Collins, Associate Professor of Human Resources at Cornell, kicked off the meeting by discussing the findings of the ongoing CAHRS study on Talent Management. He highlighted the similarities in issues that companies are facing now and the talent issues that companies faced during the 'War for Talent' in the mid-1990s. He also noted that companies who participated in the study "are taking a much more integrated and strategic approach to talent than did companies a decade earlier," and went on to identify guiding principles gleaned from the study.

The keynote presentation, given by Kevin Cox, Executive Vice President of Human Resources at American Express, focused on the role of HR in creating a high performing company. Notably, Kevin shared with the audience the American Express 'Talent Development Platform and Leadership Model.' Other sessions during the meeting included panel discussions on Succession Planning, Developing Leaders and Leadership, and Attracting and Retaining Top Talent. Finally, Steve Fitzgerald of Sun Microsystems discussed the role of technology in talent management. In his presentation, Steve outlined the dramatically different approaches to an integrated Talent Management IT framework followed at StorageTek and Sun, and challenged the audience to think about which approach is the best fit to their organizations.

Feedback from participants focused on the openness of the speakers and the value of the information that was exchanged. Participants were particularly impressed with the willingness of presenters and panelists to share best practices and the open format of the panel sessions which enabled audience members to ask questions of the panelists. Participants also noted that the meeting was extremely helpful in learning more about how to position talent management within their organizations and to think broadly about the levers that they can draw on to address talent issues within their companies. **hr**



**Kevin Cox,**  
American Express



**Steve Fitzgerald,**  
Sun Microsystems



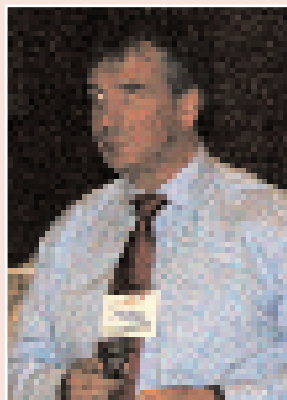
**Panel Discussion:** Chris Collins CAHRS, Beth Flynn General Mills, Brian Lynch Merck & Co., Steve Schloss Time Inc.



**Mike Markovits**  
IBM,  
**John Haggerty**  
Cornell ILR  
Executive  
Education



**Joe Ruocco** GE Consumer & Industrial, **Bill Panetta** United Technologies Corporation



**Hugh Mitchell**  
Royal Dutch Shell



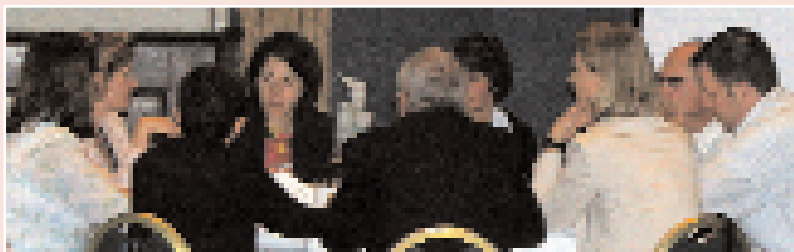
**Pauline van der Meer Mohr**  
ABN AMRO



**Colleen Rumbal**  
American Express



**Artur Czyncyk Honeywell, Jozsef Orosz GE, Bina Chaurasia Gap Inc., Willem Lammertink Johns Manville Europe**



**Roundtable discussions**




**Randall Peterson London Business School, Curran Brugger AstraZeneca, Marielle de Macker GE Europe NV**

## Spring International Meeting The Netherlands

The CAHRS 2006 Spring International meeting held in Amsterdam, June 27-28, 2006, on Talent Management was unique. CAHRS leadership chose to hold domestic and international meetings on Talent Management due to the significance of the topic for our sponsors. Over 100 people attended the two events.

After Associate Professor Chris Collins summarized the issues and challenges of the CAHRS Talent Management study, two HR leaders, Pauline van der Meer Mohr, Executive Vice President at ABN AMRO, and Hugh Mitchell, HR Director Royal Dutch Shell explained their roles on the subject in the Executive Suite. Mitchell emphasized staying the course and linking the processes and indicated Shell HR owns and enables Talent Management. The audience appreciated van der Meer Mohr's candidness in speaking about the challenges of the issues and her ideas about engaging mature, midcareer and young workers in the future.

Other highlights of the conference included a panel of IBM Europeans, Bert Ferwerda, Director HR Benelux, Joe Severi, Vice President HR South Region, and Michael Burkhardt, Vice President Northeast Europe, discussing methods for finding pools of resources at the most efficient costs; and a practitioner/academic duo Randall Peterson, Professor London Business School and Curran Brugger, Global Director of Leadership Development, AstraZeneca, discussing development of leadership competencies.

Ten Cornell University faculty members participated and were particularly well received when they led discussion groups of all participants about identifying high potentials. Key points of the discussions included definition and identification of high potentials, talent comparison across business lines, employee knowledge of high potential status, placement and tracking, and the role of HR. Professors and academics worked hard on the issues during the roundtable discussion and enjoyed having the opportunity for in depth conversation with participants from many European countries as well as the U.S. The next CAHRS international meeting will be held in Paris, May 21-22, 2007. 

*A collection of white papers on the Talent Management conferences written by the CAHRS Graduate Assistants can be found on our website.*

**SAVE THE DATE****CAHRS Fall Sponsor Meeting****Global HR Best Practices:  
Maximizing Innovation, Effectiveness and Efficiency in HR****October 23-24, 2006 • Statler Hotel, Ithaca, NY**

The combination of increasing global presence, pressures to reduce costs, and innovations in information technology have resulted in a perfect storm challenging the delivery of HR within multinational companies (MNC's). HR information technology enables firms to squeeze costs through standardization of processes, yet legal, cultural, and economic differences across borders requires customization of those same processes. In addition, both efficiency and effectiveness

of HR processes often stem from innovation and knowledge sharing within the global HR function. This sponsor meeting will highlight global HR research conducted by Cornell, Insead, Cambridge, and Erasmus Universities regarding how MNC's are managing the efficiency, effectiveness, and innovation of HR processes. A combination of professors from the multi-university research team and HR executives will present best practices in global HR.

**WORKING AGENDA**

**MONDAY, OCTOBER 23, 2006**  
6:00-7:00pm – Reception

7:00-9:00pm – Dinner

**TUESDAY, OCTOBER 24, 2006**  
7:00am-5:00pm – Program

6:00-8:00pm – Reception

**Registration Information**

To register for the meeting please fill out our online registration form located on our website:  
[www.ilr.cornell.edu/cahrs/fall2006registrationform.html](http://www.ilr.cornell.edu/cahrs/fall2006registrationform.html)

**Hotel Information**

To reserve a room at the Statler Hotel in Ithaca, NY, please call 1-800-541-2501 and reserve a room under **ILR/Fall Sponsors Program '06'**

**Very Important**

**PLEASE NOTE** that the block of rooms will be released to the general public at the end of the work day, Wednesday, September 25th, so please make sure you have your reservations made well in advance.

**Inquiries, please contact:**

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# The Effects of Diversity Reputation and Leader Racial Diversity

*Continued from Page One*

positive diversity reputation as an intangible asset with future economic value and those interested in socially responsible companies may also view firms with diverse reputations more favorably. As a result, investors may be willing to pay a premium for companies that have a positive reputation for diversity.

Interestingly, it was more difficult to prove that there were product related benefits to having a reputation for diversity. Several studies do not show a correlation between diversity reputation and firm revenues and net income, possibly because diversity does not provide consumers with information about the quality of a company's product or services.

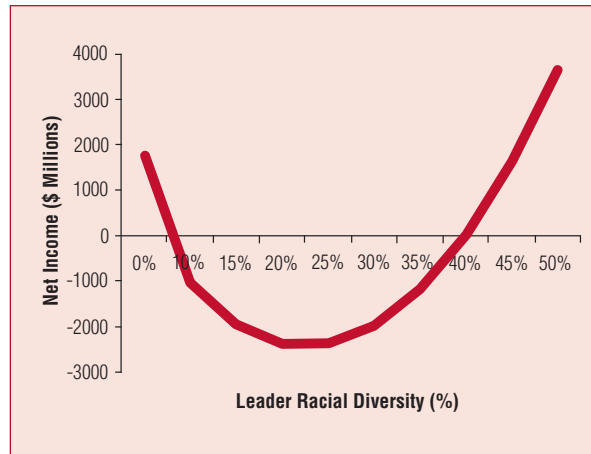
There was also no association found between reputation and net income suggesting that a diverse reputation may not necessarily indicate management's capacity to leverage its people and processes for profit.

In summary, the economic benefits associated with being recognized as a diversity leader may come primarily from investor capital rather than consumer market impact.

Hypothesis two concerns leadership diversity. The findings supported a curvilinear relationship between these two variables (see graph). This relationship demonstrates that low to moderate levels of racial diversity among leaders may weaken strategic decision making because the low proportion of minorities impacts communication and conflict management among leaders.


As the curve turns upward, and more diversity is present on the leadership team, a broader range of perspectives and skills exists, having a positive effect on problem-solving, decision making, networking, access to resources and diverse stakeholder groups.

Consequently, firms with a higher proportion of diversity in top leadership may experience greater financial performance. Practically speaking, this study shows that there is some value in leaders devoting themselves to attaining a 'best company' designation for diversity and diversity management. This designation may enhance valuation among investors and subsequently improve firm



**Relationship between Leader Racial Diversity and Firm Financial Performance**

financial performance.

The results also suggest that companies may improve financial performance by taking actions to increase the racial diversity of their leaders. However, care should be taken to not increase diversity ranks just for the sake of diversity. The representation of racial minorities must reach a critical mass in order for diversity to effectively be integrated into business processes, and for the true benefits of that diverse leadership to be potentially recognized. 

*For more information regarding this research please contact Quinetta Roberson via email: [qmr3@cornell.edu](mailto:qmr3@cornell.edu), or Tel: (607)255-4454. This article references research from the CAHRS Working Paper #06-02, which can be found on our web site: [www.ilr.cornell.edu/cahrs/paper.html](http://www.ilr.cornell.edu/cahrs/paper.html).*



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Dr. Patrick Wright, Director  
 Dr. Pamela Stepp, Executive Director



# CAHRS EVENTS CALENDAR

2006 - 2007

- ILR Orientation and CAHRS Executive Roundtables ..... August 22, 2006 Ithaca, NY
- Executive Compensation Working Group ..... September 29, 2006 New York, NY  
Hosted by Bear Stearns
- CAHRS Fall Sponsor Meeting ..... October 23 - 24, 2006 Ithaca, NY  
Global HR Best Practices: Maximizing Innovation, (Please note new date)  
Effectiveness and Efficiency in HR
- CAHRS Spring Sponsor Meeting ..... May 9 - 10, 2007 Ithaca NY
- ILR Orientation and CAHRS Executive Roundtables ..... August 21, 2007 Ithaca NY
- CAHRS Fall Sponsor Meeting ..... November 14 - 15, 2007 Ithaca NY

For more information, contact Jo Hagin at 607/255-9358 or email: [jap7@cornell.edu](mailto:jap7@cornell.edu), or visit our website at: [www.ilr.cornell.edu/cahrs/Calendar.html](http://www.ilr.cornell.edu/cahrs/Calendar.html)

## ILR Executive Education & Events

- SKGroup Custom Program ..... August 23 - 31, 2006 Ithaca, NY
- HR Strategy: Creating Competitive Advantage Through People ..... September 25 - 29, 2006 Ithaca, NY
- Shell Custom Program: Strategic Business Partners ..... October 8 - 13, 2006 The Hague, The Netherlands
- Strategic Talent Management ..... October 12 - 13, 2006 New York, NY
- Managing for Impact: HR Metrics and Firm Performance ..... November 9 - 10, 2006 Arlington, VA
- HR Leadership: The Next Paradigm ..... February 6 - 8, 2007 St. Petersburg, FL
- Managing for Impact: HR Metrics and Firm Performance ..... April 12 - 13, 2007 New York, NY
- Shell Custom Programs ..... April 22 - 27, 2007 The Hague, The Netherlands
- HR Transformation: Partnering to Achieve Functional Excellence..... April 30 - May 4, 2007 Ithaca, NY
- HR Strategy: Creating Competitive Advantage Through People ..... September 24 - 28, 2007 Ithaca, NY
- Shell Custom Programs ..... October 21 - 26 2007 Shanghai, China

For more information, contact ILR Executive Education at 607-255-5882 or e-mail: [ilrexec@cornell.edu](mailto:ilrexec@cornell.edu), or visit our website at: [ilr.cornell.edu/execed](http://ilr.cornell.edu/execed) to view our Brochure.

