Diversity Management
and the Business Case

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Contents

Introduction

Managing for diversity is a management strategy that intends to make productive use of (ethnic and other) differences between individuals. It is based on the premise that – at least if they are well managed – diverse teams will produce better results and diverse companies will gain market advantage. In contrast to other employment equity policies, diversity management is primarily driven by the 'business case', i.e. by the argument that diversity and/or its management will increase organizational efficiency and profitability. With diversity management as a business practice becoming more and more popular in Europe, the question of whether this policy actually delivers the business benefits its advocates promise, becomes increasingly relevant to anyone involved in the discussion and implementation of employment policies relating to ethnic and other minorities. An examination of the literature, however, shows that there is no unanimous answer regarding the business benefits of diversity and its management. While for many advocates of diversity management the business case seems to be rather self-evident, academic research on the effects of diversity provides mixed and inconclusive results and has led critics to see a 'mismatch between research results and diversity rhetoric' (Kochan et al 2003: 5). This paper will first describe the characteristic features of diversity management and its benefits as described by its proponents, and give an overview of the way in which diversity management is implemented. Then the business case for diversity is examined. This will include a discussion of research results regarding the effects of diversity upon performance and a discussion of intervening variables that will influence this impact. Finally I will examine the relevance of the question about performance-related diversity effects for the business case for diversity *management*. I will argue that this relevance is limited as the business case for diversity management and the business case for diversity are two interconnected, but different issues.

1. Diversity Management

1.1. What is diversity management?

Definitions of diversity management

There is no such thing as a single, authoritative definition of diversity management. Rather, 'diversity management' refers to a set of ideas and practices that have been defined and described in various ways. Diversity management, as the name says, is a *management strategy*. It is applied predominantly *top-down*, as a managerial instrument. Its *purpose* is to enhance the effectiveness and/or productivity of organizations. The central idea of 'managing diversity' is that this organizational improvement is to be achieved through *recognizing, valuing, promoting, and utilizing diversity* – whereby 'diversity' refers to *many, if not all sorts of differences* between individuals (cf. e.g.

Kirton/Greene 2005: 123ff.). A starting point could be the definition by Kandola and Fullerton:

The basic concept of managing diversity accepts that the workforce consists of a diverse population of people. The diversity consists of visible and non-visible differences which will include factors such as sex, age, background, race, disability, personality and work style. It is founded on the premise that harnessing these differences will create a productive environment in which everybody feels valued, where their talents are being fully utilised and in which organisational goals are met (Kandola and Fullerton 1998: 8).

Other definitions might place more or less emphasis on aspects such as the rationale of enhancing organizational efficiency or profitability, on the idea of appreciating and valuing differences, or on the goal of constructing an inclusive environment. For example, Schwarz-Wölzl and Maad define diversity management as 'a management instrument for systematically considering, internally and externally, how diversity can be used to enhance the success of a company, and for consciously utilizing and promoting diversity to this end' (2004a: 5; own translation). Bartz et al speak of diversity management as '[u]nderstanding that there are differences among employees and that these differences, if properly managed, are an asset to work being done more efficiently and effectively' (1990: 321, quoted in Wrench 2007: 11). According to Mor Barak (2005: 208) the term refers to 'the voluntary organizational actions that are designed to create greater inclusion of employees from various backgrounds into the formal and informal organizational structures through deliberate policies and programs.' The 'German Association for Diversity Management' defines the term as 'the purposeful perception, the honest appreciation, and the conscious utilization of differences' - 'diversity is the pivotal topic of management and enhances business success through increased productivity and improved market position' (DGDM 2007; own translation).

Something that can cause confusion and is conceptually not very elegant, is the fact that in the literature the term 'diversity' is used in fundamentally different ways. Firstly, 'diversity' refers to *heterogeneity*. Secondly, 'diversity' is used to denote the *characteristics* in which individuals can differ. Thirdly, 'diversity' is used to describe an *attitude* that values diversity, and fourthly, 'diversity' is used as a *shorthand for the diversity management approach itself* (cf. Wrench2007: 8). In the following, the term 'diversity' shall refer to heterogeneity and will be distinguished from attitudes valuing diversity and a policy of diversity management.

Differences from other employment equity policies

The general idea of diversity management differs in some important aspects from other employment equity policies (cf. e.g. Kirton and Greene 2005; Wrench 2007):

1. Valuing and promoting diversity as something positive

In diversity management, diversity is emphatically seen as something *positive*. Diversity in organizations is not viewed as something that *must* be achieved for the sake of complying with legal or moral norms, but as something that *should* and should wanted to be achieved to produce an environment in which people can unfold their full potentials and maximize organizational outcomes. Advocates of diversity have been creative in coining metaphors pointing to the stimulating and enriching effects of mixtures. 'Differences', Kandola and Fullerton (1998: 8) say, 'come together to create a whole organisation in much the same way that single pieces of a mosaic come together to create a pattern. Each piece is acknowledged, accepted and has a place in the whole structure' (quoted in Wrench 2007: 7). In much the same way, other authors have compared diversity in organizations to a painter's palette (where different colours make more fun if they remain different and are not mixed to grey; Mor Barak 2005: 292), to an orchestra that needs many varied instruments, etc.

2. Increasing organizational efficiency

The primary purpose of diversity management is to *increase organizational efficiency*. For profit-oriented organizations this means: to gain market advantage and maximize profits. In other words: The primary rationale of diversity management is the '*business case*' rather than the case for social justice. While diversity management certainly emphasizes equality and non-discrimination, these are – theoretically – subordinate goals, they are means to achieve more efficiency. The idea of diversity management thus implies a hierarchical but harmonious relationship between market advantage and equal opportunities for ethnic and other minorities: market advantage comes first, but action directed towards maximizing profits is thought to be necessarily directed towards equal opportunities and ethnic equality, because an organization that values and promotes (ethnic and other sorts of) diversity will increase its competitiveness, while an organization that discriminates against minorities will lose competitiveness. It is easily conceivable that this idea might sometimes be used as a sort of subterfuge to convince employers of policies directed at equal opportunities and multiculturalism by appealing to what they are presumably more and most interested in. It would be interesting to know, how many of the promoters and practitioners of diversity management really see organizational effectiveness as their primary goal, and for how many others the issue of effectiveness is a sales argument for multiculturalism rather than the end in itself. But however the primary intentions of diversity management advocates might be distributed empirically, if diversity management-theory is right, market advantage and an inclusive multiculturalism go hand in hand.

3. Broad understanding of diversity

Diversity management is based on a broad, sometimes apparently all-inclusive understanding of 'diversity': *many if not all sorts of differences* between individuals are to be taken into account. Other than equal employment opportunities and affirmative action (EEO/AA) policies that focus upon specific differences (like gender, ethnic or 'racial' differences), diversity management considers more or less any sort of diversity to be relevant. The Ford Motor

Company, e.g., states: 'Diversity in the workplace includes all differences that define each of us as unique individuals.' (quoted in Schwarz-Wölzl/Maad 2004a: 43) Typical examples of specific differences in question include differences in sex, age, ethnicity, 'race', culture, nationality, religious beliefs, sexual orientation, physical ability and education. However, it is regularly indicated that such lists are not exhaustive and only provide examples of differences.

Human characteristics that can differ and thus constitute diversity are then categorized in a number of ways. Readily observable attributes are distinguished from not so readily observable ones, visible differences from invisible ones, inner dimensions from outer dimensions, etc. (for examples cf. Schwarz-Wölzl/Maad 2004a: 7ff.). A popular classification of differences distinguishes primary dimensions from secondary dimensions – however, there is no consistency in the literature as to what exactly the primary and the secondary dimensions are. Griggs (1995) saw age, ethnicity, gender, physical abilities/qualities, race and sexual/affectional orientation as the six primary dimensions. These are said to be 'inborn and/or (…) exert an important impact on early socialisation and have an ongoing impact throughout life.' (Wrench 2007: 11) Secondary dimensions of diversity, in contrast, would be characteristics 'that can be changed' (ibid.: 12), like income, educational background, marital status, parental status, religious beliefs, and others. Other authors might count religion as a primary dimension, ad 'physical appearance' to the primary dimensions or geographic location, occupational career, language and lifestyle to the secondary (cf. ibid.; DGDM).

However the dimensions of diversity might be classified, the claim to include most or all differences in the policy implies that diversity management is not directed towards specific groups (like women or ethnic minorities). As every person differs in some regard from others, and as all sorts of differences should be taken into account, diversity management is directed towards every employee or the staff as a whole – including members of dominant or majority groups like white men that have decisively not been in the focus of earlier EEO/AA approaches. Diversity management should benefit everyone and, thereby, the organization itself.

4. Transforming the organizational culture
Finally, diversity management is seen as an attempt to bring about a thorough change, a *transformation of organizational culture* (cf. Kirton and Greene 2005; Kersten 2000). Rather than focusing upon recruitment and selection only, the aim is to create an all-inclusive 'culture of diversity' (Rees 1998, quoted in Kirton/Greene 2005: 125) that penetrates the organization and is not confined to the separate realm of a specific equity policy. A vision for effective diversity management is the idea of the *multicultural organization* as envisaged by Cox (1993). This type of organization would be 'characterized by a culture that fosters and values cultural differences – truly and equally incorporates all members of the organization via pluralism as an acculturation *process*, rather than as an *end* resulting in assimilation.' (Mor Barak 2005: 217) The multicultural organization has 'full integration, structurally and informally, is free of bias and favoritism toward one group as compared with others, and has only a minimal intergroup conflict' (ibid.).

1.2. The benefits of diversity management

With increasing organizational efficiency as the major goal, there are a number of ways in which diversity management is said to achieve this end. While the reasons for which particular organizations implement diversity management might differ, there are several advantages of diversity management that are regularly pointed out (cf. e.g. Süß/Kleiner 2005; Kossek/Lobel 1996; Dass/Parker 1996; Wrench 2007).

1. Making use of talents
With talents being short – and maybe becoming shorter due to demographic developments – it would be unreasonable for organizations not to make use of existing talents due to a focus upon homogeneity. A policy of diversity simply increases the pool of potential employees to choose from. And it might make companies more attractive for potential employees from minority backgrounds.

2. Access to markets and legitimacy with partners and customers
With markets globalizing, and also with the fact that societies are and become more diverse, organizations are dealing with a variety of different partners and customers nationally and internationally. By reflecting this diversity in a diverse staff, companies might *firstly* strive to gain a better image with their customers as well as their partners. *Secondly*, minority communities are recognized as markets of growing importance, markets that might better be entered if knowledge about the customers' preferences is available within the company. *Thirdly*, and ironically, the diversity of the staff can be a way to account for the customers' (actual or presumed) taste for homogeneity: If e.g. ethnic groups preferred to deal with staff of their own ethnicity, it will be useful for a company to have that staff available.

3. Advantages through synergy
A central idea of diversity management is the assumption that diverse teams (at least if well managed) produce better results due to internal dynamics. What we could call the *synergy hypothesis* assumes that heterogeneity will enhance group performance via changing group processes: diverse teams, the idea goes, will profit from a greater variety of perspectives resulting in better problem solutions, increased creativity and more innovation. Ideally, processes of intercultural exposure and mutual learning should lead to effects of (cultural or other) synergy that benefit the organization as well as everybody involved.

4. Productive advantages of an inclusive environment
Diversity management strives to create an environment in which differences are valued, in which special needs are taken into account, and in which every individual feels respected and acknowledged. This inclusive setting is hoped to create a situation in which people can work more productively and achieve their full potential (cf. Cox 1993: 225). Job satisfaction should be enhanced, turnover reduced, and the development of synergy effects should be facilitated in an inclusive environment.

5. Avoiding (the costs of) discrimination

While the absence of discrimination is an end in itself, there are moreover business arguments for equality. On the one hand, discrimination will impede the utilization of all available talents and create a working environment in which people feel uncomfortable and dissatisfied. On the other hand, discrimination might cost money directly due to legal penalties. In the US, as Wrench (2007: 19) points out, the pressure of equal employment opportunity and affirmative action programmes may have been one of the reasons fostering the continuation of diversity management. Effective diversity initiatives may 'assist in the reduction and prevention of costly lawsuits relating to race discrimination, sexual harassment, and gender discrimination lawsuits' (Wentling and Palma-Rivas 1997: 21; quoted in Wrench 2007: 21).

1.3. The implementation of diversity management

Regarding its practical implementation, there is no definite and well defined set of measures that constitute diversity management. Rather, we find a multitude of various steps and programmes, some of which might be implemented in particular diversity management initiatives, while others might not. As even basic approaches or individual measures may be called 'diversity management' (cf. Aretz/Hansen 2002), the mere information that a company implements or reports to have implemented 'diversity management', is not very meaningful.

Central components of diversity management

Implementing diversity management might begin by *analyzing the company/organization* regarding the present state and effects of diversity, e.g.: what languages are spoken by the clients, which countries does the company operate in, how high is employee turnover, how high are the costs due to discrimination or harassment, are there group conflicts within the company, do the employees feel valued and satisfied, etc.? (cf. Schwarz-Wölzl/Maad 2004a: 42) Following this analysis, a variety of programmes can be applied. Pitts (2005: 12) has suggested a distinction between three central components of diversity management measures: 1) recruitment programmes, 2) programmes aimed to increase cultural awareness and 3) pragmatic management policies. *Recruitment programmes* in diversity management are aimed at systematically increasing the diversity of employees. *Programmes aimed to increase cultural awareness* have the goal of minimizing the potential costs of heterogeneity and maximizing effects of cultural synergy. This might include awareness and skill building training (cf. e.g. Ford and Fisher 1996; Jamieson/O'Mara 1991), but also the promotion of internal advocacy groups, mentoring programmes and paying attention to representation (cf. e.g. Kellough/Naff 2004). *Pragmatic management policies* are policies directed at increasing flexibility and job satisfaction through taking into account the needs of a diverse staff (cf. e.g. Lobel/Kossek 1996). This

might include benefits for part-time employees, support for single parents, the provision of childcare facilities, flexible dress codes, room for religious practices, specialized equipment for disabled persons, flexible working hours, or the translation of company related information into languages represented among the staff.

Characteristic elements of diversity management

Many of the individual measures in diversity management have already been employed in earlier EEO/AA programmes, and the difference between diversity management and other equity policies might sometimes be somewhat overstated (cf. Wrench 2007: 14). However, the mode of implementation of diversity management is said to imply some characteristic elements. For diversity management, *leadership commitment* and the *involvement of top management* play a central role. Diversity management is initiated as a top-down process, and managing for diversity should constitute a *strategic element of the business plan* (Wrench 2007: 12; Schwarz-Wölzl/Maad 2004a: 44f.). The formulation of company-specific definitions of 'diversity' and of *'diversity missions'* is common practice, demonstrating commitment to diversity in a prominent and authoritative way. Even though situated at top management level, *communicating the diversity policy* to the staff is essential. According to the 'Society for Human Resource Management' this should include e.g. the explanation of the business case, the explanation of possible effects of diversity management for productivity and the company's goals, the communication of the benefits diversity management will have for every employee, and the explanation of the process of diversity management (cf. Schwarz-Wölzl/Maad 2004a). This process, during which the organization should be transformed towards a culture of diversity, is expected to take several years – diversity management is not seen as a set of measures that can quickly be implemented and that will have immediate effects. In the course of the organizational transformation, commitment to diversity is to become an *integral part of the organizational culture*, and complying with the requirements of the diversity policy may become a part of – individual and organizational – performance evaluations (ibid.).

Evaluation or benchmarking as a part of diversity management

Ideally, the *evaluation of its effects* should form a part of the implementation of diversity management. This could include analyzing variables such as job satisfaction, engagement and behavioural changes amongst the employees, the development of individual and group achievements, the productivity of the organization as well as turnover, absenteeism and profitability (cf. Cox 1993: 241). However, it is very difficult to evaluate the effects of diversity management due to the large number of factors influencing each of these variables, and due to the multitude of possible causal relations between them. Less satisfying than an actual evaluation, but more feasible and therefore probably applied more often,

is a sort of *benchmarking* for diversity. For example, the 'Center for Diversity and Business' has created a 'Diversity Assessment Tool' using a five-step 'diversity continuum', which specifies not the effects of diversity management but the degree to which the diversity idea has been implemented and internalized (so that external pressures have transformed into internal motivation); the levels range from 'compliance' to 'beyond compliance', 'business case', 'integrated diversity' and, finally, to the highest score 'global employers and suppliers of choice'. At this final level, 'diversity' has become a management imperative reaching beyond the organization itself and shaping all external relations as well (cf. Schwarz-Wölzl/Maad 2004a: 47f.). Instead of measuring the results of diversity management, this sort of benchmarking assesses the commitment to diversity management.

2. The Business Case

2.1. The diversity-performance link

The benefits of diversity and diversity management: evidence from surveys and case studies

While the benefits of diversity seem almost self-evident for advocates of diversity management, and for many companies applying diversity policies (cf. European Commission 2005: 7), the actual evidence that diversity and/or its management enhance organizational performance, efficiency and outcomes is less clear and conclusive. One sort of data that indicates considerably positive results of diversity and diversity management, are surveys and qualitative data representing companies' experience with – or opinion about – diversity policies and their respective benefits.

Among respondents in a survey of member companies of the European Business Test Panel, of the 505 companies that replied to the question of whether diversity initiatives have a positive impact on their business, 83% answered positively (European Commission 2005: 53). The two major groups of benefits of a diverse workforce that companies in this survey reported to have experienced or to expect, were the access to a new labour pool and the attraction of high quality staff (cited by 43% of all participating companies), and benefits related to reputation, corporate image or good community relations (38%). A little more than a quarter of the companies (26%) rated innovation and creativity as a benefit of a diverse workforce (European Commission 2005: 53).

Amongst about 120 companies with 'active diversity policies' in four EU countries that were asked to assess the importance of various potential benefits of those policies, a majority saw as 'important' or 'very important' the strengthening of cultural values within the organization, enhanced corporate reputation, helping to attract and retain highly talented people, improved motivation and efficiency of existing staff, improved innovation and creativity amongst employees, enhancing service levels and customer satisfaction, and helping to overcome labour shortages. Between one fourth and one half of the

companies also rated reduced labour turnover, lowered absenteeism rates, improved access to new market segments, avoiding litigation costs, and improving global management capacity as important or very important benefits (European Commission 2003: 3; Centre for Strategy & Evaluation Services 2003).

Next to surveys reporting positive impacts of diversity and diversity management, collections of good practice examples indicate similar positive results, as do the qualitative data obtained in case studies (e.g. European Commission 2005; Schwarz-Wölzl/Maad 2004b; Centre for Strategy & Evaluation Services 2003).

Opinions presented by companies (or their representatives) as they are collected in surveys or interviews are important, but also questionable data when it comes to evaluating the effects of diversity and diversity management. On the one hand, the persons filling out surveys or giving interviews will often be persons responsible for, and committed to, diversity and diversity management, and answers might therefore be biased; moreover, particularly when reports about a company are not anonymous, there will be a strong interest of representatives to provide a positive image of the company and its policies. On the other hand, experiences of companies or their representatives are often not based on actual measurement. There is a 'lack of systematic monitoring and evaluation of the progress and benefits of diversity' (European Commission 2005: 6), 'little evidence of quantitative assessment of costs or benefits' of diversity policies, and 'also little evidence of any systematic measurement of costs, benefits and intermediate outcomes' (European Commission 2003: 4).

Diversity and group performance: mixed evidence

Next to surveys and case studies asking about benefits of diversity policies, the idea of the 'business case for diversity' has stimulated a growing body of academic research on performance-related outcomes of diversity. However, there is hardly any research that tries to objectively measure the *financial benefits* of diversity *and diversity management* on an *organizational level*, i.e. the central promises of diversity management are basically untested by hypothesis-testing research using quantitative methodologies. Instead, most studies focus on the link between diversity and group performance regarding the handling of specific tasks, and thus have put one claim of diversity rhetoric under particular scrutiny: the synergy-assumption that diverse teams produce better results.

Overall, the results of such research evoke a less optimistic picture than companies' reports. On the one hand, there are indeed a number of studies pointing to increased performance in diverse groups. Innovation and creativity in problem solutions have been observed to be higher in heterogeneous groups as compared to homogeneous ones, suggesting that minority viewpoints may stimulate creative processes: heterogeneous groups have been observed to be more likely to consider a greater number of alternative solutions and to come up with higher-quality solutions to problems (cf. Thompson and Gooler 1996; Page 2007). However, such findings are not consistent, and reviewers of academic research on effects of diversity keep diagnosing that the evidence for positive effects is mixed, inconclusive, and in part simply lacking (e.g. Wise/Tschirhart

2000; Williams/O'Reilly 1998; Pitts 2005). Gender diversity has frequently been observed to be positively related to performance (cf. Pitts 2005: 7), however, in various studies, mixed-sex groups have both performed better and worse than single-sex groups (cf. Ely/Thomas 2001: 234). The same is true for 'racially' or ethnically diverse groups: while some studies have shown a positive relation between 'racial' or ethnic diversity and performance, others have demonstrated a negative relation or no relation at all (cf. Ely/Thomas: 234; Pitts 2005: 7).

Research on diversity effects: weak reliability, validity, and generalizability

Apart from providing mixed results, the quality of research on diversity effects is often questionable. Wise and Tschirhart (2000) reviewed 106 empirical, theory-testing studies on workplace outcomes of diversity and found reliability, validity, and generalizability to be weak. Originally intending to conduct a meta-analysis of statistical findings, Wise and Tschirhard found that there were not enough cumulative and consistent findings to do so. Searching for studies that analyzed the effects of *specific* types of diversity upon *specific* workoutcomes, there were often less than three studies that addressed the same combination of diversity-dimension and outcome. For the rare combinations that offered 10 or more findings, the authors found mixed results, incomparable measures, and a differing use of control variables (2000: 391).

Moreover, the design of many studies on diversity effects does not allow any immediate conclusions about effects in and upon actual organizations. While effects on the *organizational level* are of major importance regarding the business case for diversity management (as its central promise is: that *organizational* performance will be improved), effects of diversity have predominantly been studied for *individual and group levels*: 'The lack of empirical research on organization-level outcomes [of diversity – MF] is troubling, given the emphasis in the literature on the organizational-level benefits of the managing-for-diversity approach.' (Wise and Tschirhart 2000: 389) It has also been criticized that a considerable share of studies on diversity effects have measured performance in laboratory settings (using e.g. students as research subjects) which lack so many of the context factors of actual organizations that the applicability of such research is highly questionable (e.g. Wise/Tschirhart 2000; Williams/O'Reilly 1998; Thompson and Gooler 1996). In contrast, research in real organizations is comparably underdeveloped, especially when it comes to applying reasonably objective performance measures (cf. Kochan et al 2003). With maybe just a little overstatement, we could say: while opinions from diversity management practitioners reflect experiences in real organizations, but are rarely based on systematic measurement of effects, a considerable part of the academic research measures effects that might bear little relation to the mechanisms found in actual organizations.

Research in real world settings: an example

Research in actual organizations, however, also does not consistently point to clearly positive effects of diversity. One example is the work that has been done by the 'Diversity Research Network', an association of researchers who, in a multi-firm study, analysed the effects of 'racial' and gender diversity on the performance of teams, workgroups, and business units respectively (cf. Kochan et al: 2003). Research took place in four firms, all of which had an established commitment to managing diversity – two information processing firms, a financial services firm, and a retail company. The researchers' report gives interesting insights into the practical problems of examining the effects of diversity in actual organizations, which in part might explain why this sort of research is rarely conducted. To recruit companies for this research more than twenty large 'Fortune 500' companies (all of which showed considerable interest in the topic) had been contacted and involved in discussions over a two year period. All but four declined, for reasons such as lacking influence of the diversity advocates in the firm, a reluctance to examine the effects of policies that already had sufficient support without 'proof' of the business case, or objections by legal counsels or by managers who would have had to provide data. All four firms that agreed to participate had a prior relationship with members of the research network or its partner initiative, and therefore already had established a high level of trust. Among the four remaining firms, it was not possible to collect the same kind of data and use the same research instruments: 'Each company had its own particular ways of collecting and storing human resource data and three of four firms indicated a strong preference for using their own internal survey measures to capture the variables in the model.' (ibid.: 8) Using a variety of quantitative and qualitative data on diversity and constructing measures for team performance (from performance appraisal ratings, from goal achievement ratings, from bonus systems, and from average sales), the results of the four studies overall showed that there was no simple and unequivocal relationship between diversity and team outcomes. 'Racial' and gender diversity as such did not have a consistently positive or negative impact. Where negative impacts of 'racial' diversity showed up, they proved to be mitigated by training. Gender diversity sometimes showed no effects, sometimes positive effects upon group processes. The authors emphasise that effects of diversity are rarely direct; rather 'context is crucial in determining the nature of diversity's impact on performance' (ibid.: 17). For example, a highly competitive context aggravated negative effects of 'racial' diversity. Given an environment that promotes learning from diversity, in contrast, 'racial' diversity may enhance performance.

Diversity effects: positive and negative potentials

The value of diversity management, Kochan et al suggest, may primarily lie in reducing negative, and only secondarily in promoting positive, diversity effects: 'If these studies are representative of other leading companies with similarly strong commitments to diversity, our results may suggest that efforts to create and manage diverse workforces have generally paid off by eliminating many of the

potentially negative effects of diversity on group processes and performance documented previously in the literature. Moreover, there appear to be some conditions under which diversity, if managed well, may even enhance performance.' (2003: 17) With this assessment, Kochan et al are in line with reviewers of the research on diversity effects: unless steps are taken to counteract impeding effects of diversity, Williams and O'Reilly (1998: 129; quoted in Wrench 2007: 85) say, 'the evidence suggests that, by itself, diversity is more likely to have negative than positive effects on group performance. Simply having more diversity in a group is no guarantee that the group will make better decisions or function effectively. In our view, these conclusions suggest that diversity is a mixed blessing and requires careful and sustained attention to be a positive force in enhancing performance'. Other authors place more emphasis on the positive findings that do exist, while having to add that positive results are not always to be expected: 'Consistent positive findings for diversity or heterogeneity have been reported in both the research conducted in laboratory settings and that done in real world settings', however: 'A key finding from all of the research conducted thus far is that the presence of diversity in a workteam doesn't just automatically lead to positive outcomes such as enhanced productivity.' (Thompson and Gooler 1996: 402) Yet others feel unable to decide whether diversity effects are rather positive or rather negative: 'Given the weaknesses in the body of research on diversity, we can draw no firm conclusions for public administrators. We cannot claim that diversity has any clear positive or negative effects on individual, group, or organizational outcomes.' (Wise and Tschirhard 2000: 392)

Whether the effect of diversity 'in and of itself' might be rather negative or just not automatically positive, based on empirical research, it is safe to say that diversity does not consistently and under all conditions lead to improvements in team performance. Most observers agree that diversity has the potential for positive effects (like increased creativity, innovation, and flexibility) as well as for negative effects (like worse communication and increased conflicts), and that the actual effects strongly depend upon context factors.

2.2. Contextualizing the impact of diversity

Starting from this observation, a policy of managing diversity ideally should be informed by knowledge as to which specific context variables will influence group and organizational level impacts of which types and degrees of diversity in which way. Be it due to the complexity of the field, due to the problems conducting research in actual organizations, or maybe due to the question being almost too broad to be meaningful – as yet, there is no coherent, detailed, and satisfying model suitable for answering these questions in a comprehensive manner. However, the literature offers some basic models and does point to a number of factors that may have an impact on the relationship between diversity and organizational outcomes and that thus should be considered when thinking about managing diversity.

Types of diversity

To begin with: effects of diversity will vary with *types of diversity*. Theoretically, there is no compelling reason to believe that all types of differences between people (e.g. diversity in age, sex, ethnicity, education, sexual orientation, physical abilities, values, beliefs, etc.) should have the same effects upon group performance. It comes as no surprise that empirical research suggests varying effects for various types of diversity (cf. e.g. Wise/Tschirhart 2000). When distinguishing between types of diversity, the discourse of diversity management focuses upon differences that are relevant for the construction of social identities and that result in potential unequal treatment – like gender, 'racial' or ethnic differences. From a theoretical point of view, however, it is important to further distinguish *identity diversity* from *cognitive diversity* (i.e. diversity in knowledge, perspectives and interpretations) and *preference diversity*. Page (2007) argues that cognitive diversity produces benefits while fundamental preference diversity creates problems. For identity diverse groups, this would mean that they will perform better than homogeneous groups if (a) the identity diversity translates into cognitive diversity relevant for specific tasks and (b) the identity diversity does not translate into fundamental preference diversity. However, as 'identity diverse collections of people often contain both types of diversity, they perform both better and worse than homogenous groups as well. Put differently, identity diverse teams, cities, and societies *can* perform better, but they often fail to do so.' (ibid: 299)

Degrees of diversity

An aspect that seems rather obvious, but often is not systematically taken into account, is that effects of diversity will also vary with *degrees of diversity*. This is another reason why it is somewhat imprecise to talk about effects 'of diversity' as such. If we take all possible sorts of diversity into account, every group will necessarily be diverse in some regards. The question is not so much if diverse groups perform better than non-diverse groups, but to what extent higher diversity leads to better performance than less diversity. If we want to establish whether more diversity (of a particular type or across types) leads to better performance than less diversity, we will first have to determine, what is to be counted as more or less diversity. For many types of diversity, notably also for ethnic diversity, this is not so obvious as it might seem at first sight. For example, if company A has 50 employees of ethnicity x and 50 of ethnicity y, while company B has 70 employees of ethnicity x, 15 of ethnicity y and 15 of ethnicity z – which one is more diverse? Or: If company A has 50 employees of ethnicity x and 50 employees of ethnicity y, while company B has 50 employees of ethnicity x and 50 of ethnicity z – could they show different degrees of diversity according to varying 'distances' between x, y, and z? An index to calculate (ethnic/cultural or other) diversity could take into account the number of types represented (richness), the relative abundance of types (evenness), and the distance between types (Bellini 2005). While this leaves open the essential question as to how to determine and measure this 'distance', it will be more useful to see the problem of an operationalization of degrees of diversity at all than to talk about 'diversity' as if it were a dichotomous phenomenon that is simply either present or not.

The mode of economic activity
Particular types and degrees of diversity will probably exert different effects according to the *economic sector* in which a company is working or the *mode of economic activity* that is present in a company or parts of it. Broomé et al (2000) have argued that ethnic diversity always has the potential for positive aspects such as increased flexibility, creativity, openness, criticism, and knowledge transference and for negative aspects such as increased conflicts, worse communication, or culture clashes (cf. Wrench 2007: 88). However, these impacts of diversity will be quite different in the realm of the production of goods as compared to service production. While the more uniformed production of goods, where communication plays a minor role, may be less susceptible both to benefits and costs of diversity, service production will be more affected both by the positive and negative effects of diversity (cf. ibid.). Consistently, Audretsch and Thurik (2000) contrasted traditional routinised economic activities with knowledge-based innovative activities and argued that the former will benefit rather more from homogeneity, while the latter will profit more from diversity (cf. ibid.: 89).

Organizational context
Within one economic sector, diversity effects will vary with a multitude of context variables. A basic model that takes various *organizational context variables* into account has been presented by Kochan et al (2003). The authors assume that diversity can have negative and positive effects which are mediated by group processes, and that this connection again is affected by organizational context variables. Diversity (the model names cultural, demographic, technical and cognitive diversity) would thus influence group processes like communication, conflict, cohesion, information and creativity. These group processes would then have an impact on organizational outcomes like performance, satisfaction and turnover. The way in which diversity affects group processes, as well as the way in which group processes affect outcomes, however, depend upon organizational culture, business strategy and human resource policies and practices.

While such a model is useful to remind us of the overall importance of organizational context, the categories 'organizational culture', 'business strategy' and 'human resource policies and practices' are still very broad and would need to be developed in more detail as well as complemented by other factors. Among the many variables that can possibly intervene between diversity and outcomes, the literature indicates factors such as the emotional involvement of the actors, coalitions and past communications, the complexity of the task to solve, organizational size, structure, and technology, organizational communication mechanisms or type and frequency of the interaction of group members. Moreover, there might be interactions between various dimensions of diversity and there is some evidence suggesting that diversity effects will change in time (cf. Wise and Tschirhart 2000; Pelled 1996; Thompson and Gooler 1996).

Diversity perspectives
As is already indicated in the notion of 'organizational culture', diversity effects, as social phenomena, will vary according to processes of the *perception and*

interpretation of the differences in question. A central difference between a mosaic and a diverse group of individuals is that individuals, other than pieces of a mosaic, will observe other individuals, will know that they are observed by others as well, and will change their behaviour according to the resulting patterns of the perception of others, the perception of self and the significance given to the perceived differences. One implication of this fact is that – as Ely and Thomas (2001) have found – the very perspective on diversity that is prevailing in a company, the 'diversity perspective', will influence the effects of diversity. But the implications reach far beyond *organizational* culture. Effects of diversity will probably vary with the wider cultural setting (e.g. the difference between an individualist and a collectivist culture), with historical and political contexts, with cultural identities and power relations (cf. e.g. Wise/Tschirhart 2000; Ely/Thomas 2001) – the effects of diversity within a group or organization will in part be influenced by social context factors well beyond the scope of the organization or its management.

2.3. The business case for diversity management

The question of whether or not diversity increases organizational performance seems deceivingly simple. However, upon closer examination, it involves a plethora of complex and interdependent variables to be considered. Taking into account varying types and degrees of diversity, the multitude of meanings that they might have for social actors (and that only constitute a 'type' of diversity in a proper sense of the term), the multitude of organizational and social context factors that will probably intervene (among them, and not least of all, the effects of management policies), and the multitude of possible outcomes on individual, group, and organizational levels, it may not come as a surprise that research does not provide a simple answer. Thus, it seems that while we have an overview of the context factors that do play a role, in the end the impact of specific types of diversity upon performance will be either positive, negative, or none at all, and we do not have a coherent and tested theory able to exactly explain and predict the outcomes in real world situations.

The case for diversity and the case for diversity management: two different issues

What does this state of evidence mean for diversity management? Some critics argue that scientific evidence supporting the business case is lacking, and that the 'diversity industry' is simply earning a lot of money selling diversity training and advice when the business benefits of diversity are not proven by research. The consequence seems to be that a rational employer would have to abandon diversity management until such proof exists. An example of a popular interpretation of research results following this logic is from an article published in 'Workforce Management'. The author argues:

The multibillion-dollar diversity industry is thriving in corporate America. But before you spend another dime on your diversity program, carefully consider this conclusion reached by Thomas A. Kochan, one of the most respected human resources management scholars in the country: "The diversity industry is built on sand," he declares. "The business case rhetoric for diversity is simply naïve and overdone. There are no strong positive or negative effects of gender or racial diversity on business performance." (Hansen 2003)

While it is true that the diversity rhetoric is often naive and overstated, the conclusions that are drawn here – if, as it seems, they are based on Kochan et al (2003) – also reach too far: the study in question compared the performance of teams, work groups or business units *within* companies that showed a commitment to managing diversity; it did not compare the performance of companies with and without diversity policies and therefore could not objectively assess the organizational-level performance-related impact of these policies.

The risk of such over-interpretation is an example of the danger of overestimating the relevance that research on the synergetic performance effects of diversity has regarding the question as to whether diversity *management* makes sense for organizations. The synergy hypothesis – the idea that diversity will enhance group performance via changing group processes – is of course of major importance in the literature advocating diversity management (while there is an ambivalence as to whether diversity 'as such' or a managed diversity is supposed to deliver these results). It is this hypothesis that much of the research in the field has also focused upon, mostly testing the diversity-as-such version of the thesis. When the synergy hypothesis is shown to be not generally true (because diversity, or rather the specific types and degrees thereof that have been considered in particular studies, sometimes shows no effects or even negative effects upon group performance), some observers consider the case for diversity and *thereby* the case for diversity management to be gravely impaired. However, the case for diversity management must not be confused with the task of a mere assessment of performance-related synergy effects of diversity. Upon closer examination, there are two reasons why the performance-based case for diversity and the case for diversity management must be considered as two separate issues.

Diversity management may change diversity effects
Firstly, and rather obviously, the synergetic effects of diversity may change through diversity management. It is quite possible that specific types of diversity as such may produce inconsistent and sometimes negative results depending on context factors, while an appropriately managed diversity may lead to various benefits, including increased efficiency. Research does suggest that managing diversity may be a way to mitigate potential negative effects of diversity while promoting potential positive effects (cf. e.g. Thompson and Gooler 1996, also: Kochan et al 2003). Even if the effects of diversity 'as such' were primarily negative, it would still be a positive result of diversity management to compensate for this fact. Thus, while studies on the impact of diversity indeed indicate that the 'diversity is good for organisations' mantra (Wrench 2007: 85) found in much of the managerial literature has been overstated, this might not constitute an argument against, but *for* a sensible diversity management that

attempts to create conditions under which negative diversity effects are minimized and positive effects maximized – especially when the workforce is diverse anyway.

Most potential benefits of diversity management *are not effects of* diversity
Secondly, the strong focus on synergy effects of diversity is misleading, because diversity management policies in practice consist of several components and cannot be reduced to the attempt to enhance synergies. A rough modelling of the impact of diversity management, which takes several components of diversity management into account separately, has been presented by Pitts (2005). He suggests that a) the recruitment and outreach component, b) the 'building cultural awareness' component and c) the pragmatic management policies will have impact upon different variables, namely on a) integration and increased organizational heterogeneity, b) cultural synergy and c) job satisfaction. These variables would commonly influence organizational performance. Of course, such a model can only be the beginning of a more detailed modelling of the effects of diversity management. The different components of diversity management, the groups of effects, as well as 'organizational performance' itself, again imply various different approaches and variables that would have to be differentiated in a more detailed model. However, it is useful to keep in mind that diversity management may have a number of impacts and that different components of diversity management may have different impacts. If we now reconsider the benefits as suggested by its advocates, it becomes clear that the synergy hypothesis – whether it is true or false – is of little importance regarding all of the other suggested benefits: making use of talents, access and legitimacy, productive advantages of an inclusive environment and avoiding the costs of discrimination (see above). All of these may be results of diversity management, while not being synergy effects of diversity.

That companies have more of a *choice of talented personnel* if they broaden the scope of their search towards a greater variety of potential employees, is almost self-evident – it will be true under conditions, where there are talents among minorities at all. Making use of these talents is an effect of diversity management, but not an effect *of diversity* – it only means to *allow for diversity*. Whether diversity in a company will improve *access* to markets and *legitimacy* with partners and customers will depend upon the characteristics of the markets, partners and customers in question. If minority markets are or can become relevant for a company and minority knowledge facilitates entry into them, if investors take diversity into account when making an investment decision, if a company has international partners and communication is facilitated through a diverse staff, if customers have a taste for homogeneity that is satisfied through a diverse staff, then access and legitimacy will be improved through diversity. Again, these results could be improved through diversity management, but they are not *synergy effects of diversity*. They are effects of having relevant competencies at hand and of pleasing interaction partners, which has nothing to do with diversity improving group processes. The productive advantages of an *inclusive environment* are manifold. First, an inclusive environment is said to enhance synergies, and in this regard it is related to the synergy hypothesis. Research suggests that this improvement of synergy

effects through diversity management is possible. Secondly, an inclusive environment is said to make people feel valued and work to their full potential. This would be an effect of diversity management, but again not an effect *of diversity*. Thirdly, an inclusive environment may enhance job satisfaction by taking into account the needs of a diverse staff. This again is not an effect *of diversity* – it is an effect of organizational *adaptation to diversity*. *Reduced costs of discrimination*, finally, may also be an effect of diversity management, but it is also not an effect *of diversity*. It is an effect of complying with legal norms and of making minorities feel comfortable and accepted.

This means that most of the potential benefits that are claimed for diversity management are in fact not synergy effects of diversity or even effects of diversity at all. Diversity management, as it is applied in practice, has a lot to do with *adapting* to social conditions where both diversity and demands for inclusion exist anyway. It might have less to do with radical cultural transformations than its advocates suggest and less with synergy effects than researchers of the business case tend to assume. Focusing on the synergy hypothesis, both advocates of diversity management and academic researchers have emphasized one potential benefit of diversity management (namely synergy) over all the others. Thus, if diversity management practitioners see clear benefits of diversity management while research suggests that the effects 'of diversity' are often questionable, this may be because practitioners follow wishful thinking more than evidence. But it may also be because researchers, influenced by the common confusion of diversity and diversity management, and fascinated by the interesting and difficult synergy hypothesis, have been researching the effects of diversity more than the effects of diversity management – and have neglected the other potential business benefits of managing diversity.

Conclusion

Research on diversity effects does not support the simple claim that diversity is always good for organizations. However, the existing evidence does not contradict the business-case argument for diversity management. Effects of diversity and effects of diversity management have to be considered separately, and it is misleading to discuss both questions under the common heading 'business case for diversity'. Diversity holds the potential for increasing performance, but not every kind of diversity will always lead to synergy effects on group level. Diversity effects are strongly context dependent. Diversity management, however, can be beneficial even where diversity does not lead to synergies. This is a) because diversity management may change diversity effects and b) because diversity management may produce benefits other than – and also independently of – synergetic diversity effects on a team level. Given adequate context conditions and diversity management measures, benefits such as the effective use of talents through suitable recruitment programmes, increased access to diverse markets, or increased job satisfaction through a flexible adaptation to the needs of a diverse staff, can reasonably be expected.

On the other hand, this does not mean that every single measure, training, or skill-building programme that operates under the name of 'diversity management' is actually beneficial. With regard to the attempt to create all-inclusive working environments, to enhance group processes and synergies, and to reduce discrimination, in particular, there is substantial need for further research to determine which (sorts of) programmes will be useful and which might be useless (or even counterproductive; cf. Wrench 2007: 90f.). Given the heterogeneity of diversity management measures in practice, the question for further research cannot be whether diversity management 'as such' has positive effects. Rather, the question as to which measures produce benefits under which conditions will have to be addressed by the individual examination and evaluation of various components and types of diversity management programmes as they are actually implemented.

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