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# Behavioral Advantages of Diversity: Strategies to make Inclusivity work in the Age of Corporate Social Justice

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ABSTRACT: We live in the age of Corporate Social Justice. After decades of advancements in behavioral economics and finance leadership, the time has come to highlight behavioral advantages of diversity. When people make decisions behaviorally with biases and quick error-prone irrationality, diversity can grant implicit means to overcome decision-making anomalies from rational choice. In particular, the present bias can be averted in opting for diversity, which is one of the most future-oriented choices as inclusivity is an innovatively-vibrant field of societal advancement in the age of Corporate Social Justice. Diversity preference for something new curbs repetitive choices and sunk cost fallacies when opting for inclusiveness of the new. Similarity preference biases that lead to suboptimally-limited choice ranges and inflexible considerations of already-known preferences as well as long-term formation of stereotypes and discrimination can be avoided by choosing what is new and different from the given in diversity implementation. Diversity management can also lower harmful social and cultural influences that imply conformity groupthink errors and tunnel vision leading to suboptimal choices and harmful consequences. In order for diversity to work and to reap the multifaceted behavioral benefits of inclusivity, this article also draws attention to three implementation strategies to make diversity flourish and foster meaningful inclusivity: (1) *Bundling extremely diverse groups within networks* and enhancing constructive exchange between representatives of diverse groups to foster the benefits of cross-pollination and creative ideas generation, (2) Diversification of human capital to profit from complementary skills enhancement, (3) Qualitative and quantitative diversity quality checks to ensure the authenticity of diverse representations within corporations in order to contribute to meaningful and positive societal change that diversity and inclusiveness are – in the end – foremost about.

KEYWORDS: Authenticity, Behavioral Economics, Behavioral Ethics, Behavioral Insights, Behavioral Advantages, Corporate Social Justice, Democracy, Diversity, Diversity Bundling, Ethics, Ethics of Inclusion, Fairness, Inclusion, Inclusivity, Quantitative and Qualitative Diversity Quality Checks, Social Change, Social Justice, Social Transformation

## Introduction

Behavioral Economics started around the 1950s in a critique of classic economics concepts, such as efficiency and rationality. Behavioral economists then showed in laboratory and field experiments that human beings tend to deviate from rationality in their everyday choices (Puaschunder 2020, 2022). The sole purpose of corporations was proven not only to strive for efficiency but rather be social entities in entropy with their environment that are embedded in social, environmental and community purposes. Recently, behavioral insights have applied the manifold findings of irrational human beings to public policy domains. Macroeconomists have been inspired to dissect the disparate impacts of environmental conditions on various demographic groups.

This article will first outline some of the behavioral economics findings on bounded rationality in order to then show how diversity can naturally curb harmful decision-making fallibility. Lastly, three strategies to manage diversity and societal inclusivity successfully will be introduced in (1) bundling of diverse group representatives, (2) fostering authenticity to enhance diversification potential of diverse groups as well as (3) quantitative and qualitative checks of the quality and effectiveness of diversity management and societal long-term outcomes of inclusivity.

**Behavioral Economics bounded rationality**

Behavioral economics has challenged the neoclassical concept of 'efficiency' as a maxim of life. Beginning in the 1950s, heterodox economists from various disciplines other than economics began to question the basic axioms of classical economics. Theoretically, rationality as a driver of human behavior was critically evaluated. In empirical investigations, human beings were soon after found as irrational and bound by cognitive capacity limits. Markets are ultimately based on human decisions that are made under uncertainty and in social contexts. People constantly muddle through a complex world. Human often jump quickly into decisions based on learned experience and gut feelings. Decision preferences also change over time and across the entire lifespan. And small environmental stimulus variations can lead to drastic behavioral changes.

With the behavioral economics advent, rational choice propagating classical economics was humanized. Behavioral economics' empirical work managed to provide results that were closer to describing how actual behavior happens. Behavioral insights could thus better project how human beings actually will behave than rational choice theory would suggest. Leaders and high achievers in life are those who are well-calibrated to decide for themselves which decision is important and therefore requires either rational calculation and mental energy or can be made as a quick gut decision. Deciding what to have for lunch or whom to marry obviously involves varying levels of depth and cognitive complexity. And those who are more empowered to make long-term decisions about what to eat for lunch each day and ignore the big picture of life also arguably eat smarter, tend to be healthier, and live in more sustainable relationships—all of which have evolutionary benefits.

From the 1970s onwards, psychologists then systematically began to show in laboratory experiments where people deviate from rationality and efficiency in their decisions and behavior on a daily basis. The human biases or decision errors were first mapped in order to then provoke a conscious or even unconscious change in behavior in order to save people from their irrationality. Incidentally, these human decision-making anomalies, which empirical behavioral economics is committed to uncover, are viewed differently: while the European school believes more in evolutionary advantageous rules-of-thumb that are actually helpful to come to a quick choice under uncertainty and mental constraints; in North America the opinion prevailed that quick and ill-considered human decision-making behavior is biased and must be corrected. In North America, therefore, there was a behavioral psychological revolution of rules of action and small mental nudges or advantageous environmental architectures that were supposed to get people, consciously or unconsciously, to make 'better' decisions or to fall into them automatically by the direct or subliminal intervention of behavioral strategists.

The economy was breathed into reality and gently revolutionized. No other field in economics has received as many Nobel Prizes in the past 20 years as behavioral economics and behavioral finance. The opening of economic rationality to psychological, sociological and socially relevant influences increasingly led to the use of chief economists with sociological and psychological knowledge. For instance, the husband of the first female Federal Reserve Chair, Janet Yellen, is George Akerlof – a behavioral sociologist who won the Nobel Prize for showing the value of information for the efficiency of markets and that markets are inefficient when information is suppressed. On the financial markets, the 2008 recession made it clear that the neoclassical economic rationale that one can accurately assess risks – keyword 'value at risk' – brings along substantial system problems with it.

As the newest development in behavioral economics, a more participative behavioral economics approach is currently being advocated for (Liscow & Markovits 2022; Puaschunder 2022). People should be guided to understand their decision-making patterns and see through their behavioral weaknesses in order to then make a self-determined and well-informed decision that suits them and their environment.

**Bounded rationality**

Some of the most obvious bounded rationality phenomena that were also replicated in many different domains, over time and in different contexts and countries are: (1) Present bias, (2) Similarity preference, (3) Sunk costs and (4) Social and environmental influences.

(1) The present bias finds that people are mentally short-sighted, focused on the here and now. People tend to discount hyperbolically, which means that today has a much higher relevance than yesterday or tomorrow, where the inflexibility of the posited past discourages from thinking about the past too much and the uncertainty of the future simply seems too great to think long and too hard to plan for. The main focus on today and a generally positive basic attitude of people in the present state not only explains why people do too little preventive health care when they are young and often save too little for their pension in the future over the course of their lives. Myopic decision-making horizon is also the problem why sustainability tends to be given too little consideration and the value of nature only becomes clear when it has suffered irreversible damage.

(2) The similarity bias finds that we tend to prefer similar contexts and people who resemble us. This bias of searching for those who are similar even exacerbates under uncertainty and in time constraints. Preferring those who are similar may lead us to jump into limited option ranges and may breed unfavorable stereotyping and harmful discrimination.

(3) Human beings like to learn habits and once formed, they prefer to stick to their habits. This tendency even increases if costs have been incurred for learning the habits. The sunk cost fallacy describes that human beings tend to stay with their choice and if costs have been suffered for choosing or habit formation, then they like to stay with their choice even if they know that it is suboptimal.

(4) Another revolution in decision-making behavior that behavioral economists have unleashed is attention to social influences. As herd animals, humans are subject to social influences. Groupthink, has been shown in many domains, leads to suboptimal behavior and tunnel vision, in which social conformity often leads to neglecting rational warning signs of risk or dangers. Groupthink can have disastrous consequences in research, finance and politics, to name a few domains in which it was proven to occur.

**Diversity to curb biases**

Diversity can curb the mentioned biases in multiple ways: First, diversity allows for complementary qualification alignment. For instance, in the financial sector, language barriers were found to be an obstacle for information transfer in markets (Chang, Hong, Tiedens, Wang & Zhao 2015). But having analysts with different language skills evaluate market options together actually improves the overall market performance of the mutually-composed fund (U.S. Supreme Court Arguments *Students for Fair Admissions v. President and Fellows of Harvard* 2022).

Diversity management grants human capital diversification potential and risk management opportunities (UBS Nobel Perspectives, Harry M. Markowitz). From a classic economic point of view, diversity enables risk to be spread and expands the range of qualifications, which brings along resilience advantages naturally, especially in uncertain times.

If you go hiking and are unsure about the weather, it is recommended to pack sunscreen and rain gear. The Nobel Prize-winning Harry Markowitz Portfolio Theory describes that diversification in financial markets reduces risk (UBS Nobel Perspectives, Harry M. Markowitz). In nature, too, one can see that vegetation with different structures withstands storms better (Brunnermeier 2021). This idea of risk minimization through different perspectives in corporate management can also be used for the composition of a company's decision-making bodies and board directors. After the 2008 recession, the only bank in Iceland to continue relatively unscathed was one with female leadership and more risk-averse strategies (Reuters 2010). Females may also breed a climate of respect for family values that may help in stopping negative 'old-boys' behavior that may bleed into harmful scandals for corporations, as many banking or gasoline industry problems of the past have outlined.

Diversity also offers a broad stakeholder engagement potential. Demographically-diverse representations on corporate boards and within the corporate leadership and employee structure allow for multiple communication channels with a broad set of stakeholders. Differing opinions and societal groups also grant diverse insights for early trend sensing. During the COVID-19 crisis, different surprises on the disparate impacts of an external shock onto various societal groups became blatantly apparent. Having multiple representatives of manifold societal groups within a corporation or institution allows for detecting newest trends fast and responding efficiently with targeted aid and individualized communication strategies.

A well-balanced human capital portfolio also leads to more harmonious and balanced compromises within the organization. As used in court jury decision-making that pursues a well-balanced representation of different demographics – e.g., in age, gender, socio-economic backgrounds, race, religion and sexual orientation – having a multitude of different group adherences represented in one entity allows for coming to more balanced, democratic and the whole society-representing results.

In its feature to represent future-oriented choices that symbolize innovation, diversity management stands for flexibility and resilience in uncertain times. Embracing a culture that celebrates diversity breeds an open and flexible corporate culture that fosters creative thinking. Results from scientific investigations in the natural sciences held diverse work groups to be more creative (U.S. Supreme Court Arguments *Students for Fair Admissions v. President and Fellows of Harvard* 2022). In nurturing a climate of respect for different viewpoints, diversity therefore naturally curbs tendencies of negative groupthink and tunnel vision due to conformity.

Diversity as the trend of our times also allows portraying an institution as future-oriented that does not rest in yesterday's culture but lives for innovations of tomorrow. Diversity management thus helps overcome a harmful presence bias. Diverse institutions count as being agile and not remaining overly obsessed with old trends and clinging onto outdated practices due to sunk costs. Diversity thereby can foster credibility of an institution. Signaling positive values, such as flexibility, creativity, inspiration and trust in one's own opinion, à la longue breeds positive reputation capital. The appealing reputation of an innovative institution with a diverse culture attracts the most future-oriented and innovative human capital with an open, flexible mind and a diplomatic soul that embraces differences with a noble tact and strategic focus.

## Ingredients of successful inclusion

In order to foster successful inclusion and corporate diversity strategies, three components are emphasized: (1) Bundling of diverse representations in order to reap the benefits of complementary credentials enhancing diversification, (2) Authentic inclusion in order to secure valuable risk management potentials, (3) Quantitative and qualitative quality checks of successful diversity management and societal transformation for enhancing meaningful inclusion.

*(1) Bundling of diverse representations*

A current discussion at the U.S. Supreme Court argues for diversity in US educational institutions to train students as to become more holistic future colleagues, citizens and leaders (U.S. Supreme Court Arguments *Students for Fair Admissions v. President and Fellows of Harvard* 2022). In order to foster diversity potential, the most diverse groups could be brought in close contact with each other (Puaschunder 2016).

The diversity bundling strategy is an innovative and real-world relevant approach for societal welfare and intergenerational mobility advancement but also economic network theory development. Value transfer through diversity bundling promises systemic hierarchies to be permeable.

Because the highest transfer opportunities are given in dyads with diverting agents, bringing diverse opinions and camps closer together by promoting collaborative exchanges targets at improving many systems, from school to university to corporate culture. For instance, at universities legacy admits could be bundled with most excellent strivers that represent social justice-driven diversity admission. Both representatives could be incentivized to exchange ideas and strategies on how to thrive in competitive settings. One can imagine that legacy admits can teach a lesson about social capital and access to networking opportunities, while social justice offers academic excellence alongside most innovative anti-discrimination resilience strategies.

What is essential for this intellectual and cultural cross-pollination to work is a corporate and/or institutional culture that promotes respectful interaction and honest interest in other perspectives in order to find a common denominator for mutual exchange. Diversity must be taken seriously and lived honestly in order to achieve diversification efficiently. Presenting the idea of institutions and corporations as social transformation hubs that can be accessed is also dependent on the authenticity of diversity representatives.

*(2) Authenticity*

Authenticity of diversity management has three layers: Within the organization, through the representatives of diversity management and within the wider society.

Within the organization, authenticity of diversity management and inclusion mainly addresses the attitude of the board and leadership of the company to engage in true diversity appreciation. This means that the board and leadership honestly embrace differences and diverse standpoints in order to fully tab into the diversification potential diversity has to offer.

In the first place to practice authentic diversity management, the corporate leadership must decide on what aspect of diversity the corporation should focus and align the diversity practice with the corporate goals and corporate culture. The focus of the diversity management should be close to the corporate style and preference of its employees as in the end, all employees must carry out the common plan to live an inclusive culture that is open to discourse and accepts differences. In order to make diversity then flourish in the long run, the corporate culture should breed appreciation for differences. Respect for different viewpoints and a culture of trust in the common goals despite different approaches and viewpoints must be harnessed. A fair culture of diversity that is authentic will serve as the best human resources risk mitigation strategy. As for resilience potential, authentic diversity grants the opportunity to naturally ward off litigation risks and scandals of unhappy employees, for instance when it comes to equal pay claims or the danger of explicit or implicit discrimination within the organization.

The representatives of diversity management are mainly individuals with extraordinary qualifications and diverse assets. These oftentimes minority representatives are advised to be encouraged to live their diversity to the fullest in order to enhance diversification potentials. These excellently gifted minority representatives should be connected with each other in order to avert their isolation. They should also be bundled with other diverse representatives in order to foster mutually-lived diverse information exchange.

The authenticity of these diversity representatives is important to enhance their diverse assets. Only if diversity representatives are encouraged to live their diverseness to the fullest, their role model function in society is granted. If diversity representatives are forced to conformity, not only diversification capital vanishes, but also their role as model to lead other minorities to aspire and strive to follow their path into positions of power weakens.

*(3) Quantitative and qualitative quality control*
Lastly, quantitative and qualitative quality control plays a crucial role to foster credible and sustainable inclusiveness leading to meaningful diversity results in the long run and on a grand societal scale.

Quantitative aspects of quality control are concerned when quota requirements come in. How much diversity representation is recommended? One can say that around 25-30% representation, the quota-sponsored minority representatives do not feel isolated anymore, which is fundamental for curbing drop-out rates (U.S. Supreme Court Arguments *Students for Fair Admissions v. President and Fellows of Harvard* 2022). On the other hand, if the overall societal pool of diversity representatives is low, unreflected quota stuffing with some representatives that claim many slots at different institutions at the same time is rather harmful than helpful for society. In the case of gender quotas on Norwegian boards, for instance, some women held multiple positions at the same time. Two cases, for example, concerned two women who held 90 and 185 board membership appointments concurrently (DNA India 2012; Farbrot 2012; Treanor 2013). These diversity rock stars, who are all over the place, restrict the selection repertoire, which is criticized in the so-called 'Golden Skirt' phenomenon. Multiple appointments at a time may also raise conflicts of interest and due diligence problems. Considering that Norway is one of the most generous countries in the world when it comes to childcare, holidays and time off from work, there may be only a few minutes of supervision per company when dividing net work time through 90 or 185 appointments and potentially little room to help other women through social mingling or networking strategies. And diversity and inclusion, as the basic legitimacy of democracy, suggest that rotation is also needed, apart from the economic efficiency of diversification and the negative dependency that monopoly positions of a rock star result in. And socially, such women tend to be counterproductive because they block too many other women from fair access to supervisory board positions (Treanor 2013).

Qualitative quality control concerns the work climate and possibility of quota representatives' potential to remain authentic. Is the work climate one that fosters mutual exchange and respect for diversity? Are quota-placed individuals authentic and can they remain credible representatives of their minority (U.S. Supreme Court Arguments *Students for Fair Admissions v. President and Fellows of Harvard* 2022)? And are the quota representatives good role models that represent diversity authentically and are they interested in bringing up and sponsoring a pipeline of likewise successful minority representatives in order to accomplish the long-term goal of positive societal change? Delineating explicit and implicit diversity constraints in qualitative quality control will help create cultures that promote and encourage transfers towards meaningful diversity and sustainable inclusion.

## Discussion and future outlook

As for the novelty of the proposed idea, future studies may address particularities of positive transfers between diverse agents within societal networks. In the contemporary extensive writing on inequality, unraveling equity transfers opens ways to steer intertemporal social mobility (Arrow et al. 1999; Becker & Tomes 1986; Piketty 2014; Puaschunder 2015). Power agglomerations based on inequality and how to grant access in a societally just manner are additional quests arising from the detected research gaps.

Investigating transfers from a global governance perspective will help understand the impact of public and private sector contributions on equality. Capturing social transfer triggers will help designing context that advance social justice mobility. Implicit value transfers should be unraveled in order to complement institutional efforts to solicit direct resource redistribution following the greater goal to advance economic growth, social justice and societal inclusion (Shell 1967; Tobin 1967). Outlining public or private sector endeavors in coordinating societal exchange would provide concrete means how to balance benefits between different societal strata in a fair way (Broome 1999; Puaschunder 2015). Deriving information on circumstances under which decision-makers are likely to grant access to elite clubs or share their intelligentsia and ambition within social transformation hubs is targeted at outlining ways how to improve ethics of inclusion to alleviate inequality and transform society to a fairer access to opportunities to complement democratic legal enforcement and governmental control.

In future studies, the complex interplay of individual and environmental variables on corporate and institutional diversity success should be studied in order to retrieve contextual influences on equity. Institutional rules, policies and regulations should be analyzed in the search for meritocracy-accessed opportunities in harmony with implementing diversity. Further, light should be shed on how the public and the private sectors can be systematically designed to promote a harmonious interplay of diversity management representatives in order to retrieve real-world relevant success factors of inclusion. Studying the interplay of individuals' propensity to engage in transfers and contextual environments to support equal access to transformation hubs will allow controlling the interaction of individual and external variables to steer equality within societal networks.

Future research on diversity may help in understanding the socio-dynamics of equality transfers as enhanced by social norms, public and private rules, policies, and procedures that establish equality transfers as a prerequisite for a harmonious society. The impacts and social dynamics of diverse agent dyads should be studied and successful diversity bundles that lead to creative cross-pollination and complementary skills exchanges should be outlined.

Overall, all these measures could aid in improving fair access to economic market opportunities and minimize discrimination. Enhanced knowledge transfers will build trust and hope in equal opportunity and fair inclusion. Respect for diversity as the socio-psychological backbone of a fair democratic society, together with trust in equal access to opportunities are key drivers of economic productivity, societal welfare and human dignity.

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