THE WALL STREET JOURNAL.
ONLINE

November 14, 2005

THE JOURNAL REPORT: LEADERSHIP

The New Diversity

In a global economy, it's no longer about how many employees you have in this group and that group. It's a lot more complicated -- and if you do it right, a lot more effective.

By CAROL HYMOWITZ
Staff Reporter of THE WALL STREET JOURNAL
November 14, 2005; Page R1

As companies do more and more business around the world, diversity isn't simply a matter of doing what is fair or good public relations. It's a business imperative.

If companies are going to sell products and services globally, they will need a rich mix of employees with varied perspectives and experiences. They will need top executives who understand different countries and cultures. They will need executives around the world who intuitively understand the markets they are trying to penetrate.

THE JOURNAL REPORT

See the complete Leadership report[2].

A wide swath of corporations, however, don't yet realize that. That fact is evident in the numbers, which show that management ranks and boardrooms remain almost exclusively white-male enclaves. African-Americans made up 13.8% of the U.S. work force in 2003, but just 6.5% of managers, while Hispanics were 11.1% of the work force and 5% of managers. Whites, by contrast, made up 69.9% of the work force but 84.5% of managers—and dominate even more among top managers. Just 7.9% of top earners at Fortune 500 companies are women.

Something dramatically different, however, is happening at a select group of corporations with the broadest global reach. Top executives at these companies know they need a work force that reflects the changing demographics of their customers. Rather than try to hire a certain number of African-Americans or Hispanics and then encourage these groups to blend together and conceal their differences, they're trying to tap into the differences to capture new business and increase the bottom line.

DIVERSITY IN THE WORKPLACE

Are companies taking advantage of the benefits that diversity can bring? What are your experiences? Vote on the questions below and share your views in a discussion board[3].
• How useful is diversity training in the workplace?

1. It is **VERY USEFUL**.[4]
2. It is **SOMEWHAT USEFUL**.[5]

"Diversity is an inescapable reality for any corporation with more than 100 people, wherever it's located," says David Thomas, a professor at Harvard Business School. "Where 10 or 20 years ago, companies were asking, 'Will we be diverse?' today they must ask, 'How should we use diversity as a resource to be more effective as a business?'"

Doing that requires "creating a workplace where differences can be learned from and leveraged," Mr. Thomas believes. "You don't want Balkanization where you have women employees going after women

3. It is NOT USEFUL AT ALL.[6]

• How has diversity in your workplace changed in the last five years?

1. It is MORE DIVERSE.[7]
2. It is LESS DIVERSE.[8]
3. It HASN'T CHANGED.[9]

• Who has the advantage today when it comes to getting hired and promoted?

1. WHITE MEN[10]
2. WHITE WOMEN[11]
3. MINORITIES[12]
4. Opportunities are GENERALLY EQUAL.[13]

• How have equal-opportunity laws affected U.S. business?

1. They've HELPED BUSINESS.[14]
2. They've HURT BUSINESS.[15]
3. They've HAD NO EFFECT.[16]

• What is the most important reason to pursue workplace diversity?

1. To improve EMPLOYEE RELATIONS[17]
2. To bring a COMPETITIVE ADVANTAGE[18]
3. It's the RIGHT THING TO DO[19]
4. It's NOT IMPORTANT[20]

customers and blacks going after blacks. You want employees who can serve customers different from themselves. And you want an environment where employees aren't afraid to share perspectives that are unique to them."

New PepsiCo Products

That is what **PepsiCo** Inc. is trying to do. The beverage and snack-food giant has made big strides from a decade or two ago, when it had a reputation as a mostly white-male fraternity. At the end of 2004, people of color held 17% of management jobs at midlevel and above, up from 11% in 2000, and women held 29% of those management jobs, up from 24% in 2000.

But the numbers are only a means to a bigger end: turning the varied perspectives of employees into a competitive edge over rivals, especially in product innovation and marketing.

PepsiCo estimates that in 2004 about one percentage point of the company's 8% revenue growth came from new products inspired by diversity efforts. Among these: guacamole-flavored Doritos chips and Gatorade Xtreme, aimed at Hispanics; Mountain Dew Code Red, which appeals to African-Americans; and a newly launched wasabi-flavored snack aimed at Asians.

Leading this initiative is chief executive Steve Reinemund, whose belief that diversity promotes innovation and better decision making is evident in his senior team. His president and No. 2 executive is Indra Nooyi, who grew up in India and wears saris to work.

Starting this year, each member of PepsiCo's executive committee is required to sponsor a different employee affinity group. Dawn Hudson, who is white and president and CEO of Pepsi-Cola North America, sponsors the women of color group; general counsel Larry Thomason, who is black, sponsors the group for white males. A governance council of line managers from the company's operating divisions collects diversity ideas from around the company.

The goal is an inclusive culture where employees feel free to express their views, even if those are sometimes negative or involve confronting top executives. After Mr. Reinemund addressed a group of black managers -- standing a few feet above them on some patio steps at the company's headquarters -- he received an email from a woman at Frito-Lay who compared the experience to being addressed by a slave owner on a plantation. Rather than dismiss or ignore the message, Mr. Reinemund took her comment to heart. He understood that employees from different backgrounds may have wide-ranging associations, and that in turn led him to the practice of having his top executives sponsor different employee affinity groups so they could become more attuned to the differences.

An employee affinity group generally consists of people of a particular race, gender, ethnic minority or sexual orientation, or people with a disability -- with the idea that they share certain perspectives and needs within a company that can be best addressed through group discussion.

Companies benefit from diversity, Mr. Reinemund believes, only if people of diverse races, ethnic backgrounds,

gender or sexual orientation aren't required to act or think the same.

Achieving this takes time, persistence and commitment from senior management. **International Business Machines** Corp. for decades has supported equal employment. But 10 years ago, then-CEO Lou Gerstner took a look at his senior executive team and concluded it didn't reflect either IBM's customers or talent pool. He launched a new diversity initiative, which continues today under CEO Sam Palmisano and which seeks to understand and appeal to a much broader group of employees and customers.

Since 1995, the number of IBM's U.S.-born minority executives has more than tripled, and the number of women executives has grown nearly fivefold. Some 52% of IBM's Worldwide Management Council, the top executives who determine corporate strategy, are women, U.S.-born minorities or non-U.S. citizens.

The Bottom Line

The benefits to IBM's bottom line have been dramatic. With more women and minorities in its management ranks, IBM has sharply increased the amount of business it does with the growing number of small and midsize minority- and women-owned companies in the U.S. This niche accounted for more than $300 million in revenue in 2001 (the most-recent number available), up from $10 million in 1998.

IBM's diversity effort extends to all the countries where it does business. It currently has employees in 75 countries. "No matter where you do business, you have to ask, 'Who are our customers and employees, and what do they look like?' " says Ted Childs, IBM's vice president of global work-force diversity. "We should see women, the disabled, gay and lesbian people, and ethnic minorities," he adds.

Of course, not every country has the same mores or views about diversity. IBM does business in some countries where men aren't at all accustomed to reporting to a female boss -- or for that matter to a male boss who comes from a lower caste or economic class. "We have to be in compliance with a country's laws and sensitive to its local customs, but we also want the very best talent," says Mr. Childs. "So wherever we operate we say, 'We have corporate values that dictate how we're going to run the business -- and if that creates discomfort for you, you shouldn't work here,' " he adds.

IBM'S EXPERIENCE

• PODCAST:[21] What are some of the unexpected challenges of a global approach to diversity? WSJ's Carol Hymowitz talks with Ted Childs, IBM's vice president of global work-force diversity, about the benefits and the problems that can arise from thinking and acting globally on diversity.

Each year, the general managers of IBM's Asia Pacific, Americas and Europe, Africa and Middle East business regions meet at the company's headquarters in Armonk, N.Y., and report the progress they've made over the previous 12 months in eight different areas, including diversifying the leadership team. Then they're asked to present their strategy for the next year. Among the results: In 2000, IBM had no female country managers; today, women are country general managers of Peru, France, Spain, Hong Kong, Indonesia, Singapore, Thailand and New Zealand. A woman heads operations in northeast Europe. A black South African man is general manager for IBM South Africa.

The management changes reflect a growing awareness about diversity around the world. Countries from England and Germany to South Africa, China and Brazil have multiethnic and multiracial populations and increasingly are passing laws supporting work-force diversity. Sixty-nine of the 75 countries where IBM has employees now have laws against discrimination in employment. "Few countries can now say diversity isn't relevant to them," says Mr. Childs.

What's more, new businesses in developing nations -- which are customer targets for IBM -- are headed mostly

by non-white men or women. In the Arab world, where there's a misconception that women don't participate in the workplace, IBM's client base has more and more women leaders of private companies, as well as in government and academia. "If you want to compete globally, you have to understand that 80% of the globe isn't white and 50% isn't male," says Luke Visconti, co-founder of Diversity Magazine, which surveys the diversity efforts and progress of Fortune 1000 firms.

Companies not as well-known as IBM or not in high-profile industries like technology sometimes complain that they're at a competitive disadvantage recruiting and retaining diverse talent. But the key to building a diverse work force isn't a company's size or even industry or location. It depends on whether a company links diversity to its business strategy and whether executives and managers are judged on how well they achieve certain goals.

Guaranteed Authority

Milwaukee-based **Harley-Davidson** Inc., the motorcycle maker, concluded more than a decade ago that its business, already being pummeled by Japanese rivals, would falter further unless it expanded beyond its traditional white male customers. "We weren't attracting people of color or women, and we started to think we needed employees who reflected the customer base we wanted to attract," says chief executive Jim Ziemer, who started his career at Harley-Davidson in 1969 as a unionized freight elevator operator, then got an engineering degree and began climbing management ranks.

Over the past decade, Harley has gone after both women and minority managers and worked hard to retain them -- partly by guaranteeing them a lot of authority and visibility. "We don't have senior vice presidents and just one executive vice president, so vice presidents are only one layer removed from my office, where the door is always open," Mr. Ziemer says. Women and people of color now make up about 25% of vice presidents and general managers, up from 5% in 1995, and about 25% of senior managers, up from 15% a decade ago. As far as customers go, women make up 10% and people of color 7% of those purchasing the company's products.

"We have a long way to go, but we also have opportunities," Mr. Ziemer says. "We're out there at African-American and Latino motorcycle association rallies, and 40% of participants in our riders education program are women who want to learn to ride safely. There's pent-up demand for our product from these groups."

--Ms. Hymowitz is a senior editor for The Wall Street Journal based in New York.

Write to Carol Hymowitz at carol.hymowitz@wsj.com[22]

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