



ADDING VALUE THROUGH HRM: A BUSINESS MODEL FOR DIVERSITY MANAGEMENT

Programme for the Practice of Diversity Management

Department of Immigration and Multicultural Affairs in Cooperation with the
Australian Centre for International Business

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ADDING VALUE THROUGH HRM: A BUSINESS MODEL FOR DIVERSITY MANAGEMENT

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Foreword

The Programme for the Practice of Diversity Management is in the process of developing several diversity-related Business Models. This Business Model addresses the role of human resource management in adding value to the bottom line through effective diversity management. Matching Toolkits address the implementation of diversity initiatives to add value to the bottom line through diversity management.

Other Resources for Diversity Management:

The Business Case:

HRM Case
Knowledge Firm Case
International Business Case
Marketing Case
Theory of Diversity and Group performance

Business Models:

Diversity Management: the Big Picture
Managing Diverse Human Resources Effectively
Expatriate Management
Capturing the Diversity Dividend
Going Global
Adding Value Through HRM

Toolkits:

Attract, retain and motivate
Keys to Expatriate Success
Adding Value through HRM
Using Diversity Climate Surveys

Diversity Management in Australia – the State of Play
Capturing the Diversity Dividend
Report to Business on Aboriginal Employment

PROGRAMME FOR THE PRACTICE OF DIVERSITY MANAGEMENT

The Programme for the Practice of Diversity Management is a collaborative arrangement between the Department of Immigration and Multicultural Affairs (DIMA) and the Australian Centre for International Business (ACIB) funded through DIMA's Productive Diversity Partnership Programme.

The mission of the Programme for the Practice of Diversity Management is to meet the practical needs of business by developing a business case for productive diversity, providing business models for diversity management, and creating toolkits and checklists for assessing diversity.

The Programme invites your firm to become a member of the electronic diversity network, which brings Australian business together to promote good diversity practices.

Join the diversity network on-line at www.ecom.unimelb.edu.au/acib/diverse

Executive Summary

Diversity Management: Introduction to HRM Models

This business model focuses on adding value through the effective management of workplace diversity. The model sets out how firms can leverage the diversity in their workforce to improve the bottom line.

The Business Case: Bottom-Line Benefits of Diversity Management

A firm's human resources are crucial to adding value. Firms that manage diversity will have improved productivity, innovation, learning and performance. Productive diversity management can form the basis of diversity capabilities, which fuel competitive advantages in a global marketplace. Diversity can drive firm growth through a number of avenues.

Missed Opportunities: Mind of the CEO

A 2000 ACIB survey demonstrated that Australian-based firms have some way to go in recognising the importance of diversity management and the adoption and implementation of diversity management strategies, policies and practices. There is a clear need to set out the business case for diversity management and the important links diversity management has with adding value to the bottom line.

What is Workplace Diversity?

'Diversity' refers to all the ways in which individuals differ. Workplace diversity encompasses both personal and organisational-related characteristics.

The Evidence: How Diversity Management Adds Value

Many Australian firms are not capitalising on the diversity of their workforce. Diversity benefits are not spontaneous; they require a strategic approach. When harnessed, workplace diversity produces superior problem solving, creativity, and better quality decision-making, which translate into better servicing of customers and markets, and increased business competitiveness and success.

Value in Diversity: Decision-Making, Ideas, Creativity, and Innovation

Diversity improves the quality of decisions, provides superior solutions and innovative ideas. Information sharing and *constructive* task-based conflict are the keys to the 'value in diversity' argument. Diverse teams have been shown to repeatedly outperform homogenous teams. HRM strategies are critical to overcoming group process problems and harnessing the bottom line benefits of diversity.

The Long Term Pay-offs: Learning Organisations and Knowledge Firms

Organisational learning and the creation of knowledge are long-term benefits of harnessing diversity. HRM strategies can be used to tap into the benefits of diversity and foster learning and knowledge creation.

Adding Value to Individual and Group Outcomes

Proactive diversity management strategies can add value to individual's outcomes. Strategies that are successful in improving job satisfaction can have multiplier effects through the organisation. Tapping in to the value of diversity requires a strong organisational foundation based on equity, respect and opportunity. Improvements in individual outcomes funnel through to group processes and outcomes, benefiting the organisation.

Action Areas for Effective HR Management

Firms can add value to their bottom line through attention to key action areas. Each action area includes a series of key steps designed to realise the 'diversity dividend'. Figure 1 summarises the key steps in these action areas.

Figure 1: Key Steps in Action Areas



Diversity Management: Introduction to HRM Models

There are two distinct yet connected HRM streams in diversity management. Stream one addresses the cost implications of poorly managed workplace diversity. Stream two involves leveraging the creativity and innovation capabilities that reside within diverse groups.

Stream one is discussed in the Programme for the Practice of Diversity Management's *Managing Diverse Human Resources Effectively: A Business Model for Diversity Management*.

This business model addresses stream two – adding value through the effective management of workplace diversity. The model sets out how firms can leverage off their workforces diversity to improve the bottom line.

The purpose of this business model is to set out for CEOs and HRM managers:

- The HRM business case for managing diversity
- The evidence of how managing diversity can add value to the bottom line
- HRM strategies for adding value

The Business Case: Bottom-Line Benefits of Diversity Management

There is a business case for effective diversity management. Firms that managing difference well improve productivity, and enhance innovation and learning. HRM allows firms to add value by harnessing the value of diversity. Teamwork and group processes are enhanced when workplace diversity is managed well, increasing communication and reducing personal conflict.

A firm's human resources are crucial to developing problem solving and innovation capabilities and becoming a learning organisation or knowledge firm. A firm's human resources represent a potential source of competitive advantage. Productive diversity management can enhance the utilisation of these human resources. It is possible that a firm may develop diversity capabilities, which

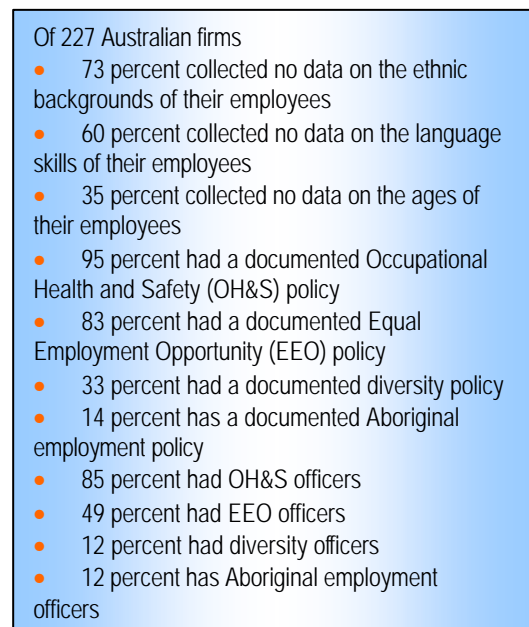
fuel competitive advantages in a global marketplace.

There are two major streams of benefits that diversity management can deliver. First, cost savings from improving the management of workplace diversity which was the focus of *Managing Diverse Human Resources Effectively: A Business Model for Diversity Management*. Second, diversity can drive business growth by improving marketplace understanding, increasing creativity and innovation, producing higher quality problem-solving, enhancing leadership effectiveness, developing an employer of choice reputation, and building effective global relationships.

Missed Opportunities: Mind of the CEO

In 2000, the Australian Centre for International Business undertook a major survey of Australian business to gauge CEO opinions on the importance of diversity management. CEOs and senior managers made up 80% of the 227 respondents. There were a number of important findings in relation to HRM and adding value.

Figure 2 – Diversity Policy and Practice



in Australian firms

Diversity capabilities in Australian firms are undermined by the lack of attention to record keeping, and documented policies and practices. As shown in Figure 2, 73 percent of

the respondents did not keep information on ethnic background, 60 percent had no data on language skills, and 35 percent did not collect data on employee age. A lack of systems for identifying diversity means that CEOs are not well placed to harvest the diversity embedded in their firm's human capital.

Few firms have developed diversity policies. Only 33 percent of the firms had a documented diversity policy. Diversity training was undertaken by just 27 percent of the firms and only 12 percent had diversity officers. Diversity management still ranks of lower importance than EEO and OH&S policies and practices demonstrating that many Australian firms have yet to move from compliance to a strategic focus.

Figure 3 – The views of Australian CEOs on diversity management



Diversity management is crucial to the development of an organisational culture that values difference. Yet, as shown in Figure 3, only 33 percent of CEOs ranked this as of high importance. There is substantial evidence that managed effectively, diverse teams outperform homogenous teams in problem solving and innovation. However, few CEOs have made the link. Only 20 percent ranked diversity management as of high importance to problem solving within teams, and 23 percent ranked diversity management as of high importance to team innovation. Just 11 percent of CEOs ranked diversity management highly important to the operation of quality circles.

Clearly, there is a need to set out for Australian business the value-in-diversity business case.

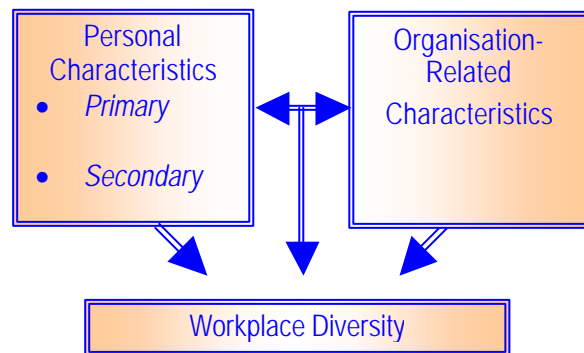
What is Workplace Diversity?

Diversity encompasses all the ways in which people differ. Individuals differ on both a personal basis and in terms of organisation-related characteristics.

As illustrated in Figure 4, there are three major components of diversity:

- *Primary personal characteristics* e.g. race, gender, sexual orientation, nationality, mental and physical ability
- *Secondary personal characteristics* e.g. marital status, educational level, values, beliefs
- *Organisation-related characteristics* e.g. position in hierarchy, tenure, casual/part-time/full-time status

Figure 4: Components of Workplace Diversity



The complex interaction of these characteristics gives rise to workplace diversity and provides the basis upon which to leverage bottom line benefits.

The Evidence: How Diversity Management Adds Value

The ACIB survey demonstrated that Australian business is missing out on the opportunities having a diverse workforce brings. The benefits of diversity do not spontaneously appear: they require strategies, policies and practices to produce a diversity dividend. These strategies, policies and practices are encompassed in the key steps set out in this model.

Research shows that, when harnessed, workplace diversity produces superior problem

solving, creativity, and better quality decision-making, which translate into better servicing of customers and markets, and increased business competitiveness and success. Managed effectively, diversity in the workplace translates into real bottom line benefits.

Value in Diversity: Decision-Making, Ideas, Creativity, and Innovation

Research shows that diversity improves the quality of decisions, provides superior solutions and innovative ideas. A diverse workforce comprises a multitude of beliefs, understandings, values, ways of viewing the world, and unique information. Firms that can harness difference in productive ways stand to benefit through bottom line returns.

Information sharing and *constructive* task-based conflict are the keys to the 'value in diversity' argument. Heterogeneity in group or team membership reflects variety in attitudes, knowledge, information and beliefs generating new ways of viewing problems, tasks or decisions and overcoming the 'group think' issues often associated with homogeneity.

Research has shown that well-managed diverse teams experience and allow ambiguity in early phases of development, exhibiting greater clarity over time. This leads to greater innovation in diverse teams. These teams have been shown to repeatedly outperform homogenous teams.

Whilst there is evidence that short-term progress is affected by conflict and communication problems in diverse teams, research shows that diverse teams foster speed and innovation over whole development cycles. It is the existence of a conflict of ideas that has been shown to produce substantially higher quality solutions in diverse teams and groups. More alternatives are considered and higher quality work is produced. Time is an important consideration: diverse teams take longer to develop routines and communication norms but outperform homogenous teams over time.

Well-managed diverse teams have superior performance indicating the importance of HRM strategies that focus on producing the diversity dividend and adding value to the bottom line.

However, these benefits will not emerge simply because of workplace diversity. HRM strategies are critical to overcoming group process problems and harnessing the bottom line benefits of diversity.

The Long Term Pay-offs: Learning Organisations and Knowledge Firms

The long-term pay-offs of diversity relate to organisational learning and the creation of knowledge. When HRM strategies are used to tap in to the decision-making, problem solving, innovation and creativity benefits of diversity, organisational learning is fostered and knowledge firms emerge. Firms should develop workforces that are flexible and conducive to new and unique ways of thinking.

Adding Value to Individual and Group Outcomes

Proactive diversity management strategies can add value to individual's outcomes. In particular, strategies that are successful in improving job satisfaction can have multiplier effects through the organisation. Those individuals who belong to the 'dominant' group within an organisation tend to have higher job satisfaction and commitment as they experience higher co-worker support, superior rewards, access to adequate resources, and greater autonomy. For those outside the dominant group within an organisation, job satisfaction can be lower, particularly where they do not have access to equal rewards or advancement opportunities.

In addition, tendencies for people to form into in-groups and out-groups can affect job satisfaction, and impinge on supervisor-subordinate and co-worker relations. This, in turn, impacts on the achievement of organisational goals.

Effective diversity management strategies can address these issues and improve individual's job satisfaction. For example, addressing inequity in advancement and reward opportunities using the HRM toolkits, can improve job satisfaction.

As job satisfaction is inextricably linked to organisational commitment that is, in turn,

linked to absenteeism and turnover, actions to address these issues and improve individuals' outcomes will also benefit organisational outcomes.

Further, firms that fail to address these issues will struggle to add value to the bottom line with diversity management strategies. The ACIB survey of CEOs showed that many of the basics of diversity management are missing in Australian firms, demonstrating a need to raise awareness of diversity issues. Tapping in to the value of diversity requires a strong organisational foundation based on equity, respect and opportunity. Improvements in individual outcomes funnel through to group processes and outcomes, benefiting the organisation.

Action Areas for Effective HR Management

This section targets a number of action areas that can be addressed with coherent policies and practices. Each of the seven action areas in this model encompasses a series of key steps that target specific steps in adding value and realising the diversity dividend.

Action Area: Top Management

Diversity management thrives when there is top management support. Top management 'champions' are critical to setting the diversity agenda, allocating resources, and developing diversity strategies. In some organisations, top management will be the driving force behind diversity management; in other organisations, top management will need to be convinced of the value of diversity management.

A strong business case is important to top management support and buy-in across the organisations. The ACIB survey found many Australian-based firms did not recognise the importance of diversity and the value that managing diversity can add to their bottom line

Adding value through diversity requires an environment where difference is valued - a culture that recognises and rewards diversity. A diversity vision championed by top management is critical, and forms the basis of strategies, policies and practices. Support from

the upper echelons of the firm symbolise the importance diversity management is given as does top management ownership of diversity initiatives.

Key Steps: Top Management

- Raise top management awareness of the business case for diversity management
- Cultivate top management support of, commitment to, and ownership of diversity management
- Cultivate top management ownership of diversity management initiatives
- Allocate resources to diversity management
- Develop a diversity vision for the firm

Action Area: Auditing

Organisations need to know about the diversity of their firm. The ability to build diversity capabilities is dependent on a firm gathering and analysing information on its workforce. Effective diversity management requires data on the firm's diversity and culture. Firms should conduct a diversity and organisational culture audit to identify potential capabilities and any organisational culture challenges. The auditing phase provides essential information that allows firms to engage in both internal and external benchmarking, providing a basis to measure goal attainment. Details on how to conduct diversity and organisational audits are contained in the associated toolkit.

Key Steps: diversity audit

- Survey staff
- Analyse staff data
- Build a diversity profile of the organisation

Key Steps: organisational culture audit

- Establish representative diversity taskforce
- Investigate current processes, culture, policies and practices
- Assist in developing the diversity vision
- Develop more effective policies and practices

Action Area: Strategic Goal Setting

Firms need to set diversity goals or targets that reflect the vision and which are linked to the strategic goals of the organisation. Strong links between diversity goals and broader strategic goals ensure diversity management is seen as important across the organisation and significant to firm performance.

Key Steps: *strategic goal setting*

- Clarify the diversity vision
- Set diversity goals
- Link diversity goals with strategic goals of the organisation

Action Area: Training, Education and Awareness

Training, education and awareness are important to the development of diversity management skills. Effective diversity training improves individual and organisational outcomes, and awareness training builds a common understanding of the value of diversity, assisting in building social cohesion. Education and training should be tailored to the specific needs of the organisation, division, level, team or individuals. Senior managers, middle managers, line managers and other staff will have different education and training needs to be addressed and delivery methods will vary across participants. A top down training strategy may be valuable – providing awareness training to senior managers first and team-building training last, for example.

Communicating the 'value in diversity' message widely, and in varied forms, ensures on-going commitment to diversity management strategies. Critical to the success of education and training is the important step of linking training to the strategic objectives of the organisation.

Key Steps: *Training and Education*

- Invest in diversity training at all levels of the organisation
- Tailor training to specific needs of the recipients
- Build a common understanding of benefits and challenges while emphasising common goals

- Communicate the value in diversity message via various channels
- Link training to strategic objectives

Action Area: Promoting Superior Performance

Firms need to develop a knowledge and learning environment. The key to promoting superior problem solving and decision-making, creativity and innovation is the exchange of ideas, knowledge and information between organisational members. It is the diversity of ways of seeing the world, information, knowledge that leads to a cross-fertilisation of ideas and which provides the basis for the value of diversity argument.

Team-based structures are seen as the best avenue for adding value through diversity. Fostering successful team performance requires trust and interdependence, which has been addressed in a separate action area in this model. It is important for managers to realise, however, that the development of trust and interdependence requires time. Awareness training addressing the causes and effects of status hierarchies is important for team members to ensure they are conscious of why certain individuals are assigned high or low status in the group, why some members don't contribute their ideas or thoughts, or why different people are constructed as qualified or unqualified in social or work settings.

Training focussed on understanding how different people think is important is promoting collaboration and communication.

Trust and interdependence formed over time provides the foundation for risk-taking and an environment for *creative abrasion* to occur, a process whereby different approaches essentially 'grate' against each other productively to create superior outcomes. In other words, creating an environment where constructive conflict can be created and channelled. This requires strong ground rules to guide team members and ensure conflict is task or process-based rather than personal. Firms that increase team autonomy will benefit

from the creativity and innovation that can emerge when control is loosened.

Key Steps: Promoting Superior Performance

- Foster an environment conducive to information and ideas exchange
- Promote team trust and interdependence
- Provide appropriate team training
- Foster creative abrasion
- Develop strong ground rules
- Increase team autonomy

Action Area: Improving Individual and Group Outcomes

To improve individual, group and organisational outcome, firms may need to adjust HRM policies and practices. Improving individuals' work experiences lays the foundation for adding value through diversity. Enhancing job satisfaction and organisational commitment improves individual, group and firm performance.

For some firms, adjustments to the reward and remuneration, and enhancing advancement opportunities across the organisation can be beneficial to individual outcomes. The promotion of flexibility in work arrangement or 'work/life balance' programmes can improve individual productivity leading to improved group and organisational performance. Signalling to staff that the organisation recognises out-of-work commitments can have positive effects.

Key Steps: Improving Individual Outcomes

- Facilitate co-worker and supervisor support
- Ensure equity in reward systems
- Ensure equity in advancement opportunities
- Promote flexibility in work arrangements

Action Area: Developing Employer of Choice Strategies

Employers of choice outperform competitors at attracting, developing and retaining high performers or high potential employees through

the development of differentiating HRM practices.

Employers of choice also recognise and respond to the changes to labour market demographics to ensure they have access to the most talented people available. The influence of public listings of 'the best place to work' is increasing, and firms who become employers of choice are better placed to glean the positive reputational effects that come with this public recognition.

In a labour market where highly skilled workers have more choice over where, and for whom, they work, their decisions to join, remain, or leave organisations are founded on a number of factors. Studies show that some of the most important factors are: whether organisations are market leaders, whether they have a strong direction, whether they have leading HRM practices that provide 'employment branding', whether there is attention to individual development and advancement, cultures valuing innovation and creativity, competitive reward and benefit systems, and cultures valuing diversity and respect for individual differences.

The development of learning organisations and knowledge firms rests on the quality of people within an organisation, and the firm's ability to attract, develop and retain high performers and high potential people. The integration of HRM, diversity management, and business strategy is important in aligning individual, group and organisational goals.

Key Steps: Developing Employer of Choice Strategies

- Develop differentiating HRM strategies
- Recognise and respond to demographic changes in the labour market
- Be aware of decision factors for high performers and high potentials
- Integrate HRM, diversity management and business strategy
- Develop innovative remuneration and benefits schemes

- Set specific employer of choice goals
- Develop employer of choice programmes
- Make clear linkages between employer of choice strategies and bottom line outcomes

The Business Case Restated

Effective diversity management allows firms to add value to their bottom line. Strategic HRM provides tools through which organisations can leverage the value of their people to improve performance. Productive diversity management can form the basis of diversity capabilities, which underpin competitive advantages in the global market. Managing the diversity within the firm can improve decision-making and problem solving, enhance creativity and foster innovation, leading to long-term benefits such as the creation of learning or knowledge firms.

Evidence shows that many Australian firms have yet to make the important connections between diversity management and adding value. Clearly there is a need for Australian business to understand the value in diversity arguments. This model has set out the value in diversity arguments, focussing on how to add value to the bottom line through effective diversity management.