

Leadership

Diversity Matters: Overcoming the Friction of Different Functional Backgrounds

Frances Fabian, James Plečnik, and Shan Wang



Image Credit | DavidsPrime/peopleimages.com

Creating functionally diverse teams is critical for improving firm performance.

Imagine a Monday morning at a global corporation’s strategy meeting. The Chief Marketing Officer is pitching a bold new creative campaign. The Head of Engineering counters with product feasibility concerns. The CFO, focused on risk, winces at the projected costs. There is tension in the air – a classic case of functional diversity at work. Different backgrounds and areas of expertise are colliding. In a small company, this same mix of perspectives might spark an innovative pivot on the spot. But in a mega-corporation, it often leads to crossed wires and frustration. Why? Can leaders harness these differences for better performance, rather than letting them hinder progress? We explore these questions, drawing on our new research¹.

RELATED ARTICLES

Ernest Gundling, “**Disruption in Detroit: Ford, Silicon Valley, and Beyond**,” *California Management Review* (Case Study), January 1, 2018.

Donald C. Hambrick, “**Fragmentation and the Other Problems CEOs Have with Their Top Management Teams**,” *California Management Review* 37, no. 3 (Spring 1995): 110–27.

RELATED TOPICS

[Teams & Collaboration](#)

[Talent Management](#)

[Human Resource Management](#)

[Demographics](#)

Key Takeaways for Busy Executives

- **Not All Diversity Is Visible:** Functional diversity captures the variety of occupations held by members in a team (finance, marketing, operations, etc.). While functional diversity is less visible than other forms of diversity such as race or gender, it can be a powerful driver of better decisions and innovation. Different functional backgrounds reflect distinct experiences and mental models, which enlarges a team's collective skill set and perspective.
- **Big Benefits for Small Firms:** New evidence shows that functional diversity in the top management team has a strong positive impact on performance in smaller organizations. In startups or mid-sized firms, a mix of expertise may help spot opportunities and problems faster, boosting agility and results.
- **Large Firms Face a Diversity Paradox:** In giant companies, simply having diverse expertise on the top management team won't automatically yield results. Complex hierarchies, siloed divisions, and communication breakdowns can smother the potential gains of diversity.
- **The Integration Fix – Experience Matters:** A long-tenured, well-knit top management team can turn functional diversity from friction to fuel. When executives have years of shared experience, they develop trust, a common language, and better ways to integrate their different perspectives.
- **Rethinking the Business Case:** High-profile reports claiming diversity causes higher profits (like McKinsey's oft-cited studies) were correlational and have been critiqued for overstating conclusions. Our research – covering 4,500 firms and 32,000 executives over nearly two decades – used careful controls to better isolate causation. Top management team functional diversity can drive organizational performance, especially under the right conditions (smaller organizations or larger organizations with high team integration).

The Overlooked Side of Diversity: Why Functional Backgrounds Matter

“Diversity” often refers to demographics like gender, ethnicity, or nationality. These matter, but another powerful form is functional (or occupational) diversity: differences in professional backgrounds, such as a sales veteran, supply chain specialist, finance expert, and tech specialist. Each brings distinct mental models, vocabularies, and problem-solving approaches shaped by their training and career paths — creating a true “diversity of thought.”

Functional diversity is a double-edged sword. Positively, teams with varied expertise approach problems from multiple angles, generating more ideas and preventing groupthink. A marketing executive proposes a bold customer-focused innovation, an operations leader refines it for efficiency, and a finance expert ensures profitability — yielding better overall decisions.

However, knowledge differences create friction. Functions develop their own subcultures, with unique languages, priorities, and even stereotypes (e.g., storied tensions between finance vs. marketing, or R&D vs. sales). Studies have long shown mixed results on whether functionally diverse teams outperform homogeneous ones. The Categorization-Elaboration Model highlights why: while diverse groups can benefit from bringing together different perspectives and information, they also face social “us versus them” divisions that can make collaboration and integration difficult. In sum, unlocking diversity’s benefits requires effective cross-functional communication and collaboration, which is not automatic and harder as organizations grow larger.

A Quick Example — The Big Pharmaceutical Dilemma

A drug development team: excited chemists, cautious clinicians, story-focused marketers, and compliance-wary regulators. Each perspective is essential. Good collaboration requires respecting expertise and finding alignment to build a better, safer, more-

marketable drug. Poor communication (more common in big pharmaceutical organizations) will stall or sink the project. Functional diversity is only an asset when teams know how to harness it.

Small Company, Big Advantage: Why Diversity Shines in Lean Organizations

So, when does functional diversity pay off the most? According to our recent large-scale study of thousands of firms, we found that top-management team functional diversity led to higher profits and growth, but that this effect was limited to smaller and mid-sized companies. Little to no direct benefit was observed in the largest firms².

Why might that be the case? Smaller organizations are inherently more nimble. They often have less bureaucracy and more face-to-face interaction, which makes it easier for a diverse team to actually combine their knowledge. There's seldom a maze of divisions to navigate or complex chain of command for approvals. An engineer, a designer, and a customer service expert all on a founding team can be like rocket fuel — each one sees different threats and opportunities, which they quickly act on together.

Team research suggests people in smaller teams also tend to wear multiple hats, fostering appreciation of each other's challenges. A startup COO might handle HR one day and supply chain the next, with these blurred boundaries teammates develop a shared context faster — the marketing person understands a few engineering constraints, the engineer appreciates the marketing angle, etc. Information thus flows with less friction, and the team can leverage every member's expertise. As “members may need to fill multiple roles and have expertise in multiple areas,”³ functional diversity can be pragmatically managed in day-to-day interactions.

Consider a small hypothetical tech startup. The sales-savvy CEO, code-focused CTO, ex-designer Product head, and banking-trained CFO argue frequently in weekly meetings — but resolve issues in real time, face-to-face. When planning a new feature, user-centric ideas get reality-checked by technical feasibility and budget constraints, leading to

creative, balanced solutions (e.g., phased rollouts) in a single afternoon. In large companies, the same cross-functional negotiation often drags on for months via emails and global meetings, if it happens at all.

The Diversity Paradox in Mega-Corporations: When Good Mixes Go Awry

If functional diversity is so great, why don't we see clear performance gains in big corporations? The answer lies in what we might call the diversity paradox of large organizations: the conditions that emerge with scale — size, complexity, and hierarchy — stifle the very benefits diversity could provide. As firms grow, they fragment into specialized departments and geographic units. Silos harden, communication turns formal and filtered, and office politics or turf wars take hold. In this environment, a diverse executive team often struggles to share unique insights and reach decisions.

Consequently, larger companies spawn features that intensify social categorization, as leaders may identify more with their division than with the enterprise overall, breeding rivalries and silo thinking instead of cross-functional synergy. Leadership styles also shift toward directive, top-down approaches; with tens of thousands of employees, participatory dialogue — the kind that lets diverse ideas surface and integrate — gives way to command-and-control methods that limit open exchange. Scale itself creates communication barriers as information filters through layers of management and distant divisions, raising the odds messages will be lost, mistranslated, or unshared. Turf defense may stifle any energy for collaboration. Finally, sheer complexity exacts a toll: Fortune 100 companies juggle countless products, markets, and stakeholder demands. Competing sub-organizational goals erode identifying shared objectives and organizational loyalty. In large, complex companies, the coordination burden drowns out any productive creative friction across diverse executives, making unified collaboration difficult and erasing expected performance gains.

Of note, recent research reported that 78 percent of senior leaders consider breakdowns in cross-unit collaboration a major problem, yet few feel effective at solving it⁴. Legacy structures in large firms make dismantling silos difficult, despite enthusiasm for cross-

functional collaboration. Thus, large firms frequently fail to capture the diversity gains of smaller ones: diversity on paper, but not effective in practice.

Turning Friction into Fuel: How Long-Tenured Teams Unlock Diversity's Value

Are big companies doomed to miss out on the upside of diverse teams? Not at all. Some large organizations do manage to consistently harness cross-functional expertise — the key differentiator is **integration**. Our research on top management teams show that firms succeeded in leveraging functional diversity when management teams had levels of shared experience. In our study of 4,500 organizations, when a top management team had long tenure — at least 7 years of time on their team — the negative effects that diversity had on large firms disappeared.

A well-integrated top management team is not about everyone thinking alike; it's about having strong trust, communication, and mutual understanding despite their different backgrounds. Building that kind of cohesion takes time and leadership. Executives who have been through battles together can learn how each other thinks and “bridge semantic gaps” between their functional languages. Studies show shared experience provides time for interpersonal trust and psychological safety to develop, enhancing information exchange and integrating diverse knowledge. This is the secret sauce turning diversity into performance gold: team members feel safe to speak up and have the trust to truly listen to one another, making differences a source of strength rather than division.

Case in Point: Ford's “One Team” Revolution

Ford's dramatic turnaround under CEO Alan Mulally (2006-2014) shows how to turn diverse leadership into real advantage⁵. The company was a siloed disaster — “warring factions” nearly bankrupted it. Mulally assembled a functionally diverse executive team but didn't stop there: he created weekly “Business Plan Review” meetings where leaders openly shared progress and issues using color-coded charts. Initially, everyone reported only green (“all good”). Mulally publicly praised the first honest red report and rallied the

team to help solve it, sparking psychological safety. Silos eroded as executives began collaborating across functions. The payoff: Ford avoided the 2008 bailout, became the only profitable Detroit automaker during the recession, and reversed massive losses. This cultural shift “from toxically competitive to collaborative”⁶ earned big dividends for the company, and showing even in a huge organization, leaders can foster integration so that diversity delivers on its promise.

Our research finding about long-tenured teams aligns with stories like Ford’s. If your top management team hasn’t had time to gel, all the diversity in the world might not help — it could even hinder, as members struggle to understand each other. Given time (or deliberate team-building efforts), diverse teams become far greater than the sum of their parts. Critically, stability in a leadership team can amplify the value of diversity, undercutting the advice to reshuffle executives or bring in “fresh blood” frequently. Fresh perspectives are valuable, but don’t underestimate the power of a team that has learned to play well together.

Revisiting the Business Case: Correlation, Causation, and the New Evidence

It’s worth considering what the broader evidence tells us about diversity’s impact on performance, beyond individual stories. In the mid-2010s, influential consulting reports — especially McKinsey’s “Why Diversity Matters” series — suggested companies with greater gender/ethnic diversity in leadership tended toward stronger financial results. The 2015 report noted these findings were correlation (in smaller print) which does not imply causation, while still highlighting a potential link to success⁷. One limitation is that the studies measured diversity at the end of a period and linked it to earlier financial performance — which could mean successful companies were simply better positioned to attract and promote diverse leaders, rather than diversity directly driving the gains.

Recent rigorous studies have poured cold water on the simplistic “diversity = higher profit” narrative when it comes to demographic diversity in large firms. For example, a 2024 academic study of all S&P 500 companies (McKinsey’s focus) found no clear link between executive team racial/gender diversity and future financial performance. They concluded

that the oft-touted business case for demographic diversity is overstated, and they questioned McKinsey's results, suggesting that McKinsey likely got the direction of causality wrong⁸. In short, earlier claims that simply diversifying a leadership team will automatically boost your bottom line are not backed by solid evidence. It's more complicated.

Our research differs from McKinsey's simple study (and its subsequent debunking) by examining functional diversity across a large sample and long time period. We tracked performance changes as team compositions evolved and applied methods to address reverse causality and confounders. This allowed us to isolate functional diversity's true effects: it can improve firm performance, but context is key. In smaller firms, it provides a direct boost; in larger ones, it requires conditions like team integration and tenure to yield benefits. This nuanced view affirms diversity's value while steering clear of one-size-fits-all claims.

Executives need to pursue diversity with both optimism and realism. Assembling varied experts or demographics alone guarantees nothing — results depend on how the team is managed and the organizational context in which it operates.

Making Diversity Work: Leadership Lessons for Harnessing Differences

How can leaders of organizations — big or small — leverage the power of functional diversity while avoiding its pitfalls? A few actionable lessons emerge:

- **Foster a “One Team” Culture:** Follow Mulally's Ford example—break silos with regular forums where leaders explain issues in plain language. Rotate chairs or use facilitators to ensure no single function dominates. The goal is to instill an ethos that *we win or lose together*, not in isolation. When every executive feels responsible for collective problems, not just their silo, diverse thinking converges into unified action.
- **Invest in Integration Mechanisms:** Don't leave cohesion to chance. Use cross-functional projects, offsites, co-location, and mixed org structures (e.g., embedding analysts across teams) to create shared experiences and daily exchange. These build

trust and mutual understanding, mimicking small-firm closeness for better collaboration. Practices like mixing functions within physical spaces can simulate the close-knit feel of a smaller firm, encouraging daily knowledge exchange across specialties. As research suggests, familiarity breeds collaboration in this context – when people know each other well, they communicate more freely and productively.

- **Mind Your Team’s Tenure Balance and consider how the CEO fits in:** In large companies, frequent reshuffles can disrupt cohesion – stability helps diverse teams gel and develop. When adding new blood, use mentoring or overlap periods. Also, pay attention to leadership development: consider cultivating CEOs who have broad functional experiences in their career (so-called “generalist” CEOs). We found a CEO with a broad background can somewhat substitute for team diversity – perhaps due to a bridging ability to speak everyone’s language. When you don’t want (or can’t form) a heterogeneous team, a cross-functional polymath at the helm can be an alternative way to have multiple perspectives at the top.
- **Measure and Adapt:** Finally, treat the impact of diversity as a hypothesis to continually test and refine in your own company. Maybe you’ve improved gender or functional diversity in your leadership team – track how it correlates with outcomes over time, and gather feedback on team dynamics. If results aren’t what you hoped, dig into why: Do people feel included or is the diverse team just “for show”? Are there communication clogs you can clear? By treating this as a learning journey, you avoid the extremes of blind faith or cynical dismissal. Instead, you’ll incrementally discover what mix of talents and dynamics truly drives performance in your context.

Conclusion: Beyond Buzzwords to Better Performance

“Diversity” should not just be a box to check or a slogan to trot out at shareholder meetings. It’s a capability – the capability of an organization to think differently within itself, to have constructive debate, and to approach challenges from multiple angles. As we’ve seen, that capability can create tremendous value, but it flourishes under the right conditions: a culture of integration, a size that allows voices to be heard, and leadership that actively cultivates cohesion and trust.

For a small enterprise, the lesson is clear: embrace functional diversity early. Your small size is an advantage — you can meld your all-stars into a tight-knit, cross-disciplinary unit that outthinks and outmaneuvers bigger rivals. For a large corporation, the task is more delicate: don't assume that diversity automatically yields dividends. Be intentional in breaking silos and forging a one-team mentality in your upper echelons. It may take time and persistence (old habits die hard, as Ford's story shows), but the payoff is a leadership team that can actually capitalize on the wealth of knowledge it possesses.

In the end, the debate about whether diversity matters for performance is settling into a more mature phase. It's not *if* it matters — it's *when* and *how* it matters. The newest evidence suggests that different backgrounds do matter — they can be the catalyst for superior performance, but only when combined with unity of purpose and effort. For businesses of all sizes, the mandate is not just to have diversity, but to enable it. The companies that figure this out will enjoy more innovative strategies, more robust decisions, and yes, likely better financial results over the long haul. Those that don't will continue to wonder why “diversity programs” didn't magically make a difference.

In the words of an old proverb, “If you want to go fast, go alone. If you want to go far, go together.” We might add a modern corollary: If you want to go further, go together with people who aren't just like you — and take the time to truly come together. That's the savvy way to leverage diversity for performance, turning what could be friction into the engine of future success.

References

1. Frances Fabian et al., “**When Does Top Management Team Diversity Matter in Large Organizations?**” *Journal of Organizational Behavior*, accepted August 24, 2005.
2. Due to the fact we study public firms, small firms in our sample still have at least a few million dollars worth of assets.
3. Roni Reiter-Palmon et al., “**Teams in small organizations: Conceptual, methodological, and practical considerations,**” *Frontiers in Psychology* 12 (2021): 530291.

4. Sharon Ceurvorst et al., “**Why Cross-Functional Collaboration Stalls, and How to Fix It.**” *Harvard Business Review*, June 24, 2024.
 5. Ernest Gundling, “**Disruption in Detroit: Ford, Silicon Valley, and Beyond,**” *California Management Review Case*, January 1, 2018.
 6. Tom Relihan, “**Fixing a toxic work culture: Breaking down barriers,**” *MIT Sloan Management Review*, May 29, 2019.
 7. Vivian Hunt et al., “**Diversity Matters,**” *McKinsey&Company*, February 2, 2015.
 8. Jeremiah Green and John Hand, “**McKinsey’s Diversity Matters/Delivers/Wins Results Revisited,**” *Econ Journal Watch* 21, no. 1 (2024): 5–34.
-



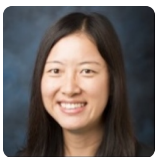
Frances Fabian [Follow](#)

Frances Fabian is an Associate Professor of Management at the University of Memphis, having joined academia after spending six years with the US Government Accountability Office. Dr. Fabian’s research concentrates on strategic decision making. Her recent work has incorporated complexity theory to describe and depict the nonlinearities of modern decision-making environments.



James Plečnik [Follow](#)

James Plečnik is an Associate Professor of accounting at Loyola Marymount University. His recent research considers the intersection of accounting and management issues, with a focus on top-management team dynamics as well as taxation. James is a CPA with extensive experience working with small businesses and their managers.



Shan Wang [Follow](#)

Shan Wang is an Associate Professor of Accounting at Loyola Marymount University, whose research examines corporate governance and organizational decision-making, with a focus on how top executives and boards influence disclosure, taxation, and innovation. Her work has been published in leading accounting and management journals.