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The Diversity, Equity and Inclusion Dilemma: The Wrong Reasons or the Wrong Kind?

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Abstract

Many business ethicists, activists, analysts, and corporate leaders claim that businesses are obligated to promote diversity for the sake of justice. Many also say—what good news!—that diversity promotes the bottom line. We do need not choose between social justice and profits. This paper splashes some cold water on the attempt to mate these two claims. On the contrary, I argue, there is philosophical tension between arguments which say diversity is a matter of justice and (empirically sound) arguments which say diversity promotes performance. Further, the kinds of interventions these distinct arguments suggest are different. Things get worse when we examine the theory and empirical evidence about how diversity affects group performance. The kind of diversity which promotes justice and the kind which promotes the bottom line are distinct—and the two can be at odds.

Dr. Lawson

A Message from the Director

Does diversity, equity and inclusion (DEI) promote social justice? Does it improve performance of companies or institutions? A hopeful view that it can do both at the same time helps explain today's widespread support for DEI in corporate and academic circles.

In this essay, the first-ever Bridwell Institute occasional paper, Jason Brennan casts a skeptical eye on the supposed synergy of good works and good business. He dissects DEI and finds inherent tensions between the two arguments that arise from different philosophical and moral conceptions on what diversity is and how to achieve it. "Promoting one kind of diversity can sometimes undermine the other," the essay contends.

Jason has a lot more to say on the topic, of course. You'll find his essay thoughtful, nuanced and balanced as well as clearly written and fully researched. Our hope is that, after reading it, you will gain a greater appreciation of DEI's promises, contradictions and consequences.

DEI has become such an integral part of our economy that we didn't want to ignore such an important feature of contemporary business landscape.

We at the Bridwell Institute spend most of our days focusing on economic systems and how they impact growth, incomes, job creation and other key indicators of overall economic performance. We simply didn't have the expertise to launch a study of our own, so we proceeded according to a maxim of economics: Do what you do best and trade for the rest.

We hired Jason Brennan, a scholar at Georgetown University's McDonough School of Business; he is accustomed to working in the nexus of politics, philosophy and economics. For a fuller accounting of his academic accomplishments, see Page 23.

Jason is the author of an impressive 16 books on an array of topics – democracy, business ethics, voting, higher education, criminal justice, liberty and libertarianism. My favorite is *Why It's OK to Be Rich* (2020). Largely because of it, we invited him to speak at our 2020 Flourishing & a Free Society event on "The Role of Business in a Free Society."

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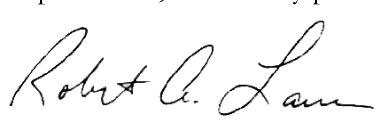

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The Diversity, Equity and Inclusion Dilemma: The Wrong Reasons or the Wrong Kind?

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Business ethics is often biased to teach the feel-good story that businesses do well by doing good.[1] Sure, unscrupulous activity might pay in the short-term, but doing the right thing pays off in the long-term. We need not choose between ethics and profits.

This same view appears in discussions of diversity, equity and inclusion (DEI), which has emerged as a hot-button issues in recent years. Many business ethicists, activists, analysts and corporate leaders claim that businesses are obligated to promote diversity for the sake of justice. Many also say – good news – that diversity promotes the bottom line. We do need not choose between social justice and profits.

This paper splashes some cold water on the attempt to mate these two claims. On the contrary, I contend, there is philosophical tension between arguments that say diversity is a matter of justice and (empirically sound) arguments that say diversity promotes performance.

Further, the kinds of interventions these distinct arguments suggest are different. If diversity is a matter of justice, it is a concern for business ethicists, activists and governments; if it is only a matter of profitability, it would not be. Businesses do not need ethicists, activists and governments to tell them how to be profitable.

Things get worse when we examine the theory and empirical evidence about how diversity affects group performance. The kind of diversity that promotes justice and the kind that promotes the bottom line are distinct – and the two can be at odds. If someone says, "diversity promotes justice *and* promotes business," they are often equivocating between two distinct senses of "diversity." Or, if they are not equivocating, then they are mostly mistaken.

My goal in this paper is to examine the tension between these two DEI arguments. The tension is not so intense that we must choose one kind of diversity over the other. But businesses must acknowledge that these are distinct kinds of diversity, to be promoted in different ways, and that there can indeed be conflicts between them, especially if companies are not careful in how they manage diverse workforces.

Many business people treat diversity as a free lunch – as justice that pays. I will argue that is not what the evidence shows. One reason we must make this clear is that companies should come clean: Would they be willing to promote demographic diversity as a matter of justice if it turned out not to increase profits? An unwillingness to admit diversity is not a free lunch suggests some corporate commitment is tenuous.

Pervasive Yet Somewhat Familiar

DEI is now a transcendent value in media, higher education and corporate culture. Organizations and their leaders frequently affirm the value in public and claim that diversity is their strength. Some companies and many universities require managerial applicants to espouse a pro-diversity ideology to be considered for employment.[2]

As of May 2022, nearly all Fortune 500 public companies have DEI statements and initiatives on their corporate social responsibility webpages. Large busiensses often

1 See Brennan, English, Hasnas and Jaworski 2021 for an overview.

2 McBrayer 2022.

require their employees undergo DEI training. American Express ties 15 percent of its leadership scorecards to diversity issues.[3] The Democratic Party mentioned "diversity" 15 times in its 2020 policy platform.[4]

As with many other values, the apparent surface-level consensus often disguises underlying disagreement about what that value really is, why it is good, or what it means to honor it. This partly explains why DEI initiatives sometimes take contradictory forms or push contradictory principles.[5]

These two sets of arguments call for different understandings of what diversity is and how corporations ought to foster it.

Note that this is not a special problem for diversity; it occurs with other important values. In the realm of political philosophy, for instance, left-liberals, neorepublicans[6] and libertarians agree that government's principal duty to is to protect liberty, but they have incompatible ideas of what liberty is, why it matters and which policies best protects it.[7]

Or two people might agree that corporations should promote environmental, social and governance goals (see box next page) but have opposite ideologies about what this entails. Or two people might agree that corporations should balance the legitimate interests of all stakeholders but dispute which interests are legitimate and how they should be balanced.

3 McKinney 2022.
4 Democratic Party 2020.
5 As McWhorter 2021, 8, explains, it is common in woke ideology to hold that seeing Black people as members of a common culture is a kind of unfair essentialism because we should not assume that Black people all partake of a shared culture by virtue of being Black. At the same time, wokism holds both that non-Blacks cannot truly understand Black people because Black people have a common culture inaccessible to them, and that companies should do more to promote the status of Black culture. McWhorter worries that wokism is incoherent because it has many contradictions like this. Here, I only suggest that perhaps different people who label themselves as woke have different ideas.
6 Neorepublicanism is a philosophy tht holds that governments should primarily protect citizens from domination in social, economic and political life. Oddly, they tend to conclude the best way to do so is through an interventionist government. See Pettit 1997.
7 Rawls 1971; Nozick 1974; Pettit 1997; Schmidtz and Brennan 2010.

Two Kinds of Arguments for Diversity

Corporations, business ethics theorists, management theorists and others offer at least two major *kinds* of arguments in favor of increased diversity. One might be tempted to think that the more arguments, the merrier. However, this paper will show, these two sets of arguments call for different understandings of what diversity is and how corporations ought to foster it. Promoting one kind of diversity can sometimes undermine the other. Further, these two arguments have some philosophical tension with each other.

The first kind of argument holds that diversity is good for promoting fairness, recognizing merit, redressing historical and institutional discrimination and/or enhancing equality. Let's call these kinds of arguments for increased diversity "justice-based arguments."

The most common form of this view holds, presumptively, that there should be demographic proportionality in how important offices, positions and jobs are allocated. According to this view, in a society free of demographic bias, prejudice and discrimination, the demographic composition of most corporations, professions, institutions and offices would match the demographic composition of society as a whole.[8] This view presumes that failure to achieve proportionality often results from injustice. Perhaps people from certain groups do not receive equal opportunity or background conditions are inequitable or the organizations in question might be biased in hiring and admissions.

This reasoning is partly codified in law. In the United States, if hiring practices have adverse impact on people from protected demographic categories, and if this cannot be justified as a necessary business practice under standards of strict scrutiny, then a (large enough) firm will be presumed guilty of disparate impact in hiring.[9] Disparate impact legislation holds that firms can be guilty of violating the 1964 Civil Rights Act and subsequent regulations even if employers had no *intention* of discriminating and even if they attempted to maintain proportionality. Large firms are thus required by law to maintain a sufficient level of

8 Interestingly, few people complain about, say, Black *over*represention and Jewish underrepresentation in professional sports. But this may simply show people are ideologically inconsistent.
9 See Griggs vs. Duke Power Co., 401 US 424 (1971). Adverse impact here means that there is a selection rate for a protected group that is 80% or lower than what would be expected from the applicant pool.

DEI vs ESG

How does diversity relate to broader models of corporate social responsibility? Many of today's business leaders, activists and business ethicists claim business should follow an environmental, social and governance (ESG) model when making strategic decisions.

The core idea is that business leaders should consider what impacts their decisions have on the environment, how their decisions promote various social goals and whether their decisions incorporate good governance practices.

DEI is often considered a part of ESG – in particular, as part of good corporate governance or as a method of promoting social goals. Of course, not everyone agrees. Depending on one's ideology, one might reject DEI because one rejects the justice-based argument for diversity. Or one might defend diversity but not be interested in ESG models more broadly.

Do ESG businesses tend to be more successful? Perhaps focusing on more than the bottom line helps promote the bottom line. However, the concept of ESG is probably too broad to make any blanket statements either way.

The problem is there are indefinite and incompatible ways a business might incorporate ESG goals into their decisions. As a result, it is probably impossible to assess whether ESG *simpliciter* promotes the bottom line. Instead, we can probably only assess particular ways of operationalizing ESG. This paper examines two broad ways of understanding promoting DEI goals but does not examine all possible variations of ESG.

demographic proportionality.

Of course, philosophical disagreements arise around these issues. One might dispute which demographic categories matter or how to draw distinctions[10] or dispute whether demographic proportionality would always obtain in a fully just society. Because employers are often downstream from factors that result in disproportionate outcomes, one might also dispute when disproportionate outcomes are an employer's fault or even something employers can fix.[11] These controversies are important but do not bear specifically on my thesis. I explore the tension between justice- and performance-based arguments for diversity, so challenges to and complications inside justice-based arguments go beyond my scope.

Justice-based arguments for diversity explicitly focus on *demographic* or *identity* diversity, such as diversity in ethnicity, race, gender, sex, religion or economic class. The idea is that in most societies, people of certain demographic groups were subject or continue to be to subject to systematic mistreatment while others received privileged and higher status. Both past and current mistreatment can create disparities in background conditions, opportunity, educational attainment and wealth.

In the United States, for instance, 12 percent of White households, 20 percent of Asian households, but only 5 percent of Black households made over $200,000 in 2020. Black households were twice as likely as others to be below the poverty line.[12] Many argue that this is unfair and that companies and organizations should work toward creating the demographic patterns of employment and office-holding that *would have* resulted in a bias-free world of equal opportunity.[13]

A second and distinct kind of argument for diversity holds that that diversity is good because diversity *works*. These arguments claim that diversity improves organizations' performance. For instance, a diverse research division might produce novel or important discoveries faster. A diverse marketing division might better communicate the value of a company's products. A diverse management team or workforce might be more productive or make recruitment easier. A diverse jury might have fewer blind spots and be more likely to render the correct judgment.

10 Bernstein 2022.

11 Bertrand, Goldin, and Katz 2010.

12 Statistica 2021.

13 I paint with broad strokes here because there are many different background philosophies that support variations on this conclusion for different reasons. For instance, Rawls 1971 defends a liberal philosophy that holds that all people of equal talent, regardless of their demographic backgrounds, should have an equal chance of getting any office or position. Critical race theorists also endorse justice-based grounds for promoting diversity but generally reject the liberal framework. These differences are important, but I gloss over them here because they are not the focus of this paper.

A diverse democratic deliberative body may make smarter decisions.[14] Many argue that diversity makes companies more profitable overall. Let's call these kinds of arguments for diversity "performance-based arguments" or "the business case for diversity."

The justice- and performance-based arguments both talk about "diversity," but the diversity in question is not necessarily the same thing. Justice-based arguments concern demographic diversity. As a matter of definition, justice-based arguments are about stopping and correcting problems that result from mistreating people because of their demographic identities. In contrast, it is an open question whether the "diversity" in performance-based arguments refers to demographic diversity or something else. Which kinds of diversity improve or demote any particular kind of performance in any particular context is an empirical question.

In fact, as I will show below, our best theoretical and empirical evidence is that performance is promoted by *cognitive* diversity, while demographic diversity often has no effect or even a negative effect on performance. In saying this, I am not arguing against demographic diversity. It is possible to promote both kinds of diversity simultaneously but doing so requires paying careful attention to the theory and empirics of what it takes to make diversity "work."

Unfortunately, too many corporate leaders are content with repeating slogans and doing things that look good – so long as we don't look closely. Further, the unwillingness to admit that the business case for *demographic* diversity is fairly weak might indicate a firm is not committed to diversity as a matter of justice.

If Diversity Were Only about Performance, Would There Be an Enforcement Issue?

In a later section, I will examine at length the theoretical and empirical evidence on which kinds of DEI promote organizational performance. Before doing so, I will argue that there is some unnoticed oddness in combining these two arguments.

Justice-based arguments appeal to morality, while performance-based arguments appeal to self-interest. The first says diversity makes an organization just; the second says diversity makes an organization money.

Philosophers and economists sometimes appeal to self-interest, especially when moral arguments might fail to motivate others to behave better. For instance, Adam Smith's *Wealth of Nations* contains a sustained economic critique of imperialism.

Smith argues that empires do not pay for themselves and in fact tend to impoverish most citizens from the *conquering* power.[15] Smith also thought imperialism was unjust. But he recognized that people are predominantly self-interested, and so in *Wealth of Nations* he tried to convince citizens their empires were making them materially worse off. Similarly, contemporary defenders of free immigration usually think immigration is a human right, but they also argue that increased immigration is efficient.[16]

Still, there is importance difference between these cases and diversity. Smith thought – and subsequent research shows – that imperialism was a form of rent-seeking that concentrated benefits among the well-connected few and dispersed greater costs among the many. The British king, trade monopolists and arms manufacturers benefited from empire, while the great mass of British people were harmed.[17]

Defenders of immigration argue that voters remain rationally ignorant of the benefits of immigration because their individual votes are inconsequential; thus, voters lack the incentive to overcome xenophobic biases.[18] In both cases, we have clear answers why countries might pursue policies that undermine their citizens' collective self-interest.

In contrast, if DEI increases corporate profits, then it becomes puzzling why businesses would not simply pursue diversity on their own – without any need for moralistic scolding, activism or criticism and without much need for government enforcement of diversity standards.

A widely celebrated 2018 McKinsey and Company report claims "[c]ompanies in the top-quartile for ethnic/cultural diversity on executive teams were 33 percent more likely to have industry-leading profitability."[19] (We will soon see there is little support for such claims; even McKinsey admits it has not established causation.)

But suppose for the sake of argument this relationship is causal; suppose diversity increases profitability. If so, we would expect profit-seeking businesses to increase diversity

14 Landemore 2012; Brennan and Landemore 2021.

15 See Davis and Huttenback 1987 for empirical validation of Smith's claims.
16 E.g., Van der Vossen and Brennan 2018.
17 Davis and Huttenback 1987; Van der Vossen and Brennan 2018.
18 Caplan 2007.
19 Hunt et al. 2018, 1.

on their own because, by hypothesis, failure to increase diversity means leaving millions or even billions of dollars on the sidewalk.

If diversity is a billion-dollar bill, we would expect greedy investors would pursue hostile takeovers of public companies that failed to pick up those billion-dollar bills. Even if firms were systematically racist or had a "taste for discrimination," we would expect them to pursue diversity unless they valued homogeneity more than these billion-dollar bills.

Note that public policy reflects the assumption that businesses are money-motivated. When companies fail to meet certain legal diversity requirements, their governments may fine them or allow third parties to sue them. The point of monetary fines is largely to incentivize good behavior. But if companies are money-motivated and diversity is profitable, we would expect them to pursue diversity on their own.

Indeed, if diversity is profitable, we would expect competitive market pressures to force firms to increase their internal diversity – for the same reason we expect competitive markets to force firms to adopt other profit-enhancing practices.

By analogy, suppose all soda firms in a competitive market are using expensive tin cans. Suppose Coke innovates by switching to less expensive aluminum. Coke would then make extra-normal profits and could undercut competitor's prices to gain extra market share. All things equal, Coke would beat other firms when competing for investors or consumers. Competitors would then be forced to copy Coke's lead and switch to aluminum.

If diversity increases profits or improves corporate performance, then roughly the same dynamic would hold. If Coke adopts a diverse board but others do not, then Coke will gain market share, make more profits, attract more investment and outcompete other firms. The more competitive the market is, the less their competitors could afford *not* to increase diversity. Instead of excoriating firms for failing to respect diversity or imposing fines, governments could regulate markets to ensure competitiveness.

On the other hand, if diversity promotes justice but not profits, then largely self-interested, profit-seeking organizations might not choose to promote diversity on their own. Businesses are in the money-making business, not necessarily the justice-making business. They might need external regulation, cajoling from activist or pressure from stakeholders.

For the sake of argument, now imagine instead that diversity improved profitability but was not a matter of justice. If so, then it would be unclear whether government should have much role in promoting diversity. Most political theories hold that governments are obligated to promote justice through equal opportunity, fairness in hiring and equal treatment, among other things. But most political theories argue that it is not government's job to promote company profitability, other than by perhaps providing background conditions conducive to well-functioning markets or intervening to avert crises.

If diversity is profitable, we would expect competitive market pressures to force firms to increase their internal diversity – for the same reason we expect competitive markets to force firms to adopt other profit-enhancing practices.

To use anther analogy, suppose corporations would perform better and be 10 percent more profitable if they switched from Excel to Google Sheets. That's a compelling reason to change, but there would be no obvious role for government. Indeed, we would not expect governments to be particularly good at assessing which business practices are profitable.

Similar remarks apply to the field of business ethics, including corporate social responsibility officers and managers in general. If promoting diversity is an issue of justice, then diversity is an issue for business ethicists and corporate social responsibility managers. But if diversity were instead *only* about promoting profits – on par with switching from Excel to Sheets – there would be no obvious ethical issue at stake or the stakes would be severely reduced. Indeed, we would not expect business ethicists to be particularly good at assessing which business practices are profitable.

The two kinds of arguments for DEI not only appeal to different reasons and motives but also suggest different kinds of solutions and interventions. Note that while below I will argue that the kinds of diversity that enhance justice and enhance performance are distinct, the preceding worries would apply even if they were the same.

The Philosophical Tension Between the Two Arguments

The previous section argued that diversity-for-justice and diversity-for-profit suggest different enforcement mechanisms. In this section, I discuss the philosophical tension between these two sets of arguments. The problem is that appealing to self-interest is sometimes inappropriate. Sometimes, it is the wrong kind of reason for action. Appealing to self-interest on behalf of diversity can even alienate the very people it is meant to include.

Consider this analogy to illustrate: In the summer of 2020, Americans paid increased attention to police violence, especially violence toward Blacks. Many called for police reform or for more radical proposals to defund or replace the police. Companies around the United States claimed to stand in solidarity with the Black Lives Matter movement.

Imagine that people tried during this time to convince police officers to behave better by appealing to their self-interest. Suppose, for instance, that McKinsey produced a "Black Lives Matter" report that tried to convince cops that respecting Black lives would increase officer salaries. Such an argument might be worth making for strategic reasons, if that is what it takes to reign in police violence. But this argument appeals to the *wrong* reasons. Police ought to change their behavior because Black lives matter, not because respecting Black lives *pays better*. They ought to do what is right because it is right, not because doing what's right is profitable.[20]

Similar logic applies to many other business ethics considerations. Businesses should be honest because it is right, not because honesty leads to a good reputation that increases their profitability in the long run. They should avoid exploiting workers because exploiting workers is wrong, not because paying avoiding exploitation turns out to be profitable in the long run. And so on. If violating these norms turned out to reduce profits, the companies should observe the norms anyway. One does not become exempt from basic ethical requirements by announcing the intent to seek profits.[21]

Management scholars Robin Ely and David Thomas notice this tension and offer a warning:

> Moreover, advocates who justify diversity initiatives on the basis of financial benefits may be shooting themselves in the foot. Research suggests that when company diversity statements emphasize the economic payoffs, people from underrepresented groups start questioning whether the organization is a place where they really belong, which reduces their interest in joining it. In addition, when diversity initiatives promise financial gains but fail to deliver, people are likely to withdraw their support for them.[22]

Ely and Thomas claim that the empirical literature, including their own work, shows that pushing the performance argument or business case for diversity sends the wrong message and tends to alienate the underrepresented people it is meant to attract and retain.

Members of underrepresented groups that have been subject to past injustices want to hear that businesses are including them because it is right and just. But when firms emphasize the supposed performance benefits of diversity, this signals to employees the firms mostly care about money. It reduces employees' confidence in their employers' concern for justice. Minority employees tend to leave such firms. Ironically, emphasizing the business case for diversity can be counterproductive.

If that dynamic seems strange, consider an analogy. Suppose your boss repeatedly says he will never sexually harass you … because it is bad for business. You might come to distrust him. Emphasizing the business case against sexual harassment suggests he is unethical and that he would act badly (in this or other domains) whenever he thinks he can get away with it.

I will argue below that both theory and the empirics show that the kind of diversity that promotes justice is different from the kind of diversity that promotes profitability. Some may be inclined to take offense at this or worry that this deflates the moral argument for diversity. Or they might feel they need to defend the profitability of demographic diversity because doing so will convince companies to promote just outcomes.

20 Prichard 1912.

21 Even Freidman 1970 agrees.

22 Ely and Thomas 2020.

But this is not quite right. If demographic diversity – or any other kind of diversity – turns out to be profitable, that is reason to promote it, but not a *moral reason* per se. If promoting diversity is about justice, then pursuing it for the sake of profitability is the wrong kind of reason. Indeed, it could be regarded – and Ely and Thomas show, often is regarded – as somewhat offensive.

If promoting diversity promotes justice, companies should be motivated by justice; being motivated by money is the wrong motive. If diversity (or honesty, or any other value) is required by justice, then companies should follow it regardless of whether it enhances profits.

Diversity and Performance: The Need for a Model

Suppose one wants to argue that a certain sort of diversity promotes corporate performance. To establish that, one would need some plausible operationalization and measurement of diversity, plus some plausible operationalization and measurement of performance.

Suppose one then finds diversity so operationalized and measured positively correlates with profitability or some other performance metric. This would of course not suffice to demonstrate that diversity *causes* profitability. It is possible causation goes the other way; e.g., perhaps better performing firms feel secure enough to experiment with increased diversity.[23] Or perhaps increased performance and diversity could have a common cause; for instance, good or ethical management techniques may produce more of both. Perhaps the correlation is spurious.

Consider two widely celebrated McKinsey reports: "Why Diversity Matters"[24] in 2015 and "Delivering Through Diversity" in 2018.[25] These papers use underspecified indices of gender and ethnic diversity in the workforce and on corporate boards, then compare those to a particular measure of corporate profitability.

The papers do not provide summary statistics, nor do they report means, medians or even regression equations. Instead, they simply report positive results. In particular, they claim that companies in the top quartile of diversity are 20-45 percent more likely than their less diverse peers to outperform the median firm in their industries.

The reports also claim that low-diversity businesses in some cases have a higher chance of underperforming the median company in their industry. Effect sizes are never specified, so we do not know how much better or worse these companies perform. The authors claim the results are statistically significant but do not explain the level of significance, report standard errors or provide other basic statistics. What the authors merely do is hide their work.

They also do not attempt to establish causation; that is, they do not try to prove that diversity *causes* these results. In the 2018 report, they admit, "correlation does not demonstration causation," but then advise readers to nevertheless consider how diversity might improve performance in their own firms.[26]

In the 2015 report, the McKinsey authors say, "While correlation does not equal causation (greater gender and ethnic diversity in corporate leadership doesn't automatically translate into more profit), the correlation does indicate that when companies commit themselves to diverse leadership, they are more successful."[27]

This is of course false. Correlation does not equal causation, so simply finding correlation does not support the conclusion that committing to diverse leadership makes companies more successful." The McKinsey authors are somewhat duplicitous. They insinuate that diversity causes better performance despite admitting they have not come near meeting the burden of proof for showing it.

To show whether diversity improved profitability (or some other performance metric), we need a model, more statistics and a way to test that model. We need to check against confounding factors. We need to test whether causation goes the other way or whether increased diversity and performance have a common cause.

The McKinsey reports are instructive examples. Many papers claiming diversity improves performance have similar flaws; they show a base correlation but do not attempt to establish causation.[28] Fortunately, some social scientists have done more rigorous work testing whether

23 Farrell and Hersch 2005 find that adding women to boards does not increase corporate performance; instead, women self-select to join better-performing boards.
24 Hunt et al. 2015.
25 Hunt et al. 2018.
26 Hunt et al. 2018, 2
27 Hunt et al. 2015, 2.
28 E.g., Carter et al. 2003 find a similar positive correlation between firm value and the percent of minorities on the board of directors, but it does not establish causation. Carter et al. 2010, however, later find no relationship.

various kinds of diversity improve various kinds of performance. I will discuss them next.

The Hong-Page Diversity Model

Lu Hong and Scott Page have produced what is probably the most thorough, rigorous and famous model purporting to show diversity promotes performance. Imagine a group of people working together to solve a problem, one with objectively better and worse answers, given any set of values or goals. The problem could be whether a defendant is guilty, which marketing method works best or how to build a better mousetrap. One obvious way to improve group performance is to increase the competence of individual members. Twenty genius engineers should tend to outperform 20 average engineers.

According to Hong and Page, however, a second way is to increase the *cognitive diversity* inside the group. In fact, they argue, cognitive diversity often trumps ability. In many cases, a more diverse group of less competent people will outperform a less diverse group of more competent people. Call this the Hong-Page theorem: Increasing cognitive diversity inside a group tends to increase the group's performance.

Hong and Page do not intend to exaggerate this claim or overstate its implications.[29] They admit that some problems might require extensive expertise in a particular field. If the problem is some advanced and esoteric topic in algebraic geometry, for instance, Hong and Page would agree that 20 genius mathematicians are likely to outperform a group of 20 random people with different skills.

However, many problems – especially those in business – have different facets and are best tackled by diverse groups with different skills. If the problem involves how a corporation should best deal with public safety, for instance, Hong and Page would suggest that a diverse committee composed of engineers, marketing professionals, accountants, ethicists, managers and production workers might well outperform a group composed entirely of engineers.

People with different skill sets will see different aspects of the problem and have different approaches that can be amalgamated to produce a better overall decision. If Hong and Page are correct, making a group more diverse makes the group smarter. Two heads are better than one – so long as the two heads are different.

These are exciting conclusions, if true. They suggest that firms can improve their performance without having to increase their human capital. They can instead reorganize to diversify the skillsets inside their deliberative bodies.

Note that the diversity the Hong and Page theorem defends is *cognitive* diversity. In titling their paper "Groups of Diverse Problem Solvers Can Outperform Groups of High-Ability Problem Solvers," they mean *cognitively* diverse problem solvers. They do not mean the diversity in ethnicity, religion, race, gender identity, sex or the other indelible characteristics found in the typical justice-based argument for diversity.[30] These characteristics should enhance performance only in special cases where they serve as proxies for cognitive diversity. For instance, perhaps members of certain ethnic groups better understand how to market to people like them.

The Hong-Page theorem instead concerns specific differences in knowledge, models of the world and problem-solving methods. Page says, "By *diversity*, I mean cognitive differences."[31] He elaborates:

Unpacking Diversity

Diverse Perspectives: ways of representing situations and problems
Diverse Interpretations: ways of categorizing or partitioning perspectives
Diverse Heuristics: ways of generating solutions to problems
Diverse Predictive Models: ways of inferring cause and effect[32]

Page dedicates hundreds of pages to explaining each of these concepts. To summarize here: people have different ways of thinking about what a problem is, have different models or characterizations of the situation in which the problem occurs, have different tools and methods for solving that problem, have different theories of causation,

29 E.g., Landemore 2012 argues that in democracy, more heads always outperform fewer, but the Hong-Page theorem does not support this claim. The Hong-Page theorem says adding more heads can help only under very specific circumstances.

30 The distinction Hong and Page have in mind between cognitive and demographic diversity is related, if not the same, to the what is often called surface- versus deep-level diversity. Surface-level diversity concerns "visible" distinctions, such as differences in race or sex. Deep-diversity concerns differences in attitudes, beliefs, values or knowledge. https://opentextbc.ca/principlesofmanagementopenstax/chapter/an-introduction-to-workplace-diversity/.
31 Page 2007, 7.
32 Page 2007, 7.

have diverse background knowledge and so on. The Hong-Page theorem claims that combining these diverse intellectual perspectives can improve group performance.

To illustrate, Ben Cohen of Ben and Jerry's ice cream has anosmia, a reduced sense of taste. As a result, Cohen focused more on the texture and mouthfeel of the ice cream. This is turn made Ben and Jerry's ice cream distinctive and helped make the company successful.

It is worth explaining how Hong and Page generate their conclusion. Doing so reinforces why the theorem indeed concerns cognitive diversity. It explains why surface-level or demographic diversity is neither an automatic substitute nor a proxy for cognitive diversity and cannot automatically be expected to promote group performance.[33]

The Hong-Page theorem says that cognitive diversity among the participants in a collective decision-making improves the quality of collective decision-making under the right conditions.

In their mathematic proof and computer model, Hong and Page imagine a group working together to solve a problem. The model stipulates the problem is too difficult for one person to solve alone. The group must agree there is a problem, and the group must genuinely attempt to solve that problem together. The theorem does not support the claim that simply throwing diverse people together produces good results. As we will see later, empirical work on diversity validates the claim that making diversity work takes work.

In the model, Hong and Page also stipulate that the cognitively diverse problem-solvers share the same value function; that is, the same ordering of possible outcomes from better to worse. So – and we will return to this shortly – they do not assume that problem-solvers have differences or diversity in *values*. While people have the same values or goals (at least for the problem at hand), they have different perspectives and capabilities in solving the problem.

A fortiori, the model suggests diversity in values among problem-solvers impedes performance by increasing conflict and preventing people from agreeing on what counts as a solution to the problem. However, this does not mean that ideal groups must be ideologically or morally uniform. Rather, it simply means that for any particular problem, the group should agree on what counts as better or worse solutions to the problem.[34]

Hong and Page next assume each agent in the group decision-making process has one and only one "heuristic" or method she uses to try to solve the problem. When an agent uses that heuristic, she will get stuck on what she considers the best solution until some other agent with a different perspective or method improves upon it. No agents have internal "cognitive diversity," so they do not as individuals try different problem-solving heuristics or techniques.

This last assumption is unrealistic. In the real-world, many people have different methods, heuristics and skills and can switch between them. Unrealistic assumptions may explain why (as we will see below) the measured benefits of cognitive diversity are modest. If individuals themselves can switch frameworks, methods and perspectives, they have less to gain from working with others.

Next, the model assumes that whenever one agent becomes stuck when seeking better solutions to the problem, there will always be another agent who can improve upon the first by using a different heuristic. This is what Hong and Page label the "diversity" assumption:

Assumption 2 (Diversity)

$$\forall x \in X \backslash \{x^*\}, \exists \theta \in \Theta \text{ such that } \phi(x) \neq x$$

This assumption is a simple way to capture the essence of diverse problem-solving approaches. When one agent gets stuck, there is always another agent that can find an improvement due to a different approach.[35]

Note again that "diversity" here does not signify different demographic identities. It instead means having a different heuristic or problem-solving method that can improve the solution to the problem. This assumption can be unrealistic in the real world. We cannot be sure that there is always someone else in the group who can improve upon the

33 Desmet, Ortuño-Ortín, and Wacziarg 2017

34 As an illustration: Imagine a committee trying to hire the best finance professor. If the committee agrees publications count more than teaching, they might work together well. If they dispute entirely what counts as "the best," they might not.

35 Hong and Page 2004.

group's current best solution. This is another reason the measured benefits of diversity turn out to be modest.

Hong and Page further assume that agents will recognize and defer to others' good ideas. Agents will build upon what others have contributed. They will take turns improving upon the current solution to the problem. Of course, these assumptions can be unrealistic. In the real world, people might not deliberate properly, might be stubborn or pigheaded, might have personal conflicts, might not accept others' suggestions and so on. This is another reason why the empirically measured benefits of cognitive diversity are modest and why it takes work to make cognitive diversity work.

To summarize, the Hong-Page theorem says that cognitive diversity among the participants in a collective decision-making improves the quality of collective decision-making under the right conditions. These include: 1) the participants must have genuinely diverse models of the world, 2) the participants must be smart and have sufficiently complex models,[36] 3) the participants must agree on what the problem is and what would count as a solution, 4) the participants must all be trying to solve the problem together and 5) the participants must be willing to learn from others and take advantage of other participants' knowledge.[37]

Cognitive diversity does not yield results when the problem is simply too complex for the participants to understand, when the group is not working together, when the group disputes the goal or what would count as a solution – or when the group is cognitively uniform but demographically diverse.

Imagine a university or corporation recruits demographically diverse but cognitively uniform students, faculty, administrators and/or employees. The Hong-Page model predicts no performance benefit. Or imagine there is cognitive diversity but suppose people self-segregate into groups with uniform perspectives and methods. Again, the model predicts no performance benefit from diversity. Instead, the Hong-Page model predicts diversity will "work" only when people of diverse perspectives work together the right way.

Some might push back by arguing that people of different ethnicities or identity groups tend have different perspectives due to different life experiences. There is probably a grain of truth to this, although there is no reason to think this translates into deeper diversity about problem-solving methods, models of the world and so on. Still, we can test this claim in part by examining whether different kinds of identity or demographic diversity in fact tend to contribute to group performance. I will review the empirical evidence below.

However, I suspect some of the motivation for this push-back is that managers want to take it easy on themselves. If they simply insist, without much evidence, that of course demographic diversity leads to cognitive diversity, then they relieve themselves of having to do the hard work of recruiting and managing cognitively diverse teams with distinct skill sets.

Empirical Evidence: Deliberative Democracy Literature

Hong and Page have produced what is likely the best theoretical model to judge the claim that diversity improves group performance. However, the model predicts diversity will "work" only when certain demanding conditions are met. In this section, I provide illustrations of how it can be difficult to make diversity work.

Consider the existing research on *deliberative democracy*. The term refers to forms of democracy in which decisions are made by group argumentation and discussion, with inclusive and randomly selected samples of citizens rather than elected representatives.

Deliberative democracy requires people work together to advance ideas, argue about those ideas, weigh pros and cons, listen to one another and criticize each other's ideas with an open mind. Most deliberative democrats advocate an ideal under which citizens argue with one another in a dispassionate, scientific way and, as a result, reach a consensus about what ought to be done. "Deliberation" connotes an orderly, reason-guided process, which follows inclusive rules. Theorist John Dryzek warns us that most political discussions do not qualify as "deliberation" per se.[38]

There is a robust literature in political science that attempts to vindicate the epistemic power of democracy using the Hong-Page theorem.[39] Consider: Given any set of values, there will be better or worse policies for promoting those values. Which policies work best to

36 Page 2007, 160.
37 Somin 2013, 114; Hong and Page 2004.
38 Dryzek et al. 2019.
39 Landemore 2012; Landemore 2020; Brennan and Landemore 2021.

promote those values is often a complex social-scientific problem requiring specialized knowledge. Why not, then, leave policy decisions to experts or weigh votes according to voter's objective political knowledge?[40]

Many democrats invoke the Hong-Page theorem in response to this challenge. They argue that democracy's main advantage is its intellectual diversity. A large, diverse group of agents should outperform a small group of experts.

Whether deliberative democracy works should depend on how well the group deliberation matches the parameters of the Hong-Page model. If the deliberators have completely different values (in terms of what they would consider a solution to the problem at hand), do not agree on what the problem is, are not trying to solve the problem, are radically unsophisticated or make systematic errors, then the Hong-Page model either does not apply or instead predicts bad performance.

For deliberation to work, deliberators must follow certain norms, focus on solving the problem, listen to and defer to one another's good ideas and so on. The process is neither magic nor automatic.

In fact, laboratory and field work on deliberation leads to mixed results in ways that tend to vindicate the theorem's predictions. Some work finds that properly moderated groups can produce consensus.[41] In Iceland, an experiment in open democracy – allowing citizens to deliberate over the Internet – appears to show that laypeople were better able to revise the Icelandic constitution than a panel of experts.[42]

Despite some promising studies, there is strong evidence that it is difficult to make deliberation work.[43] Dysfunctional group dynamics can impede collective decision-making. These include:

- When people self-identify as members of a group, including as members of political groups, deliberation tend to make things worse, not better.[44]
- Instead of debating facts, participants try to win influence and power over others.[45]
- High-status individuals talk more, are perceived as more accurate and credible and have more influence.[46]
- During deliberation, people use language in biased and manipulative ways.[47]
- Deliberation tends to move people toward more extreme versions of their ideologies rather than toward more moderate versions.[48]
- Deliberation over sensitive matters often leads to "emotionalism," with parties to the debate feigning moral emergencies and booing and hissing at one another.[49]
- In actual deliberation, some groups get a greater voice than others, and leaders are often chosen in sexist or racially biased ways.[50]
- During deliberation, citizens often change their preferences and reach consensus only because they are manipulated by powerful special interests.[51]
- Consensus often occurs only because citizens purposefully avoid controversial topics, even during organized deliberative forums designed to make them confront those topics.[52]
- Rather than causing consensus, public deliberation might cause disagreement and the formation of in-groups and out-groups.[53] It can even lead to violence.[54]
- Citizens prefer *not* to engage in deliberative modes of reasoning, and they prefer that deliberation not last very long.[55] They dislike deliberating.

These findings mostly come from experiments conducted by researchers who want group deliberation to succeed. Over and over, however, they find that improving collective performance is not simply about introducing cognitive or identity diversity and getting people to talk. Instead, for deliberation to work, deliberators must follow certain norms, focus on solving the problem, listen to and defer to one another's good ideas and so on. The process

40 See Brennan 2016.
41 Ackerman and Fishkin 2005; Fishkin 2010; Fishkin and Luskin 2005.
42 Landemore 2020.
43 Ryfe 2005.
44 Mendelberg 2002, 156.
45 Mendelberg 2002, 159.
46 Mendelberg 2002, 165-7.
47 Mendelberg 2002, 170-72.
48 Sunstein 2002.
49 Downs 1989.
50 Ellsworth 1989, 213, Cohen 1982, 210-11; Marsden 1987, 63-64.
51 Stokes 1998.
52 Hibbing and Theiss-Morse 2002.
53 Hibbing and Theiss-Morse 2002.
54 Mutz 2006, 89.
55 Somin 2013, 53.

is neither magic nor automatic.

Fortunately, we might expect corporate decision-making to be less problematic than democratic deliberation. The goal of democratic deliberation is often to produce consensus on policy, but deliberators often have different background values. The Hong-Page model predicts that disagreements over the relevant values will impede group decision-making. In the corporate world, however, it is easier for managers to design contexts where the group deliberators have an agreed-upon value function or goal (such as reducing emissions by 10 percent, increasing market share or finding a new supplier). Indeed, managers can *order* employees to focus on a stipulated goal.

Diversity and Performance: The Empirics

In *The Difference*, after spending approximately 300 pages explaining and defending the Hong-Page model, Page reviews the empirical work on diversity and performance. His summary is humble: "The benefits of diversity exist. They're not huge."[56]

Page reminds readers that his model, or any other well-examined model, does not predict that identity/demographic/surface-level diversity will promote performance. In fact, he says, the empirical evidence fails to show that demographic diversity itself promotes performance. Many studies and most reviews of those studies find that demographic diversity has no significant effect on group performance, while many others find that demographic diversity instead has a negative effect on group performance,[57] particularly because such diversity often increases conflict and mutual distrust.[58] I discuss why in the next section.

This once again highlights the importance of group dynamics – as the Hong-Page model predicts, for diversity to "work," people must work together. Unfortunately, group performance is undermined if people are ethnocentric or suspicious of different identities or if they are cautious because they are worried that others are suspicious of them.

The studies that do find a positive relationship between demographic diversity and performance do so, Page claims, because demographic diversity is in those cases an adequate proxy for cognitive diversity. For instance, *cultural* differences might create sufficiently different problem-solving frameworks for some tasks that allow different people see different things – but this is not a given.

Let's examine the relevant work ourselves, including papers published after Page's review. After all, new evidence could render Page's 2007 review obsolete. However, the new work tends to validate the old.

In a 2019 *British Journal of Management* paper, Paul Guest examines whether diversity on corporate boards leads to better monitoring outcomes, such as improved "CEO compensation, [reduced] accounting misstatements, CEO turnover performance-sensitivity and acquisition performance" and "overall performance."[59] He samples 1,906 firms over 11,916 firm-year observations, with 14,917 directors, between 1996-2011. After constructing a series of regression models with careful control variables, he tests whether diversity has any effect on a wide range of board performance metrics.

Whether positive or negative, the results in each case are either statistically insignificant or yield a trivial size effect. For instance, increasing minority representation on a corporate board increases CEO compensation by 0.005 percent. Appointing minority outside directors in an otherwise all White corporate board increases the appointments' returns by no more than 0.1 percent, but this result is statistically insignificant. Guest performs a wide range of robustness tests and uses multiple models; the results remain the same.

Guest says that his study does not explain *why* increased demographic diversity delivers null results. He says it is possible that hired minority board members simply share the same views and skills as Caucasian members. (As Hong and Page would say, identity diversity without cognitive diversity is useless for improving group performance.) It is possible that minority board members were assigned the wrong tasks or were ignored. (As Hong and Page would say, even cognitive diversity does not improve outcomes unless groups work together the right way.)

O. C. Richard examines data from 574 banks in California, Kentucky and North Carolina. Banks are a good research target, he says, because regulations force the institutions to report data publicly in a consistent manner, which makes valid cross-industry comparisons feasible.

56 Page 2007, 335.
57 Page 2007, 325.
58 Page 2007, 325.
59 Guest 2019, 53.

He then checks whether racial diversity is correlated with firm performance while controlling for a wide range of confounding variables, such as firm size, age and gender diversity. He finds that cultural and racial diversity have no statistically significant effect on firm performance.[60]

David Carter et al. examine the relationship between gender and ethnic diversity on U.S. boards and firm financial performance, measured by their returns on assets and Tobin's Quotient (the market value of a company divided by its asset replacement cost). For S&P 500 firms from 1998-2002, the study finds no significant relationship between gender and ethnic diversity of the board, or of major corporate committees, and these measures of financial performance.[61] A similar study finds similar results for small-to-medium enterprises in Italy.[62]

Isabel Gallego-Alvarez and her co-authors examine the impact of gender diversity on corporate performance in Spain. They find the gender diversity of corporate boards of companies on the Madrid Stock Exchange has no effect on corporate performance on a wide range of measures.[63]

Miguel Fernández and Fernando Tejerina-Gaite also examine board diversity and firm performance in Spain. They also find no positive evidence that gender diversity promotes corporate outcomes, but they claim *national diversity* – i.e., adding board members from outside Spain – does have a positive relationship with performance.[64] Other studies also find a positive relationship between board performance and the presence of foreign board members.[65] This coheres with the Hong-Page model because these studies show that foreignness is a proxy for *cognitive* differences.

Farrell and Hersch wrote a meta-analysis considering data from 20 studies, examining 3,097 companies. Half the companies were from developing countries and half from developed. They find the presence of women on corporate boards is not related to firm financial performance once controls for other factors are introduced.[66]

Caspar Rose finds similar results for Denmark, a country with unusually high levels of equality between men and women and unusually high female board membership. However, there is no significant relationship between corporate performance and the number of women on the corporate board.

Rose's research suggests – as Hong and Page might predict – that this in part because women selected to corporate boards already have the same mindset and skillset as men. In short, they are demographically diverse but not cognitively diverse.[67] Other papers on female representation generate mixed results.[68] Some papers claim a positive relation, others a negative relationship and others no effect.

Sally Lindsay et al. offer a systematic review of the empirical literature examining the effects of hiring people with disabilities.[69] Some of the papers they review merely find positive correlations between profitability and the percent of staff with disabilities, which again leaves open the question of the direction of causation. Perhaps more profitable firms can afford to indulge a social mission of hiring disabled staff, which perhaps in itself reduces profits. Others relied on manager anecdotes and interviews, which are unlikely to be reliable.

However, some papers identified a clear and plausible causal path. One is that for many firms, the cost of accommodating current employees who develop disabilities is lower than the cost of recruiting, training and integrating replacements. A second, more disturbing trend is that in the hospitality and retail food industries, hiring cognitively disabled employees is cost-effective because such employees can legally be paid *less*. (This might further illustrate how performance and justice-based arguments for diversity can be in tension. Imagine, by analogy, if papers argued that hiring minorities was profitable because they could be paid less.) A third trend is found in retail food industries, where hiring visibly cognitively disabled employees increased profits because it creates goodwill among shoppers.

Many papers find contradictory results on whether diversity improves outcomes. For instance, Williams and O'Reilly's survey analyzes over 40 years of diversity research. They consider a wide range of kinds of diversity,

60 Richard 2000, 171.
61 Carter et al. 2010.
62 Morrone et al. 2022.
63 Gallego-Alvarez et al. 2010.
64 Fernandez-Temprano and Tejerina-Gaite 2020.
65 Cox and Blake 1991; Richard et al. 2013; Estelyi and Nisar 2016; Bernile et al. 2018; Guest 2019; Katmon et al. 2019.
66 Pletzer et al. 215.

67 Rose 2007.
68 Jackson et al. 2003.; Miller and Triana 2009; Carter et al. 2010; Mahadeo et al. 2011; Pathan and Faff 2011; Chapple and Humphrey 2014; Strøm et al. 2014; Terjesen et al. 2016; Jeong and Harrison 2017; Bennouri et al. 2018; Scholt and Kieviet 2018; Buchwald and Hottenrott 2019.
69 Lindsay et al. 2018.

including diversity in length of tenure, age and other factors. Consistent with Hong and Page's predictions, they find studies generally agree that diversity in expertise increases group performance, although this should not be overstated because groups with very diverse skill sets sometimes have difficulty working together and seeing each other's methods as valid.[70]

Age diversity appears to be negatively related to group performance because groups work together better when members are approximately the same age.[71] Sex diversity was associated with worse performance, including increased turnover.[72] However, these results may be out of date.

Many papers find contradictory results on whether diversity improves outcomes.

Some evidence shows racial and ethnic diversity is correlated with increased creativity; overall, Williams and O'Reilly claim the evidence is inconclusive on whether racial and ethnic diversity promotes group performance. Among the papers in their survey, 45 percent claim that ethnic diversity has positive results, while 55 percent say such diversity has negative or null effects on performance.[73] In their conclusion, the authors note a consistent trend: When diversity impedes group performance, this often arises because of mutual distrust, suspicion and animosity. I will consider this issue further in the next section.

In a recent *Harvard Business Review* paper, Ely and Thomas call out business people's tendency to presume that diversity will increase profits and performance.[74] Their critique is notable in part because 25 years earlier they wrote a famous paper arguing that diversity could indeed increase corporate performance. However, they now say their message was misunderstood. They had only claimed that diverse bodies can perform better when properly managed; readers dropped or ignored the "when properly managed" qualifier.

In their recent article, Ely and Thomas write: "Increasing diversity does not, by itself, increase effectiveness."[75] And they say: "Scholarly researchers have rarely found that increased diversity leads to improved financial outcomes."[76] Indeed, they contend ethnic and gender diversity, if not properly managed, often causes conflicts that undermine performance.

What matters instead, according to Ely and Thomas, is whether an organization can "draw on [members of different groups'] experiences as members of particular identity groups to reconceive tasks, products, business processes and organizational norms."[77] In other words, identity diversity *can* be a proxy for the kind of cognitive diversity Hong and Page find effective.

Ely and Thomas think business leaders can successfully identify how to draw cognitive diversity from identity/demographic diversity. However, they say, doing so is not a free lunch but instead requires a systematic managerial approach that encourages employees to learn from each other in the right way.

Karen Bantel and Susan Jackson examine how various kinds of diversity in expertise, tenure, age and background skills of banks' top management teams affect performance.

They find that "more innovative banks are managed by more educated teams who are diverse with respect to their functional areas of expertise."[78] These results remain even when controlling for confounding factors. As the Hong-Page model predicts, cognitive diversity matters.

Many other papers find similar results. Ken Smith et al. examine 53 high-technology firms to see how different kinds of diversity affect various measures of performance. They find many forms of team demographic heterogeneity impede performance by increasing conflict and increasing monitoring and management costs.[79]

The evidence is not strong for demographic diversity per se impacting corporate performance in positive ways, but researchers can make a stronger case that *cultural* diversity does.[80] Note, however, that most of their studies simply demonstrate a positive correlation rather than providing the rigorous testing of a causal model. Taken as a whole, the findings align with Hong and Page's model. Demographic

70 Williams and O'Reilly 1998, 99-100.
71 Williams and O'Reilly 1998, 104.
72 Williams and O'Reilly 1998,108.
73 Williams and O'Reilly 1998, 115.
74 Ely and Thomas 2020.
75 Ely and Thomas 2020.
76 Ely and Thomas 2020.
77 Ely and Thomas 2020.
78 Bantel and Jackson 1989.
79 Smith et al. 1994.
80 Carter et al. 2010; Miller and del Carmen Triana 2009; Estelyi and Nisar 2016; Adams and Baker 2021.

diversity itself has little correlation with performance, but *cultural* diversity, a kind of cognitive diversity, has a positive correlation.

Overall, there is not strong support for the claim that demographic or identity diversity improves corporate performance. Some papers claim a positive correlation, some find a negative one; most commonly, studies find a null relationship, especially when they are careful to control for confounds. Few papers employ even the most basic modern empirical methods necessary to establish causality in the minds of researchers – for instance, they do not exploit natural experiments, use difference-in-differences analysis or employ other advanced statistical techniques.[81] Even the positive papers mostly claim only to establish a correlation, and very few of them even specify an effect size.

In contrast, there is better support for the claim that cognitive diversity tends to improve corporate performance. As Page summarizes:

> … teams of people with diverse training and experience typically perform better than more homogenous teams. Studies that isolate diversity in skills, such as between the types of engineers, show evidence that diversity improves performance. Studies of creativity and innovation conclude that cognitive variation is a key explanatory variable. Studies also show that management teams with greater training and experiential diversity typically introduce more innovations. Based on this evidence, organizational scholars generally agree that cognitive diversity improves rates of innovation, though they might not accept that diversity improves performance in all tasks.[82]

Other work seems to confirm Page's summary.[83] As Page himself emphasizes, the benefits of cognitive diversity are modest. Overall, he would still say, we tend to see that cognitive diversity and innovation are found together. For instance, cultural innovations tend to come from diverse cities where different cultures and ideas collide and are remixed, not from more uniform places.[84]

Empirical Evidence: Diversity and General Trust

Ely and Thomas do not view demographic diversity as a magic performance-enhancer. If not properly managed, they say, diversity can unfortunately induce conflict and impede performance. It is worth further exploring the problem of conflict to see why this is so by sampling the large body of independent evidence on how demographic diversity affects collective action.

The empirical research finds that increased demographic diversity reduces generalized "interpersonal trust" – a concept that refers to "a person's expectation that other persons and institutions in a social relationship can be relied upon to act in ways that are competent, predictable and caring."[85] An alternative definition focuses on people's general willingness to make themselves vulnerable to others, especially and including strangers.

In short, people who have high interpersonal trust believe others are usually *trustworthy*; that is, they expect that others will keep their word, honor their contracts, act beneficently, avoid cheating and so on. Those with low interpersonal trust instead expect others to lie, cheat and steal when they can. Just as individuals can have high or low trust, so can individual organizations, firms or even entire countries.[86]

High levels of trust reduce transaction costs and make trade, democracy, committee work, sports teams and others forms of collective action function better. When people trust each other, they are more willing to make deals with strangers and require fewer enforcement mechanisms to make such deals. They are more willing to contribute to collective projects without being worried others will free ride or take advantage of them. They are more willing to contribute to welfare and social insurance schemes.[87] They are more willing to sacrifice for the group. They are less likely to engage in "defensive" cheating or rent-seeking behavior. They are less likely to try to manipulate or control others. In short, trust leads to teamwork; distrust leads to Machiavellian behaviors.

81 Yang et al. 2019 notes this point. In contrast, they use more sophisticated statistical techniques and find a negative result.
82 Page 2007, 323. Among others, Page cites Williams and O'Reilly, 1998; Laursen et al. 2005; Hoffman 1959; Finkelstein and Hambrick 1990; Bantel and Jackson 1989; Blinder and Morgan 2005.
83 Blinder and John Morgan 2005; Kugler et al. 2012; Rockenbach et al. 2007; Milliken and Martins 1996; Pelled et al. 1999; Crossan and Apaydin 2010; van Knippenberg et al. 2004; Guzzo and Dickson 1996; Van Knippenberg and Schippers 2007; Ostrom 2009; Lakhani et al. 2007; Baranchuk and Dybvig 2009; van den Bergh and Jereon 2008.
84 Glaeser et al. 1992; Glaeser 1994; Glaeser 1999.
85 Kasperson et al. 1992; 169.
86 Ortiz-Ospina and Roser 2016.
87 Alesina et al. 2001.

Empirical research shows that trust among employees or between employees and managers improves firm performance.[88] Firms with significant levels of generalized interpersonal trust have reduced monitoring costs, reduced cheating and law-breaking and higher levels of employee satisfaction and output. People who trust each other behave better. Employees who lack trust either leave, slack off or lie and cheat to take what they think they deserve from others whom they believe are also lying and cheating. Employees who trust each other and the firm work harder and do the right thing – even when others are not looking.

People who have high interpersonal trust believe others are usually trustworthy; that is, they expect that others will keep their word, honor their contracts, act beneficently, avoid cheating and so on.

Unfortunately, research routinely finds that identity and demographic diversity undermines general social trust at both micro and macro levels. Ethnic and religious minorities tend to have lower trust among themselves, and majority populations have lower trust when they are involved with significant minority populations.[89] The mechanism seems to be that people tend to trust those they regard as similar to themselves and distrust those they regard as different.[90] In a systematic review of 1,001 trust estimates from 87 studies, Peter Dinesen, Merlin Shaeffer and Kim Sønderskov find a persistent conclusion:

> We find a statistically significant negative relationship between ethnic diversity and social trust across all studies. The relationship is stronger for trust in neighbors and when ethnic diversity is measured more locally. Covariate conditioning generally changes the relationship only slightly. [91]

Dinesen, Shaeffer and Sønderskov say the effect remains even when more sophisticated statistical controls are introduced; but they add that the effect's size does not support "apocalyptic claims."[92] Identity diversity reduces social cohesion, although not to the point of destroying it.

Publishing such findings is not to endorse these behaviors any more than, say, the Milgram experiments endorse conformity to authority.[93] Researchers may wish the empirics were otherwise, but reality is often messy. For instance, economists think free trade and free mobility of labor are highly efficient and welfare-enhancing, but mutual distrust among diverse people reduces support for, and the effectiveness of, these win-win interactions.[94] To show that xenophobia reduces trust, which in turn reduces cohesion, which in turn reduces performance, is not thereby to endorse xenophobia.

In the Hong-Page model, diversity improves group performance when people with diverse frameworks, models, knowledge or methods see something others miss. To repeat the point stressed above, the Hong-Page model predicts better performance only when people work together and learn from each other during group deliberations. Deep-level cognitive diversity can sometimes fail because people with different technical skills or training have difficulty understanding each other or integrating each other's distinct methods and approaches.

Surface-level or demographic diversity, as Page himself concludes, often impedes group action because mutually distrustful people have difficulty integrating. If people were more open, less xenophobic and less ethnocentric, these problems would not arise, but proper management means managing for people as they are, warts and all, including trying to make them better than they currently are.

Conclusion: Managing for Diversity and Managing for Performance

Both theory and empirical evidence establish that cognitive diversity can improve corporate performance but is neither an automatic nor easy process. Rather, it requires bringing competent people of diverse perspectives, skill

88 Covey and Conant 2016.
89 Alesina and La Ferrara 2002; Bjørnskov 2006; Hero 2003; Alesina and La Ferrara, 1999; Costa and Kahn, 2003; Putnam 2007.
90 Abrams, Hogg, and Marques, 2005; Uslaner 2002; Messick and Kramer, 2001, Dinesen et al. 2020.
91 Dinesen et al. 2020; 441.
92 Dinesen et al. 2020, 461.
93 In the early 1960s, Yale psychologist Stanley Milgram found many study participants were willing to obey an authority figure who directed them to perform acts that conflicted with their personal consciences.
94 Caplan 2007.

sets and problem-solving methods together to work on an agreed-upon task with an agreed-upon goal.

Deliberators must be willing to recognize each other's distinct forms of expertise and listen when others offer real improvements on the group's current solution or conclusion. They must be willing to offer reasons to others and listen to others' reasons. They must be willing admit their own limitations and be able to discern when others' contributions count as improvements.

The evidence does not show that identity and demographic diversity generally improve performance. When they do, it is usually because the kind of demographic diversity in question is a proxy for cognitive diversity. For instance, researchers often find that having board members from other countries with distinct cultures improves performance.

A rainbow of people who think the same way cannot be expected to improve group performance. Worse, because people unfortunately tend to distrust those they regard as different, demographic diversity often is negatively correlated with firm or group performance. This should not be taken as an argument that diversity is bad in and of itself; rather, it means people react badly to diversity.

Managing for diversity is thus a hard task that, Ely and Thomas say, corporate managers tend not to take seriously. Corporate managers often fail to acknowledge how diversity can lead to conflict and fail to examine ways to overcome that conflict. They often engage counterproductive inclusion strategies that can increase mutual distrust and suspicion. They often work hard to increase demographic diversity but do not ensure that strategic teams are composed of cognitively diverse people with distinct skillsets. They might successfully recruit cognitively and demographically diverse employees, but then manage the firm in a way that fosters internal segregation. And, finally, they are often unaware that pushing the business case for diversity often alienates minorities.

The justice case and the business/performance case for DEI are not merely distinct arguments for increasing diversity within business. Rather, they are distinct arguments for distinct kinds of diversity. The arguments are partly at odds with each other.

This is partly because there is philosophical tension between them. If demographic diversity is a matter of justice, then it can be beside the point or even offensive to promote it as a matter of performance. Indeed, as Ely and Thomas argue, making a business or performance case for demographic diversity tends to alienate the very minorities it is meant to attract or protect.

The two arguments for diversity are at odds in part because they suggest different kinds of enforcement mechanisms. If diversity promotes profitability, that is a reason to promote it, but it is not an obviously *moral* reason, or itself provide reason for *moral* condemnation when business leaders fail to promote it. Instead, we would expect competitive markets themselves to force businesses to be diverse for the same reason we expect such markets to force businesses to adopt other efficient practices.

Insofar as diversity is a matter of profitability but not justice, the political case for promoting diversity is much weaker. While governments should protect and rectify serious market failures, most do not think governments should enforce all profitable or efficient practices. But if diversity is instead a matter of justice, it is easier to justification government regulation or to morally condemn businesses that are not diverse.

After reviewing the theoretical and empirical work on the performance-enhancing power of diversity, the evidence indeed shows that cognitive diversity can modestly promote performance, but it does not vindicate demographic diversity in the same way. While some papers defend the business case for demographic diversity, the evidence tends to show either a neutral or slightly negative effect on corporate or collective performance.

Pegging the case for demographic diversity on performance is not merely mistaken but may even tend to undermine the justice argument for diversity. Practitioners need to acknowledge that the performance and justice arguments for diversity are distinct reasons to promote distinct kinds of diversity. They need to be clear about whether they are committed to demographic diversity even if it does not pay or is not a free lunch.

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