# A Tale of Two Climates:

The Impact of Subordinates' and Managers' Perception of Diversity Climate on Store Unit Sales Performance



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Rutgers University School of Management and Labor Relations Janice H. Levin Building 94 Rockafeller Road Piscataway, NJ 08854

www.smlr.rutgers.edu



When employees share the belief that their company values diversity, by providing equal opportunities to succeed on the job and fully integrating all workers into the work setting – it has a direct payoff for the bottom line.

#### The Study

A study of diversity climates at a major retail chain led by a team of researchers from Rutgers University, the University of Houston and J.C. Penney Inc. found that mean sales growth increased 10.23 percent at retail stores where both subordinates and managers believed that there was a strong pro-diversity climate, compared with just 3.25 percent growth at stores where subordinates and managers both held a negative opinion of the diversity climate.

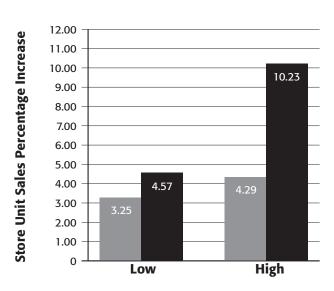
Sales growth was 4.2 percent at stores where subordinates held a lower opinion of the diversity climate than their managers and 4.5 percent at stores where managers had a lower opinion of the diversity climate than their subordinates.

The study is the first to provide empirical evidence on a store-unit basis for the oft-stated "business case for diversity" by demonstrating that a pro-diversity climate positively affects the bottom line, which has "noteworthy practical implications" for business practices, the authors concluded.

"While many firms offer token adherence to diversity initiatives," the authors wrote, "the present findings show that concerted efforts by firms toward developing fair personnel policies and socially integrating all employees (including those from underrepresented and marginalized groups) into the work environment, contribute to the organizational bottom-line."

For a large company with more than 1,000 stores like the retail chain studied, improving the diversity climate in just half of the 134 poorer-performing stores could add \$44.6 million in annual sales growth to the bottom line, the authors noted. This projection is based on the assumption that annual sales growth in these poorer-performing stores could rise from an average of 3.25 percent to about 6.75 percent, still significantly below the 10.23 percent increase recorded by high-performing stores where managers and subordinates shared a positive opinion of the diversity climate.

## The Impact of Diversity Climate on Store Unit Sales



#### **Subordinate Perception of Diversity Climate**

- Low Diversity Climate-Managers
- High Diversity Climate-Managers

The authors' conclusions also illustrated the importance of consistency in manager and subordinate opinions on diversity climate in determining sales performance. This is a second important contribution that the study makes to diversity literature.

#### **Theory & Methodology**

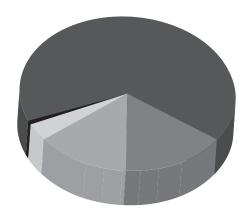
The study confirmed the authors' hypothesis, based on Zohar's multilevel model of organizational climate and on diversity climate theory, that stores in which managers and subordinates shared a positive attitude on diversity climate would have a significant performance advantage over stores in which opinion on diversity was negative or varied between managers and subordinates.

The size of the sampling was significant. The authors were able to survey 56,337 subordinates and 3,449 managers working in 654 retail stores with a minimum of 50 subordinate employees. The subordinates were 66 percent White, 15.6 percent Black, 13.9 percent Hispanic, 3.8 percent Asian/Pacific Islander, and 0.6 percent Native American. The management pool was 80.2 percent White, 8.6 percent Black, 9 percent Hispanic, 1.8 percent

Asian/Pacific Islander and 0.4 percent Native American. Women made up 85.5 percent of the subordinates, but just 61.2 percent of the managers. More than half of the subordinates (50.2 percent) worked part-time, compared with just 1.1 percent of the managers. The sampling also reflected the high turnover rate in the retail industry: the mean job tenure for subordinates was just 1.49 years on the job, and just 2.95 years for managers.

The authors acknowledged that their study has limitations in its experimental design and methodology, especially in its focus on a single company that had been rated one of the top fifty firms in the nation for diversity by Diversity Inc. magazine. Further research is needed to determine whether similar results would apply in other companies and industries.

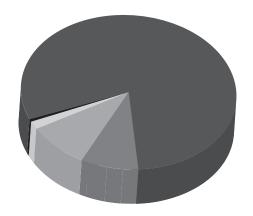
#### **Ethnic Composition of Study Participants**



## **Subordinates**

(56,337 participants)

White	66.00%
Black	<b>15.60</b> %
Hispanic	13.90%
Asian/Pacific Islander	<b>3.80</b> %
Native American	0.60%



### **Managers**

(3,449 participants)

White	<b>80.20</b> %
Black	8.60%
Hispanic	9.00%
Asian/Pacific Islander	1.80%
Native American	0.40%





**Patrick McKay** - *Associate Professor*, School of Management and Labor Relations, Rutgers University. Patrick's primary research interests are the interactive effects of race-ethnicity and organizations' diversity climates on recruitment outcomes, employee job performance, work attitudes, and retention, as well as organizational-level performance. Related interests include racial-ethnic differences in performance on personnel selection devices and the influence of location characteristics on job choice and turnover decisions. He has published articles in respected publications such as the Journal of Applied Psychology and Personnel Psychology.