

## **A misunderstood path to competitive advantage: employee resource groups**

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In 2018, a group of Amazon employees that were members of the company's Black Employee Network had an idea. They had in-depth knowledge of their community, including the fact that Black haircare products were often difficult to find. The group pitched the idea, a special page on Amazon that had information and a curated selection of products for textured hair, to their parent company. Soon after, Amazon launched a special online storefront called Textures and Hues. Anecdotes of similar innovations spurred by employee resource groups (ERGs) at other firms are common. Despite these stories, we know very little about ERGs, especially with regards to how they contribute to their firms. To help remedy this, we conducted a study of ERGs in 8 large, successful US companies. But first, we will describe ERGs and what we know about them so far.

ERGs are volunteer, employee groups that are organized around a common characteristic, like a shared gender, ethnicity, or religion. They have goals to maintain inclusivity within organizations and to support their members both socially and professionally. ERGs are present in more than 90% of Fortune 500 firms and have a growing presence in smaller and newer firms, too. ERGs have been around since the 1960s, when they were created by the CEO of Xerox to support the company's Black employees during the Civil Rights movement. Many still think of these groups in this capacity, and in keeping with that, most of the press the groups receive hinges on their ability to support employees. However, these groups are prevalent in all kinds of organizations and likely contribute to their firms in more ways than we know.

To test the kinds of impacts ERGs have on firms, we conducted a study of ERGs in 8 different US companies. We asked ERG members a series of questions about their ERGs' impacts on the growth of the members, the growth of the ERGs themselves, and the growth of their firm. We also asked them to provide a short descriptive comment about how their ERG contributes to those different kinds of growth. We received survey responses from more than 1500 ERG members.

Overall, we find that members of ERGs think that their ERGs contribute most to the growth of the groups themselves, less to their members, and finally to the growth of the firm itself the least. Respondents who indicated that their ERG had direct impacts on the firm showed that there were three ways for that to happen: creating new products/services, using their knowledge of specific groups for marketing and outreach, and contributing to positive firm reputation. If a respondent did not recall a large action like the creation of a new product or contribution to outreach, it was difficult for them to see that their ERG had positive impacts on the firm. Many of them indicated that their ERG positively benefited themselves and that the ERG itself was growing, but did not connect the dots that an ERG that encourages more productive and comfortable workers would have positive impacts on the firm.

Our results show that even within ERGs, the groups are misunderstood. ERGs may have very visible benefits on firm growth through innovation, but they may also contribute through their impacts on individuals and the groups themselves. ERG members struggled to see how their groups benefited the firm overall, and some even argued that they shouldn't.

We encourage firm leaders to highlight the positive direct and indirect benefits that ERGs have on the firm. While stories like Amazon's ERGs contributing to an innovative new online shop are eye-catching, they are rarer than ERGs contributing to the firm through their benefits on the individual employee. We do not wish to undermine ERGs' contributions to their members by examining their business value. Instead, we hope to emphasize ERGs' contributions to firm competitive advantage, and we hope that this may encourage firms to invest more time and effort into their ERG programs, leading to greater ability both to impact individuals and the firm. Although our research highlights their impacts on large businesses, ERGs also have importance for small and new firms, who are increasing their use of the groups. These groups are able to not only support employees, but also help generate new, innovative products tailored to certain markets, which may be especially important for entrepreneurial firms.

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