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The Effects of DEI Initiatives as a Financial Strategy in the Workplace

Soeun Lee[1] and Lauren Malanka[#]

[1]Tenafly High School, USA
[#]Advisor

ABSTRACT

Diversity, equity, and inclusion (DEI) initiatives aim to address gender, age, and racial disparities in corporate environments. This paper reviews the impact of DEI programs in creating a workplace that fosters productivity and inclusivity. The paper also discusses DEI programs being ineffective in reducing implicit bias as research shows that the effects of these programs fade within 24 hours, mainly because they are tailored to enhance the company's overall image rather than lasting solutions for reducing discrimination. Reverse discrimination is also underlined as a rising concern, for individuals may feel as if they are undeserving of a particular position due to the emphasis on diversity. Furthermore, factors for measuring programs' success are derived from the economic outcomes, employee sentiments, and public response. Although current research may have limitations on measuring success and corporate differences in implementing DEI programs, DEI has undoubtedly shown no overall improvement in the economic market. This study emphasizes the level of inclusion that employees feel in relation to the rushed, checkbox-driven initiatives. As a solution for the surface-level goals formulated from DEI programs, Inclusive Economics (IE) may play a role in enhancing the DEI factor in the workplace. IE differs from that of DEI by having a tangible success measurement scale and incorporates employees' responses in today's workplace. Conclusively, understanding the effectiveness of DEI programs and altering them accordingly is crucial for establishing an inclusive workplace in a globalized world.

Introduction

In recent years, diversity, equity, and inclusion (DEI) programs have gained momentum in corporate America, not only as ethical initiatives but also as financial strategies. Collective DEI efforts in reducing gender, disability, age, and racial gaps are pivotal in enhancing workplace performance and fostering equitable environments. Nevertheless, evidence suggests companies often struggle with DEI efforts, treating them as mere "checkboxes," rather than aiming for genuine change. Companies implement various initiatives one by one, checking them off their list, oftentimes unable to branch off of the checkboxes provided. These checkbox-driven diversity programs create a false sense of satisfaction among employers, leading them to believe that their workplace is diverse. Whilst employees had a 52% positive and 31% negative sentiment towards diversity, only 29% of employees believed that their company was implementing it accurately (Dixon-Fyle et al., 2020). Yet, companies continue to push employees towards diversity training without substantial changes. This forceful implementation of diversity training is similar to the concept of diversity quotas in which companies are forced to have a certain number of individuals from a particular minority group to fulfill the quota established by either the government or the head of the corporation. For example, in China, wherein there is an arguably more egregious history of discrimination, there is a national quota on disabled people, who also meet the requirements for being a minority group. At least 1.5% of the workforce should be disabled workers with fines for failure to meet this quota (Myers, 2011). This can lead to effects such as diversity fatigue and reverse discrimination, which can substantially reduce the productivity of a corporation. Despite more companies striving to implement DEI programs, trends exemplify the notion that current DEI strategies often fall short of showcasing significant productivity gains. For DEI initiatives to benefit corporations and employees, they must better account for the unique needs of minority groups in lieu of overgeneralizing the minority groups that need to be addressed in those programs. A possible solution to address this rising issue is inclusive economics (IE) to work alongside DEI initiatives.

Notwithstanding the empirical evidence involved in arguing that DEI initiatives tend not to be successful, there is also evidence that some DEI programs do prove to showcase improvements within the workplace and have positive benefits for employees and employers. When considering programs that have had DEI programs implemented for a long time, they on average have the highest likelihood of outperformance on profitability. Companies that did not have DEI initiatives for as long, on the other hand, were reported to underperform their national industry median profitability by 40% (Dixon-Fyle et al., 2020). Furthermore, not all view diversity-driven initiatives as unhelpful. There are differing opinions on diversity-driven initiatives such as diversity quotas for garnering diverse individuals. Gender quotas, a type of diversity quota, as policy measures are viewed as positive or negative depending on how respondents perceive the urgency of addressing gender discrimination (Voorspoels, 2018). However, despite slight discrepancies in public opinion of DEI programs, DEI initiatives are mostly viewed as negative within the company. This is due to the lack of inclusion in employee relationships. In a corporate lens, employee dissatisfaction leads to negative perception and lack of productivity affecting the overall performance of the company.

Public Image Versus Profit

Recently, companies have been substantially increasing their DEI budgets. In 2022, the DEI market was worth $9.5 billion, a significant increase from $7.5 billion in 2020. The market is expected to continue its upward trend to $15.4 billion by 2026 (Roy, 2023). Companies have a reasonable rationale regarding this trend: consumers have shown a preference for companies taking independent action toward an equitable workplace. Inchan Kim, a researcher with a Ph.D. in Management Information Systems from the University of Oklahoma, combined findings with Brandon McNeil and discovered that companies supporting a minority group the U.S. administration undermined resulted in higher stock prices compared to when the administration supported the minority group that the company supported (2023). This underscores the benefits of DEI commitment from a public image standpoint. Accordingly, 72% of respondents expressed a desire to work for a company that values DEI (Caprino, 2023).

Reflection Of Values

While public perception of DEI programs is generally positive, it is widely debated amongst individuals with different values. An example of this is the contrasting opinions of political parties in the United States regarding DEI initiatives. Generally, left-leaning individuals support DEI far more than right-leaning advocates, for they believe that by supporting minority groups, they are making up for the historically unjustified discrimination that the minority groups have faced. In a randomized poll by the *Washington Post,* 84% of the people who voted in favor of DEI policies were Democrats while 36% were Republicans (*April 28-May 12, 2023 Poll of Black Americans*, 2023). The divide between the viewpoints on DEI depending on gender, race, age, and political stances and the personal values that form from it plays a critical role in pinpointing which programs benefit which minority group.

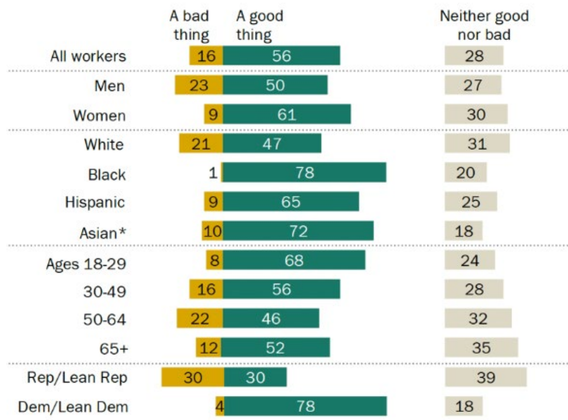

Figure 1. Views of DEI in the workplace may vary along demographic and partisan lines. (Minkin, 2023).

Furthermore, the general public perception of diversity programs is good, with the poll stating that over 60% of individuals support DEI and believe that it is beneficial. This trend can be attributed to the notion that Americans believe that the nation's strength lies in diversity of individuals built on mutual respect ("Diversity," 2000). Empirical evidence suggests that the underlying notion of equal opportunity is what Americans value and believe in. The differences between diversity in workplaces depending on the country are also showcased according to the values and traditions of the country.

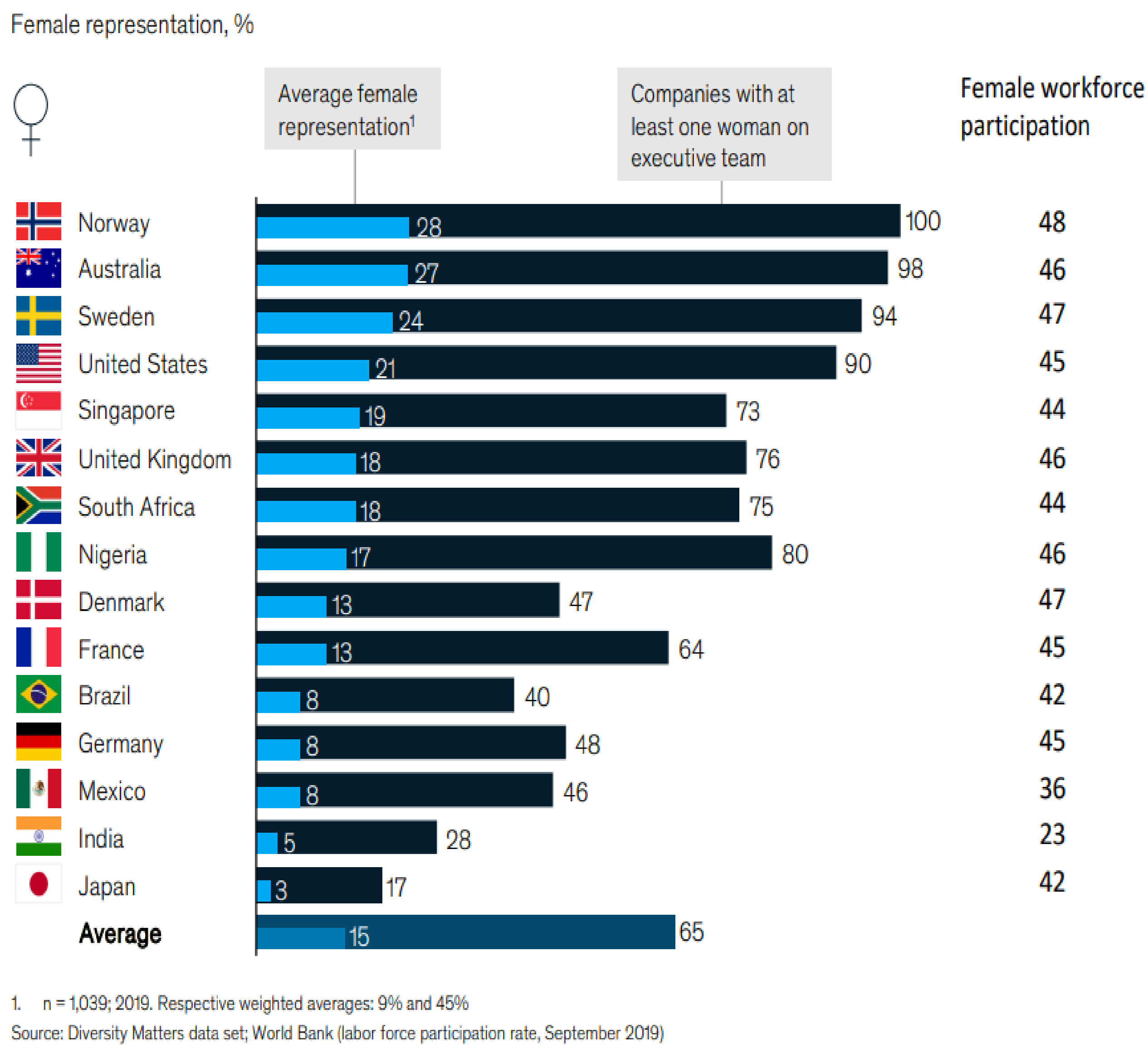

Figure 2. In nearly all 15 countries, women are underrepresented on executive teams (Dixon-Fyle et al., 2020).

Thus, despite the emphasis companies put on diversity for the public and the costs it entails, consumer responses may still vary.

Profit

Additionally, positive publicity is only applicable and beneficial to companies that significantly showcase support. Regulating DEI is a costly enterprise for companies and the promise of profitability as well as equality is oftentimes overstated. The cost of staffing and the cost of different recruitment agencies prove to be obstacles for companies that cannot pay more for current DEI programs (April, 2022). This limits the organizations' desire to invest in DEI initiatives, which also raises the topic of whether companies can be seen as "investing" in DEI. When one invests, one expects a quantifiable outcome as a return on investment. In a capitalist economy, the outcome is measured in currency, but it is difficult to pinpoint how much profit DEI generates and the specific profitable DEI action. For example, studies with evidence of satisfaction with the current DEI system reported that from 2016 to 2021, higher gender diversity in banks positively impacted bank performance (Varouchas et al., 2023). On the other hand, Jeremiah Green, an associate Professor of Accounting with a position at Texas A&M University, provided metadata in response to the same study done by Varouchas et al., but found no statistical difference between the likelihood of financial performance and DEI programs. Green revealed that the statistics from Varouchas' team did not hold up universally due to different research conditions such as changes in economy, business management, and methods of research depending on when the study was conducted (n.d.). Despite the amount of money needed to uphold DEI initiatives, the actual influence on workplace dynamics remains questionable. Hence, DEI initiatives' benefits are not specific enough to risk valuing only public image over productivity and overall profit.

Addressing Implicit Bias

Whereas public perception of DEI is generally positive, internal realities do not display similar trends. DEI initiatives are often performative for public image and only ideologically driven. Due to the corporation-centered driving factor for DEI initiatives, corporations do not consider subconscious prejudices individuals may have towards unfamiliar groups of people, known as implicit bias. This subconscious mindset cancels the simplicity of creating a diverse workforce. For example, in a moment of rare candor, Charles Scharf, CEO of Wells Fargo & Company, was discussing why the bank had difficulty reaching its diversity goals when he said, "While it might sound like an excuse, the unfortunate reality is that there is a very limited pool of Black talent to recruit from" (Scharf, as cited in Onyeador et al., 2021). Thus, human nature renders it difficult for companies to rein in the necessary measures when constructing DEI policies. Further expanding upon this perspective, Calvin Lai in the Psychology and Criminal Justice department at Rutgers University, conducted a collaborative study on employees who attended implicit bias interventions, a program designed to eliminate the subconscious prejudices and stereotypes individuals have developed towards other groups of people (n.d.). They reported that only eight of 17 experienced reduced implicit bias. Even among those who reacted positively to the training, the effects faded after 24 hours. This lack of effectiveness is detrimental for corporations for a paper by Alex Madva, an associate professor of philosophy at Cal Poly Pomona, stated that having a degree of awareness of the implicit bias by individuals is imperative for moral responsibility. Implicit bias not only provokes negative responses within the organization, but it also may have negative effects toward consumers. Implicit bias is known to manifest in non-verbal and subconscious behaviors towards other individuals, an example of this affecting consumers is in the medical industry. According to a research article by FitzGerald on medical ethics, medics with subconscious prejudices towards a specific group of people may perceive them as less competent and thus decide not to prescribe them the appropriate medication one would give without bias (2017).

Furthermore, 89% of employees acknowledge that their company has programs to support DEI, but 62% of respondents did not believe their company was truly committed to fostering a diverse workplace (WebMD, 2022). Hence, corporations do not take employees' responses into factor when drafting DEI programs. To strengthen DEI initiatives, Shannon Pope, Director of DEI at Sony Consumer suggested that companies should blend DEI programs and the characteristics of the target minority group (Pope, as cited in Waynick 2023). This highlights the idea that DEI initiatives are more successful when centered around employees in lieu of being seen as a corporal initiative.

Risk of Reverse Discrimination

Despite efforts such as blurring the line between the cultural and corporal perspectives of DEI programs, DEI initiatives may inadvertently create an environment of reverse discrimination. A study done by Samuel Myers concluded that federal support for underrepresented firms revealed that prioritizing certain groups over others will stir discontent among groups not equally prioritized in these initiatives (2011). Accordingly, Disadvantaged Business Enterprise (DBE) qualifiers, which refer to businesses run by minority groups, argue that they are not being supported to the fullest compared to other minority groups. Out of the overall funds, Asians received 5.5% of contract dollars, but they represented only 4.2% of all qualified firms (Myers, 2011). Since Asians are receiving more contract dollars despite having fewer firms eligible for the funds, the program was found to be disadvantageous to other DBE-qualifying firms. Thus, DEI programs benefit a minority group at the expense of another. A similar inverse correlation was discovered, when economists examined the effects of public transfers to stabilize the economic situation of the disabled, the non-disabled were at a disadvantage for having to pay extra taxes in order to sustain the initiative (Myers, 2011). This sentiment is not only applicable to the groups receiving seemingly less attention but also a generalized opinion within groups overly treated better. 20% of black workers still believe that they were treated like affirmative action hires, believing that they're undeserving of their positions and feel as if they do not belong ("Ipsos Black," 2023). Companies tend to emphasize their efforts in hiring diverse individuals to the point where minority workers feel like they do not belong. While DEI initiatives may initiate attempts towards inclusivity, the trade-off of supporting one group at the expense of another group will hinder morale and productivity, counteracting any potential benefits that DEI may offer. This can lead to detrimental results within a company's efficiency due to effects such as diversity fatigue, which refers to the burnout employees experience from discussing diversity, or the lack thereof (Raduazo, 2021). Diversity fatigue deteriorates the diversity factor in the workplace as well as productivity, for it may suppress the relationship between performance and workplace diversity (Farmanesh, 2020), establishing the domino effect of inaccurately implemented DEI initiatives.

Potential Solution and Conclusion

Potential points of improvement encompass Inclusive Economics (IE), which directly addresses economic disparities through solutions such as strengthening federal minimum wage grants for individuals experiencing extreme poverty, which is justified as a minority group. IE recognizes the need for corporate profit while bringing greater levels of equality by incorporating a balance between surface-level solutions for public attention and genuine solutions (Niekerk, 2019). IE is a business strategy that values human capital and focuses on reality rather than symbolic gestures, moving beyond the theoretical debates of DEI. In a study done by Arno J. van Niekerk, a faculty of Economics and Management Sciences at the University of the Free State, IE is depicted as involving a balanced consideration of people, nature, and ethics in its initiatives. IE supports minority groups in a method that differs from DEI programs by placing emphasis on poverty and unemployment, moral obligation, and environmental responsibility in economic processes. The success of IE is also easily measured through the genuine progress indicator (GPI), which can be seen as an alternative GDP to monitor the effectiveness of IE. GPI calculation includes six main factors: personal spending (Cadj), government spending (Gnd), volunteer work (W), private spending (D), environmental damage costs (E), and loss of natural resources (N). While GPI is still being refined, it makes up for the flaws of DEI programs, which researchers find difficult to measure the success of. The following equation can also be utilized to measure the GPI:

$$GPI = Cadj + Gnd - W - D - E - N$$

Inclusive Economics not only is measurable, but is also effective, for it is universally acceptable amongst both represented and underrepresented groups and encompasses varying levels of solutions for enhancing equality (Corrado & Corrado, 2017). This is placed in contrast with DEI programs, in which companies often fail to set a direct goal to address the disparities between employees. By working concurrently with IE, DEI will generate more revenue by going beyond the simplistic goals and start to address the underlying problems in the path of achieving DEI (Fabella, 2017). DEI programs may allow companies to initiate diversity programs, but IE will benefit both the company and the consumers due to the financial gains it supports.

As the pool of potential employees continues to expand, companies will consider new methods in advocating for diversity within their organization. While DEI initiatives are attempted to be set in place in various corporations, evidence dictates that companies will only start to benefit financially once more specific research is available on which initiatives work best, address implicit bias within the organization, and also reduce the risk of reverse discrimination. This may be done by the co-utilization of Inclusive Economics in the planning of new DEI initiatives, as empirical evidence dictates. Consequently, analyzing the effects of DEI in the workplace includes an economic perspective, as well as political, social, and ethical. While DEI initiatives have the potential to maximize productivity and efficiency, evidence indicates that companies currently do not benefit significantly in economic terms from the current methods used. With the globe increasingly becoming globalized, companies must start considering new goals and targets to position their DEI programs towards.

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