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Is Diversity a Source of Sustainable Competitive Advantage?

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IS DIVERSITY A SOURCE OF SUSTAINABLE COMPETITIVE ADVANTAGE?

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Abstract

Several sources of competitive advantage have been identified by researchers in past. These sources vary from technological advancement to financial might, and design expertise to human resources. Organizations interpret these sources of competitive advantage in their way which helps them earn a unique position against the competition. Lately, the diversity of the workforce which is seen as a component of human resources has been discussed for its ability to differentiate against the competition. While several examples point towards diversity being an advantage for an organization, there is not enough support for the argument that such an advantage is sustainable in nature. Sustainability has been defined as a long-term strategic positioning against the competition based on a stable source of competitive advantage. In this article, we shed light upon the sustainability aspect of diversity as a competitive advantage by citing exhaustive work undertaken by researchers in this area.

Is diversity a source of a sustainable competitive advantage? While there is ample research available which links diversity to competitive advantage, but can it be a source of sustainable competitive advantage?

Let us first understand what competitive advantage is, and what sustainability means? It is posited that firms obtain a competitive advantage by implementing strategies that exploit their internal strengths, through responding to environmental opportunities, while neutralizing external threats (Barney, 1991). Internal strength is a factor of resources that a firm controls, which includes its assets and capabilities that help a firm improve its efficiency and effectiveness. Competitive advantage is when a firm has an upper hand over its competitors because of a strategy it implements that exploits one or more of its resources. Such resources, then come to be known as ‘sources of competitive advantage’.

Such a competitive advantage becomes sustainable when it is difficult for competitors, to emulate the strategy because the source of that competitive advantage is not easily accessible (Barney, 1991). So does the word ‘sustained’ here mean sustaining forever or for a limited period? A competitive advantage is considered sustainable only when efforts to duplicate it by the competitors cease (Lippman & Rumelt, 1982).

Before aiming to answer our question about diversity and sustainable competitive advantage, we must understand what is diversity anyway? The word ‘diversity’ is derived from the French word ‘diversity’ which meant unique. (Fonstad, 2016). Hence, the current definition of diversity, which restricts its coverage to gender and ethnic diversity, may be too narrow a definition to look at (Todd, 2019). Companies must expand this definition of diversity for all practical purposes beyond gender and ethnic groups. While gender and ethnicity are critical elements in diversity, especially in the social construct, they are exhaustive in themselves, especially in terms of relevance for corporates. Diverse educational background and work experience can play a critical role in adding to the competitive advantage of an organization.

So is diversity a source of sustainable competitive advantage? To be fair, diversity helps organizations attract more talent, which itself is a good start. Organizations that are open to diversity and even encourage it have access to a bigger full talent pool, while other organizations may already be restricted in their available choices (Todd, 2019). People from diverse backgrounds and experiences can often lead to a significant competitive advantage over other organizations (Moore, 2010). Mr. Von Hoene of Exelon, which was featured in ‘Most Diverse Places to Work’, suggested that the diversity and inclusion initiatives at the company are designed to give the company a competitive advantage (Todd, 2019).

Companies’ are also moving ahead from the past when diversity was more of a way to enable social justice. They now try and access a diverse pool of resources to chase higher growth. McKinsey’s in its diversity in the workplace report, *Delivering through diversity*, concluded that there is a clear link between diversity and company financial outperformance (Hunt et al., 2018).

So while it is clear that diversity does lead to competitive advantage, but in such a competitive advantage sustainable? (Ghemawat, 1986) argued that the sustainability of competitive advantage based on resources is a factor of enforceability over the long run. This means that the firm should have exclusive access to this resource through binding contracts, or creating switching costs for the resource. Lack of enforceability would eventually wipe out any

competitive advantage in the future. One of the seminal research work in the field of sustainable competitive advantage was conducted by Barney (1991), where he argued that whether a particular source would lead to sustainable competitive advantage depends on it being valuable, rare, inimitable, and one that cannot be substituted.

It is also argued that a resource is only useful, even with all the attributes of becoming a source competitive advantage if the firm is organized or capable to use this resource to its best economical use. These conditions can help firms in identifying the efficacy of a source to provide a sustainable competitive advantage. While diversity at the workplace is valuable for an organization and is often cited as a source of competitive advantage, how does it fare on other parameters that lead to this competitive advantage being sustainable? One of the causations found by (Hunt et al., 2018) between diversity and competitive advantage was the ability of diverse companies to attract talent from a larger pool of resources unconstrained by diversity restrictions.

But is such a pool rare? Is it difficult for companies to find a diverse pool? So much so that the competitors would not be able to have access to such resources?

On the contrary, such a resource pool is not just easily available but is also hardly exclusive. It is not the dearth of availability of diverse resources but restricted recruiting criteria by companies that keep them away from having a diverse pool of resources in the company. Hence, it is fairly easy for competing companies to reach out to such a pool taking away the exclusivity as well as rarity associated with such resources. Thus a company that has diversity as a source of competitive advantage can enjoy this advantage, only till a competing company can harness this source. Such a competitive advantage that the firm can enjoy until another firm has access to this source is called a temporary competitive advantage.

Theoretically, the easy availability of such a pool of diverse resources will allow all the other firms to imitate this as a source of competitive advantage. This would eventually lead to competitive parity in the market since many companies will have a diverse workforce. In certain cases, this may also become an entry criterion for the industry or sector, where the presence of a diverse workforce may not give a company an added advantage, but an absence of such a workforce may hurt their performance. This erodes the ability of the source to exclusively add to the sustainable competitive advantage.

However, the availability of a pool of diverse resources need not be enough for firms to be able to access and imitate this source in real life. Controllable factors in a company like a

management vision that incorporates diversity as a key enabler for growth, and a culture that appreciates, and nurture diversity, are critical for an organization to harness the advantage offered by diversity at the workplace. If a company is not able to exploit diversity as a source of competitive advantage despite its availability, this source remains unused. Thus, even if a diverse pool of resources is available to all companies, other companies' inability to harness it may turn it into a source for sustainable competitive advantage for the company which can do that. This may be too naïve for businesses to assume though.

So, while diversity is a clear source of competitive advantage for companies, it may not by itself lead to sustainability of this competitive advantage. Diversity's role in the positive performance of a company has been well researched and documented, but assuming it to be a source of sustainable competitive advantage may be uninitiated. Companies should however continue to nurture diversity at the workplace since as long as competing companies are not well placed to harness diversity as a source of competitive advantage, this advantage can be fruitful for the organization, and be sustainable till another firm can imitate this source for their advantage.

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