



THE BUSINESS CASE FOR DIVERSITY MANAGEMENT: AN INTRODUCTION

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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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/diverse/network

BUSINESS CASE FOR DIVERSITY MANAGEMENT: A SUMMARY

The Business Case for Diversity Management outlines the bottom-line benefits that are derived from sound diversity management. It comprises a comprehensive literature review of business and academic sources, articulating how diversity affects the bottom line of business. The Business Case is divided into three sections:

1. The HRM Business Case for Diversity Management

The HRM Case examines the impact of diversity on HRM functions. It contends that, left unchecked, diversity imposes business costs by reducing job satisfaction, lowering commitment, increasing absenteeism, increasing turnover and creating group conflict. The business case contends that sound diversity management ameliorates these costs, which are presently incurred by business in Australia and abroad. The business case demonstrates that diversity management can also give firms a competitive 'edge' through the generation of advanced decision-making and problem solving capabilities.

2. The Knowledge Case for Diversity Management

The Knowledge Case explores the effects of diversity management on information flows, knowledge creation and innovation. It explores the ways in which knowledge is transferred within organisations and strategies to facilitate knowledge creation and transmission. This business case indicates that diversity management plays a key role in creating the 'Knowledge Firm'.

3. The International Business Case for Diversity Management

The International Business Case demonstrates that diversity management precipitates that development of cross-cultural capabilities that are crucial for international business success. It examines the ways in which we understand culture and its effects on international business. This business case demonstrates that diversity management increases firms' international orientation, expands entry mode options, enhances expatriate success rates, reduces international joint venture failures, strengthens international networks and improves international business decision making.

Below are the executive summaries of each section.

EXECUTIVE SUMMARY: THE HRM BUSINESS CASE

1.0 HUMAN RESOURCE MANAGEMENT & THE BUSINESS CASE FOR PRODUCTIVE DIVERSITY

1.1 Human resource management: Defined

Human resource management is an approach to managing the human resources of organisations. Its key components are planning, staffing, appraisal and remuneration, improving employee performance, and establishing maintaining effective working relationships.

1.2 HRM & productive diversity

Productive diversity arises from the effective management of diverse opinions in decision-making and problem-solving, leading to enhanced creativity and innovation

1.3 HRM & competitive advantage

The development of diversity capabilities may lead to diversity-based competitive advantages.

1.4 HRM, productive diversity & competitive advantage: The HRM business case for diversity management

Cox and Blake (1991:4) present six broad areas in which sound diversity management can create a competitive advantage to the firm: " (1) cost (2) resource acquisition (3) marketing (4) creativity (5) problem-solving and (6) organisational flexibility".

2.0 HRM ISSUES IN PRODUCTIVE DIVERSITY MANAGEMENT

2.1 Exploring 'in-groups and 'out-groups' as a HRM problem

Social categorisation theory posits that individuals seek to define themselves through a process of self-categorisation. Self-categorisation may be based on any salient characteristic, such as age, gender or ethnicity. Similarity/attraction theory contends that individuals form into 'in-groups' and 'out-groups', whereby members of the 'in-group' share similar social categorisation traits. The formation of such groups can have negative effects on organisational outcomes.

2.2 Costs of non-productive diversity management

Ineffective management of social categorisation in diverse workgroups can lead to poor quality of work life for individuals in 'out groups' and precipitate organisational costs.

2.3 Diversity, quality of work life, & qualitative costs: job satisfaction & commitment

Ineffective, or non-existent, diversity management can lead to diminished job satisfaction for individuals in 'out-groups'. Low job satisfaction can reduce levels of firm commitment, with an impact on employee performance.

2.4 Diversity, & productivity costs: performance, absenteeism & turnover

Workforce diversity, left unmanaged, can lead to interpersonal conflict, which has detrimental effects on job satisfaction and individual performance. Low levels of job satisfaction increases levels of voluntary absenteeism and turnover; an organisational cost. Higher levels of social integration will be associated with lower levels of dissatisfaction, higher levels of commitment and lower levels of absenteeism and turnover.

2.5 Diversity & discrimination: A HRM concern

Discrimination can be a pervasive but hidden aspect of poorly managed diverse workplaces. Discrimination affects performance, productivity, job satisfaction and perceptions of equity and raises issues of litigation.

[2.6 Summary: The challenge of achieving productive diversity](#)

The challenge of achieving productive diversity lies in acknowledging that diversity although generating initial costs from interpersonal diversity, when managed productively, can return sources of competitive advantage.

3.0 HRM AND THE BENEFITS OF DIVERSITY MANAGEMENT

This section explores how costs can be minimised and benefits maximised through implementing appropriate productive diversity policies and practices

[3.1 HRM & the quantitative savings of diversity management](#)

Diversity management can reduce organisational costs by minimising turnover and absenteeism; improving recruitment outcomes and reducing the potential costs of litigation. Diversity management can improve organisational performance

[3.2 Productive diversity, HRM, & qualitative savings](#)

Diversity management fosters improved decision-making, innovation, and learning and the creation of knowledge.

[3.3 Summary: productive diversity & the role of HRM](#)

Productive diversity reduces significant costs that emerge when diversity is not managed.

4.0 HRM STRATEGIES TO SUPPORT PRODUCTIVE DIVERSITY

[4.1 Introduction](#)

HRM strategies that focus on enhancing job satisfaction, job involvement and reducing stress in diverse workforces are likely to realise performance improvements and reductions in absenteeism and turnover. This in turn will lead to bottom line improvements.

[4.2 Diversity Audits, Cultural Audits, Social Integration and Cohesion](#)

The first step in any firm's attempt to harness their diversity advantage should be to conduct a diversity audit. A cultural audit will identify any institutional cultural biases that may exist. Culture audits indicate areas where HRM strategies can assist in creating social integration and cohesiveness.

[4.3 HRM policy changes](#)

HRM policies to increase job satisfaction may focus on employee participation in decision-making; appraisal, promotion and reward; diversity training; conflict management; and work/family balance.

[4.4 Finding a fit between task structure and diversity](#)

Diversity management requires strategic planning and commitment by executive managers. Systems must be devised to encourage productive conflict and minimise interpersonal conflict.

4.5 HRM functions to achieve productive diversity

Important functions to achieve bottom line diversity management outcomes include education, training, goal setting, recruitment, promotion, flexible work practices, and technology-supported teams.

5.0 CONCLUSION

5.1 Fostering superior decision-making and problem solving

In order to tap into the potential benefits of diversity, HRM must focus their strategies on intervening at the similarity/attraction and social categorisation phases of group development. HR managers need to tailor their strategies to the structure of the group or the context within which they operate.

5.1 HRM delivering the diversity dividend

There are bottom-line benefits to be gained from managing diversity. Diversity management requires a two-prong strategic approach: first, reduce the costs of poor diversity management; second, tap into the positive aspects of diversity by fostering superior problem solving and decision-making skills.

EXECUTIVE SUMMARY: THE KNOWLEDGE FIRM CASE

1.0 INTRODUCTION

Firms are becoming increasingly aware of the importance of knowledge as a source of competitive advantage, and are seeking strategies and structural changes that will improve their learning and knowledge management capabilities. Work groups must generate and develop new concepts in a nurturing environment. Work groups with a greater mix of cultural backgrounds, mental models, and experience and functional levels will, when appropriately managed, generate more innovative products and services.

2.0 DEFINING AND EXPLORING THE KEY CONCEPTS

2.1 Information

Information is generally described as a flow of messages or meanings.

2.2 Knowledge

Knowledge can be categorized in a variety of ways: explicit and tacit; embrained, embodied, encoded, embedded and encultured; and conscious, automatic, objectified and collective. Knowledge may reside solely within an individual, may be shared, or may manifest itself within the organization.

2.3 Learning

Learning may occur at an individual or an organizational level. Learning is path dependent, may be incremental and cumulative, or it may involve a dramatic re-evaluation of existing knowledge and reconfiguration of underlying principles and routines. The aim of the knowledge firm is to harness employee and organisational learning such that the organisation benefits and the learning represents positive change to organisational routines and strategies.

2.4 Knowledge creation and innovation

Crucial to a firm developing a knowledge advantage is the continual expansion and improvement of its knowledge stocks. An innovating firm will develop new knowledge and ideas into marketable goods or services, or organisational changes that improve efficiency. The aim of a knowledge firm is to create and nurture an environment where innovation is expected, respected and rewarded.

2.5 Knowledge Dispersion

Crucial to effective innovation is the transition of an idea from the source individuals or group to acceptance and implementation by other members of the organisation. Appropriate mechanisms to disperse knowledge must be implemented and managed.

2.6 Conclusion – What is a Knowledge Firm?

A learning organisation or knowledge firm endeavours to find the most efficient mechanism for ensuring sufficient knowledge is shared among workers. Knowledge creation and innovation should be an explicit focus of the organisation.

3.0 THE KNOWLEDGE FIRM AND COMPETENCIES

Learning and knowledge is compatible with the underlying principles of new institutional theories of the firm.

3.1 The Strategic Management Model of the Firm

Recent research on the firm focuses on how firms continuously create and renew competencies, which in turn lead to competitive advantages. The key to firm success is the unique configuration of generic know-how into firm-specific competencies.

[3.2 Core capabilities, competencies and resources](#)

Knowledge brought to the firm by employees and managers, and the knowledge created and retained within the firm, all represent resources to the firm. Firms combine factors of production, resources and capabilities to create competencies. These competencies are key to the firm's competitive advantage over its rivals.

[3.3 The conceptualisation of learning within this framework](#)

The new institutional approach views knowledge and learning as distinguishing factors in the development of firm capabilities. The firm's administrative history creates an organisational infrastructure of processes and routines that shape the learning of the organisation. Codified and tacit routines regulating group interaction are capabilities, more or less unique to the firm and may represent competencies.

[3.4 Knowledge as a resource](#)

Knowledge is a resource for an organisation if it is difficult for other organisations to replicate or acquire. Tacit knowledge, imbedded within individuals or routines, will be harder to replicate than explicit knowledge.

[3.5 Learning and innovation as capabilities and core competencies](#)

Firms successful in generating new knowledge, learning from day-to-day experiences and developing new products, services or organisational practices may have capabilities or competencies in learning, knowledge creation or innovation. Such capabilities may represent a core competency.

[3.6 Developing a competitive advantage from knowledge and learning](#)

Some firms derive an advantage from their learning and knowledge management. Such organisations will have information processing and innovation competencies that provide them with advantages. These knowledge firms retain staff and harness their knowledge and learning capabilities more successfully than other firms in their industry.

[3.7 Diversity as a resource](#)

The demographic make-up of a firm's workforce – its diversity – if managed appropriately can also represent a resource to the firm. The employees may represent a unique combination of skills, experiences and attributes that is not easily replicable or appropriable.

[3.8 Diversity management as a core capabilities or competency](#)

Diverse work teams, when managed well, will operate at a more productive and efficient level than comparable homogenous groupings. Such diversity management capabilities are not commonplace, and must compete with many other competencies within the firm to be a core competency. Firms must identify how their diversity can feed into existing core competencies, and thus contribute to increased competitive advantage. Firms that derive a competitive advantage from their knowledge may investigate how they can better utilise their diversity to improve their knowledge resources and learning and innovation capabilities.

[3.9 Developing a competitive advantage from diversity management and knowledge](#)

Diversity in the workplace should lead to more innovative outcomes. The interaction of employees, and the associated managerial policies and practices may represent a competitive advantage for some firms.

[3.10 Summary of Conceptual Framework](#)

Firms may have core capabilities related to knowledge management and/or diversity management. All firms need capabilities in knowledge management to compete with rivals.

[4.0 INTERNAL STRATEGIES AND THE KNOWLEDGE FIRM](#)

A firm seeking to develop and maintain knowledge-related capabilities and potentially gain a competitive advantage from learning and innovation will need to adopt and implement appropriate internal strategies.

[4.1 Senge's Five Disciplines](#)

Senge (1991) identifies five disciplines that he believes can revolutionise business and provide significant competitive advantages: systems thinking, personal mastery, managing mental models, shared vision and team learning.

[4.2 Learning coordination](#)

Learning is a process that needs to be guided and coordinated. Coordination requires a clear understanding of the goals of the organisation. These goals need to be established across the organisation and communicated to all employees. The aim of coordination is to ensure that new knowledge is not lost, that there is not unnecessary duplication of learning efforts, and to direct learning towards the organisation's goals. A learning or knowledge manager will assist this process.

[4.3 Internal communications](#)

Learning is of no use to the firm if it is not communicated in some fashion. Adequate information needs to reach the appropriate parties in a useable and relevant format. Strategies include information management tools, and knowledge sharing through workshops, increased interdepartmental interaction and staff rotation.

[4.4 Resource allocation processes](#)

The availability of resources, in particular capital, has been shown to have a large influence on innovation levels. Levels of funding need to be directed towards pure research such as R&D divisions or centres, and to general learning activity. Current funding and reward methods may need to be re-evaluated.

[5.0 ORGANISATIONAL STRUCTURES AND THE KNOWLEDGE FIRM](#)

[5.1 Level of decentralisation](#)

Decentralised organisational structures, in which less authority and decision-making is concentrated at the top of the organisational hierarchy are generally seen as more effective learning and innovating environments. However, the positives of centralised knowledge and information management channels should not be ignored.

[5.2 Innovation centres or reservations](#)

Typical corporate structures, while well-suited to operational efficiency, may not be effective environments for nurturing new ideas and innovation. Firms should overlay a new organisational form - the organizing structure. This includes new roles - orchestrator, sponsor and idea generator - and the establishment of reservations. Deliberate attempts at innovation are treated differently from day-to-day operational activities.

[6.0 WORK DESIGN AND THE KNOWLEDGE FIRM](#)

[6.1 Team and group work](#)

Collaborative work groups should be embraced. Whether it be an R&D team who generate an idea and hone it, the management group who chose to fund and champion the project, or the production team who implement the final innovation, the process is overwhelmingly group driven. The teams should be empowered to a level where they can develop ideas with sufficient autonomy.

[6.2 Quality circles](#)

Quality circles are an excellent example of a work team dedicated to learning and knowledge creation. Organisations with successful quality circles are on the path to successful knowledge management.

6.3 Just-in-Time

Just-in-Time (JIT) inventory management and production involves excellent knowledge management.

7.0 DIVERSITY AND THE KNOWLEDGE FIRM

The knowledge firm seeks to optimise the outcomes of internal employee interaction, particularly within workgroups. This includes diverse workgroups.

7.1 Diversity and innovation

Learning is conflictual and experiential. Dialogue between individuals or groups of individuals who have different viewpoints leads to a new understanding. A group of employees with a diverse set of experiences and mental models will positively contribute to the learning process and innovativeness. Good knowledge and diversity management will create a workplace where views are respected and considered.

7.2 Lessons from group process models

Diversity has positive and negative effects on group process and performance. The organisation must harness the benefits from informational diversity and reduce the negative impact of social categorisation on group functioning. The development of common organisational-level goals will reduce the intra-group tension caused by perceived heterogeneity. HRM strategies should re-categorise individual involvement to enhance the group's focus on common tasks and reduce the tendency to form socially irrelevant in-groups.

7.3 Lessons from HR models

The long-term benefits of effective diversity management will flow directly into improved organisational learning and knowledge creation. Decision-making, problem solving, creativity and innovation will all benefit from the perspectives that a diverse workforce can contribute. These will then translate to bottom line benefits for the organisation. HRM strategies are critical to overcoming group process problems and harnessing the bottom line benefits of diversity. Reduced employee turnover represents knowledge protection and will improve the ongoing learning and innovation process.

7.4 The Business Case

Implementing knowledge management strategies that improve the environment for and quality of learning will improve the firm's bottom line, in terms of cost efficiency and increased revenue. Managing for diversity improves individual and organisational outcomes, which flows through to the bottom line. Diverse learning environments will produce better and more lucrative outcomes.

7.5 Strategies

Communication channels must be established so that information and ideas flow freely into and around the organisation. Learning activity must be coordinated according to clearly established and articulated organisational goals. Knowledge management infrastructure must be instituted in conjunction with information systems specialists to ensure adequate and easy access to relevant data and knowledge. Resource allocation procedures, organisational structures and team management must be adapted.

EXECUTIVE SUMMARY: THE INTERNATIONAL BUSINESS CASE

1.0 INTRODUCTION

The relationship between managing workforce diversity and the development of international business capabilities is not well understood. As Australian business ventures overseas, it is faced with the challenges of doing business with people from different backgrounds. These diverse backgrounds include an array of ideologies and institutions, such as different languages, customs, belief systems, social hierarchies and business practices. These factors contribute to the complexity and uncertainty surrounding the international business environment. Organisations operating internationally must develop capabilities to navigate culturally complex environments. The skills that reside within an organisation's culturally diverse workforce are instrumental in developing such capabilities.

2.0 MEASURING CULTURE: INTERNATIONAL BUSINESS IN CULTURALLY-COMPLEX ENVIRONMENTS

The literature on international business operations in culturally complex environments centres on the management of cultural difference across national boundaries. One of the greatest difficulties in assessing the impact of culture on international business is the inability to create accurate and reliable measures of culture and cultural difference. The measures of national culture that have been most widely applied in international business literature have been Hofstede's (1980, 1991, 1993) five dimensions of culture. Hofstede-type measures of culture are both too limited and potentially misleading to provide practical guides for business seeking to internationalise.

2.1 Applications of Hofstede's dimensions of culture

Hofstede's five dimensions of culture have been widely applied in empirical investigations, including the relationships between culture and joint venture dissolution; levels of societal trust and the way that trust is established; financial performance; the determination of performance maximising compensation; and the appropriateness of establishing internationally standardised business procedures.

2.2 Limitations of Hofstede's dimensions of culture

Despite the popularity of Hofstede's dimensions of culture, they offer an over-simplified view of national cultures, which may not be particularly useful for firms that are internationalising. Broad definitions of culture allow neither detailed nor accurate definitions of one or more specific cultures, especially where culture is defined at the level of the nation.

3.0 MENTAL MODELS: A NEW THEORETICAL FRAMEWORK FOR CONCEPTUALISING INTERNATIONAL BUSINESS IN CULTURALLY-COMPLEX ENVIRONMENTS

Mental models provide a new tool for business seeking to operate in culturally complex environments. We show that mental models play a crucial role in shaping individual, organisational and inter-organisational behaviour. Harnessing mental models, which are socially learned, educationally reinforced and experientially altered, allow business to interpret the world around them in new ways. Mental models also provide insight into the operation of culturally diverse teams. Shared mental models enhance the ability of diverse group members to coordinate their activities, while divergent mental models increase the scope for conflict.

3.1 Mental models and communications

Shared mental models facilitate communication between individuals, enhancing the performance of the organisation. In contrast, divergent mental models between parties impose costs on business by creating communication gaps.

3.2 Mental models and culture

No two individuals have exactly the same experiences and consequently, each individual has unique perceptions of the world. However, there are many shared mental models amongst people of the same ethnic, religious, linguistic and national groups.

3.3 Convergent mental models and the cost of operating in "foreign" markets

Shared mental models can facilitate exchange in international business by reducing uncertainty and lowering the costs of doing business. Using the firm's diverse resources to interact with parties in other countries can be a source of competitive advantage.

3.4 Traders, ranchers and hunters: how informal institutions work

There is evidence that informal institutions, such as norms, beliefs and business practices, promote and regulate international exchange. Where formal regulatory institutions (such as legal systems, central banks and stock exchanges) are absent or inefficient, informal mechanisms play an important role in governing business behaviour. Where firms share mental models of both the formal and informal institutional environment with their international trading partners, they are well placed to manage cultural complexity.

3.5 Transitional economies, formal institutions, informal rules and dealing with corruption

Australian firms are increasingly seeking business opportunities in transitional economies that lack strong formal economic institutions. Consequently, Australian business needs to understand the importance of informal institutions, including how to access local knowledge and 'decipher' complex host environments. Diversity capabilities play an important role in building such knowledge. For example, diversity capabilities enable firms to understand the complex social and political regimes surrounding "corruption" overseas and to devise strategies to protect themselves from corrupt behaviour.

3.6 Diversity implications for building personal relations: insights into "Asian values" and rent seeking

Individuals from particular cultural, linguistic and ethnic backgrounds may possess special capabilities in establishing personal overseas networks. Such networks are ubiquitous in Chinese business and prove particularly useful in rent-seeking economies. Mental models are a key to understanding "Asian values" and Asian business networks.

4.0 DIVERSITY AND FIRM INTERNATIONALISATION: HARNESSING DIVERSITY FOR GLOBALISATION

Organisations that employ and manage employees from diverse national backgrounds have a greater propensity to internationalise than organisations with relatively homogeneous workforces. Since homogeneous groups of people are more likely to be insular and domestically focused than nationally/culturally/ethnically diverse teams, organisational homogeneity is a barrier to globalisation.

4.1 Diversity and entry mode decisions

Firms that use their diversity to manage internationalisation increase their choices of entry modes into foreign markets, allowing firms to select across exporting, licensing, franchising, alliances, joint ventures and wholly-owned subsidiaries. This reduces the necessity of the firm having to follow fixed stages of international expansion, from exporting, to sales branches, then to production facilities. Diverse organisations also possess cross-cultural capabilities to assess partner selection, location choice and whether to join local industry associations. Such capabilities enable diverse organisation to make better market entry decisions than homogeneous organisations.

5.0 EXPATRIATE MANAGERS IN CULTURALLY-COMPLEX ENVIRONMENTS: SUCCESS AND FAILURE

Expatriate staff operate international joint ventures, alliances (including franchises and licensing) and wholly-owned subsidiaries. The ability of expatriates to navigate culturally complex environments has a significant effect on the success or failure of offshore business operations. Expatriate failure is a serious problem, which stems from the inability of expatriate managers, and their accompanying families, to understand and adapt to foreign cultures. With yearly costs of maintaining an expatriate manager ranging between \$300000 and \$500000, such failures impose considerable costs on organisations.

5.1 Workforce diversity implications for the management of expatriate assignments

Effective workforce diversity management reduces the costs of appointing inappropriate expatriate managers, ensuring that expatriates are carefully selected for their cross-cultural capabilities. Such expatriates usually adjust quickly and perform effectively in their assignments.

5.2 Cross-cultural training: a second best solution

Where organisations lack expatriates who share a national cultural background with host country nationals, cross-cultural training is a second best solution to problems of expatriate failure. While the cost of cross-cultural training can range between \$1500 and \$10000 for a one week course, the provision of such training reduces the chance of expatriate failure. Cross-cultural training is no substitute for using employees from diverse backgrounds.

6.0 DIVERSITY IMPLICATIONS FOR SMALL AND MEDIUM SIZED INTERNATIONAL BUSINESSES

Diversity management is not only an issue for large MNEs, but also for small and medium sized enterprises (SMEs). Many SMEs are unable to afford expensive cross-cultural training programs or consultants to aid their internationalisation processes, which makes the efficient use of culturally diverse employees particularly important.

7.0 CONCLUSION

Diversity management provides organisations with capabilities for managing in culturally-complex environments.