



THE BUSINESS MODEL FOR DIVERSITY MANAGEMENT: THE BIG PICTURE

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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**THE BUSINESS MODEL FOR DIVERSITY
MANAGEMENT: THE BIG PICTURE**

Foreword

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The Programme for the Practice of Diversity Management is in the process of developing several diversity-related business models. This business model provides an overview of diversity management and its importance for senior managers.

Material produced by the Programme:

Theory of Diversity and Group Performance

Business Case for Diversity Management:
HR Case
Knowledge Firm Case
Marketing Case
International Business Case

Business Models for Diversity Management:
Diversity Management: the Big Picture
Keys to Effective HR Management
Keys to Expatriate Success
Capturing the Diversity Dividend

Toolkits for Diversity Management:
Attract, retain and motivate
Keys to Expatriate Success

Checklist for Diversity Management:
Assessing diversity capabilities

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

Diversity Management: The Big Picture

Australia's population, workforce, trade and investment profile has changed significantly over the last 50 years presenting myriad opportunities and challenges to Australian business. The challenge to Australian business is to operate effectively and efficiently in a global environment.

Diversity management is an important tool in exploiting opportunities and meeting challenges. This business model provides an overview of diversity management and its importance for senior managers. The model draws together the major strands from the material produced by the Programme for Practice of Diversity Management.

Managed effectively, diversity produces a dividend and improves the bottom line. The dividend is created where diversity management adds bottom line value via improved commitment, performance, decision-making, problem solving, creativity and innovation. The dividend is enhanced where the costs of poor or non-existent diversity management such as absenteeism, turnover, and litigation are attenuated.

Introduction: Harvesting the Diversity Dividend

In the 21st century, diversity defines the fabric of the Australian nation and its workforce. As Australian firms increasingly recognise the critical importance of their human resources to business success, managing diversity productively becomes a crucial management task.

Strong proactive diversity management represents an opportunity for business to harvest a diversity dividend from their human resources and also to play an important role in our multicultural society.

Whilst the ability to manage diversity is becoming increasingly important for

Australian firms, a survey of 227 CEOs found that workplace diversity was a largely untapped and poorly managed resource.

'Productive diversity' recognises that every individual has an important contribution to make to firm growth. Learning to capture the diversity dividend benefits both workers and firms by improving organisational performance and enhancing individual work experiences and performance.

The key to the success of diversity management is the commitment and attention of organisational leaders. Leaders need to become diversity champions ensuring that diversity management policies and practices permeate every level of the organisation. Respect and acceptance of diversity and of *all* individuals must be nurtured as a core organisational value.

Getting Diversity on the Agenda: Top Management Commitment

The crucial first step for most Australian firms is to commence a dialogue on what diversity is, what it means for the firm, and how the firm can benefit from the effective management of workplace diversity. Getting diversity on the agenda requires the commitment of senior management and CEOs.

The ACIB survey undertaken in 2000 showed that Australian CEOs have not recognised the importance of Diversity Management and most firms do not have diversity policies or practices (see Figure 1). This document aims to raise awareness amongst senior managers and CEOs explaining that the diversity dividend is not captured and that diversity management strategies are required.

To attract and retain the best people and to perform in an international arena, Australian firms need to be committed to diversity management. Managing diversity is positive

not only for firms; it creates an environment in which individuals strive to be their best.

A positive outcome for firms in this area also benefits society. A company more reflective of the diverse community within which it operates displays a commitment to multicultural society and demonstrates the positive citizenship of the firm.

Figure 1 - The Mind of the Australian CEO – Attitudes to diversity

- Only 16% of CEOs saw diversity management as of high importance to the bottom line
- 22% ranked diversity management as of high importance for their firms' *social responsibility*; 15% ranked it of no-low importance
- Only 33% ranked diversity management as important in creating a culture valuing diversity; 14% ranked it of no-low importance
- Only 28% ranked diversity management as of high importance to overall cost efficiency
- Few Australian firms have developed capabilities and competencies in diversity management

Senior managers and CEOs need to commit to examining diversity in their firms. Without important first steps such as this, they may not even be aware of diversity-related issues in their own organisation.

Proactive diversity leadership demonstrates the organisation is committed to examining diversity and makes a far more powerful statement to stakeholders than reactive, crisis-led management.

A Diversity Snapshot: The Australian Population

In 2001, the Australian population numbers more than 19.3 million. As a percentage, Australia has the second largest immigrant population in the OECD, and one of the largest in the world. The rich diversity of Australia's people is demonstrated in Figure 2.

Australia's population is clearly ethnically and culturally diverse. This diversity is further enhanced by the changing origin of migrants. The share of the population that is ethnically Anglo-Celtic has fallen by 20% over the last 50 years, while the share of the population of Asian origin has grown from 0.3% to 6.4%.

The picture of Australian households and families is becoming increasingly diverse, as is the age profile of the nation. Lower birth rates, the ageing population, the rising levels of marital separation and changing societal norms have led to these changes. The proportion of people 65-plus has tripled over the last one hundred years and the proportion aged 14 or less has fallen from 35% to 29%. The median age of the Australian population over this time has shifted from 22.5 years to 34.9 years.

Figure 2 - A Snapshot of the Australian Population

- 25% of the population born overseas
- 27% of Australian-born have at least one parent born overseas
- The Aboriginal and Torres Strait Islander population is approaching 400,000 and grows at a rate higher than the non-indigenous population
- Over 200 languages are spoken in Australia
- 2.5 million people speak a language other than English at home
- The largest growth in religious affiliation have been in Hinduism, Buddhism, Islam and Judaism
- 15% of working age people and 19% of the population live with some form of disability
- 33% of people living with a severe or profound form of disability participate in the labour market
- Female labour market participation rates are increasing at the same time as male rates decline
- Partnering and family patterns have changed enormously over the past 30 years with increasing numbers of same sex partnerships and lone parent households
- 54% of wage and salary earners hold a post-school qualification The proportion of the population aged 65-plus has tripled in the last 100 years
- 2.3 million people act as carers providing assistance to people who need help because of disabilities and ageing; 38% of carers are aged 35-54; 19% are identified as primary carers
- There are now more women than men in the Australian population



Australia's population and workforce have changed significantly over the last fifty years. This changing profile presents both challenges and opportunities for firms. The different experiences, skills, ideas, beliefs, and knowledge that this diversity brings can, if harnessed effectively, provide firms with a competitive edge.

The changing nature of the population has not only transformed the labour market, but has created increasingly diverse product markets and a far more diverse business environment. These changes too offer up opportunities and challenges to firms. The key for senior managers and CEOs is to develop and put in place strategies to allow benefits to accrue.

Globalisation and the Australian Economy

Australia's growth is highly dependent on international trade and investment. The economic strength of, Asia, Europe and the United States have significant influence on our economy. Australia increasingly engages in international trade and foreign investment with a heavy bias towards Asia.

Australia's trade patterns have shifted from Europe to the United States to Asia and our major trading partners are now Asian; Japan, China and Taiwan are especially important.

Australian investment abroad has significantly increased and diversified over the last fifty years. The pattern of export trade has also changed. The importance of the Asia Pacific region for Australia's economy has far outstripped the importance of European ties.

In 2000, Australia's main trading partners were USA, Japan, China, United Kingdom, Republic of Korea, Singapore, New Zealand and Taiwan. These eight main trading

partners received 62% of Australian exports and provided 60% of Australian imports.

While once Australia's exports headed largely for European countries, by the late 1990s three-quarters of exports went to APEC members. The share of exports going to our traditional trading partners had fallen from 60% in the 1930s, to just 7% and Japan is Australia's largest export buyer followed by Korea. Importantly, the export of services has been rising faster than goods exports.

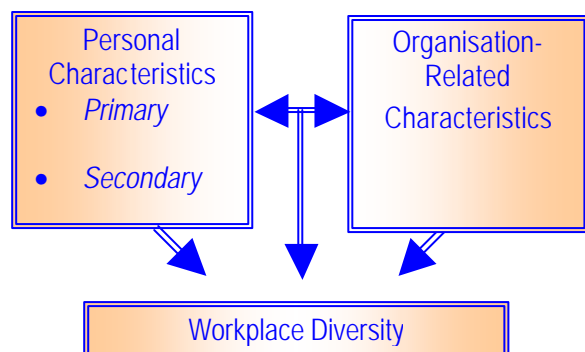
In 1999-2000, 53% of Australian merchandise exports went to East Asian countries and 73% to APEC members, and over half of Australian foreign direct investment was aimed at APEC members.

Despite changing patterns, at the start of the 21st century, Australia's trading patterns are truly global.

The Dimensions of Diversity

'Diversity' refers to all the ways in which people differ. In a workplace context, individuals differ from others both in terms of *personal characteristics* such as ethnicity, gender or sexual orientation and *organisation-related characteristics* such as tenure or hierarchical position. Personal characteristics can be further broken down into primary and secondary characteristics providing three main components of workplace diversity. The complex interaction of these factors is represented in Figure 3.

Figure 3: Components of Workplace Diversity



What is Diversity Management?

Diversity management is a tool for capturing the diversity dividend. Diversity Management focuses on managing the difference within a firm's workforce, capitalising on the benefits of diversity and minimising workplace challenges.

Diversity management contributes significantly to the bottom line. The five main ways diversity management produces the diversity dividend are:

- Improving in the efficiency of HRM functions
- Fostering superior decision-making, problem-solving, creativity, and innovation; key factors in the creation of knowledge firms
- Developing cross-cultural capabilities that facilitate operations in culturally complex environments at home and abroad
- Implementing new product/service developments and new sales/marketing strategies for diverse customer bases

There are two distinct but connected channels in diversity management, which will lead to superior firm performance. The *first channel* focuses on how to tap into the benefits that flow from effectively managing diversity. The *second channel* focuses on corrective strategies to address ineffective diversity management, which imposes costs.

Effective diversity management leads to improved individual and organisational performance. This is due to the powerful effects of diversity on problem-solving, decision-making, innovation and creativity. However, having a diverse workforce does not, in itself, translate into bottom line benefits for firms. Diversity must be managed in order for firms to reap a diversity dividend. Firms must commit to

effectively managing diversity to ensure that the unique skills, perspectives and knowledge of their workforces are channelled into producing a diversity dividend.

What does diversity management mean for Australian business?

Firms can develop capabilities in diversity management that flow through all parts of the firm's strategies for creating shareholder wealth. Diversity management can become a core capability – not easily imitated or transferred and thus unique to the firm. When a firm manages diversity better than competitors, diversity management can be a competitive advantage. There are four critical areas where diversity management is important for your business.

Human Resource Management

Firms that develop capabilities in managing diversity have the potential to develop competitive advantages in people management. The rewards are reflected in the bottom line.

Figure 4 shows that many Australian CEOs have yet to recognise the important links between diversity management and HRM.

Figure 4 - The Mind of the Australian CEO - HRM Issues

- Only 32% of CEOs ranked diversity management as important to workforce productivity
- Only 14% ranked diversity management as of high importance in reducing absenteeism
- Only 20% ranked diversity management of high importance to problem-solving within teams
- Only 23% ranked diversity management of high importance to innovation within teams
- Only 14% ranked diversity management as of high importance in recruitment
- Most firms do not keep diversity records (e.g. 73% had no record of ethnic background; 60% no data on language skills; 35% no data on age)
- Diversity policies and training were ranked as of lower importance than EEO and OH&S

Diverse teams and workgroups outperform homogenous groups on problem solving and completing complex tasks. Greater diversity in approaches to problem solving and decision-making leads to a better quality decisions and solutions. Over whole development cycles, diversity fosters speed and innovation.

But heterogeneous teams must be managed effectively. Differences in understandings, values and ways of viewing the world create intra-team conflict in the problem solving and decision making process leading to higher quality ideas. Diversity management reduces interpersonal conflict and channels ideas constructively so that diversity dividends can be produced.

Poor diversity management leads to conflict, communication problems and a lack of social integration. This results in low levels of job satisfaction and organisational commitment, which is reflected in higher levels of absenteeism and turnover. Low levels of job satisfaction lead to low productivity.

Diversity management improves the effectiveness and efficiency of HRM functions. When firms do not invest time and resources to managing diversity, a number of HRM-related costs are incurred.

Failure to invest in diversity management may result in costly discrimination and harassment cases. In addition to the issues this raises for individuals, this has a measurable impact on a firm's bottom line. Investing in diversity management helps firms to reduce absenteeism, turnover, and legal costs, representing a positive bottom line benefit (see Figure 5).

A key HRM benefit from effective diversity management is improved recruitment. Firms that are known for their diversity management capabilities attract the best applicants and retain them. Investing in diversity management and doing it well

helps firms to "win the competition for talent". Firms that have high turnover and earn a reputation for poor diversity management, reduce the talent pool from which they can draw. Only 14% of CEOs in the ACIB survey ranked diversity management as of high importance in recruitment. Firms that build diversity management capabilities will become employers of choice.

For many Australian firms, developing diversity management capabilities will require major changes to existing organisational cultures and require strong leadership from CEOs.

Australian firms need to collect and analyse data on their workforce and elevate diversity management's importance in comparison to OH&S and EEO. Diversity management goes beyond mere compliance to the strategic level.

Diversity and the Learning Firm

In the 21st century, knowledge is becoming a key source of competitive advantage. To be able to provide new and innovative products and services to increasingly diverse markets is an important test for success.

Australian firms are in a learning race and need to consider strategies and structural change that ensure learning and knowledge capabilities are enhanced.

To create a knowledge firm, a CEO must find efficient mechanisms for ensuring knowledge is shared among workers, and make innovation an explicit focus of the firm's strategy.

To grow and succeed as a learning firm, top management needs to provide an environment that generates and nurtures new ideas, creativity and innovation. A diverse workforce is a key ingredient in the development of innovative products and services.

Figure 5: The Bottom Line savings from Diversity Management in the area of harassment and discrimination

Costs of harassment and discrimination	
Average cost of resolving serious harassment or discrimination grievance:	\$35 000
Contributing Costs	
Ten days stress leave for employee on \$30 000 p.a.	\$1650
Worker's compensation claim	\$2000
Productivity loss (70% of harassed staff take time off work)	
Replacement costs (average cost for EEO/discrimination employee)	85-100% of salary
Tribunal, court, commission costs (average)	\$3 000 – \$10 000 per day
Costs of reduced productivity, sabotage etc	tens of thousands
Costs of external consultants/marketers to reach 'diverse' communities	tens of thousands
Investment in training	
Cost of one day's EEO/harassment prevention handling training for 25 middle managers (average)	\$1500 (trainer) salary/lost production
1.5 hours of EEO/harassment prevention handling training for 25 non-supervisory staff (average)	\$400 (trainer) salary/lost production

Source: Anti-Discrimination Board, NSW 1999 reprinted in Junor and Coventry, 2001, p. 90.

An organisation's human resources are critical to the ability of firms to become dynamic knowledge organisations because the interaction of organisational members leads to innovation, creativity, learning and knowledge creation. Consequently, HRM and knowledge strategies need to be aligned to produce a diversity dividend.

the exchange of information and creating new knowledge. This makes innovation a more difficult task.

Marketing and Business Relations

The diversity of the Australian population means that markets for products and services are segmented on a number of characteristics such as: age, gender, ethnicity, and sexual orientation.

Firms that use their diversity capabilities to understand and respond to these markets can outperform other firms. Because of its diversity, the Australian population also provides a ready made 'testing ground' for new products prior to entering the international market.

Integrating diversity management and strategic marketing ensures successful alignment with market segments. The means by which firms manage their diversity capabilities to generate, disseminate and respond to markets will determine their ability to compete and their success in the market place.

Figure 6 - The Mind of Australian CEOs - Knowledge

- Diversity management is not being used to create knowledge firms
- Only medium importance is placed on diversity management and team innovation, problem-solving and intra-firm communication
- Low importance is given to diversity management and quality circles or just-in-time practices
- Only 18% of CEOs ranked diversity management as of high importance in sharing knowledge between domestic business units; 25% ranked it of no-low importance
- Only 20% ranked diversity management as of high importance in sharing knowledge across business units internationally

Figure 6 shows that few Australian CEOs recognise the value of diversity management in facilitating and improving

Just as diversity management is essential for customer relations, it is important for

business-to-business relations. Of the more than 1.4 million small business operators in Australia, 33 percent are women. Over 400,000, or 30 percent, are operated by people who were born overseas. Having diversity capabilities can make business-to-business interaction more effective, given that the business environment is diverse.

This holds true for international operations also, where Australia's trade and investment profile has changed significantly. There has been a shift away from traditional European trade and to investment in more important regional relationships.

The increasing diversity of the Australian population and the changing patterns of trade and investment mean that building diversity capabilities have become a critical success factor.

Figure 7 shows that Australian CEOs have yet to grasp the importance of diversity management for marketing and business relations. Few CEOs view diversity management as important in marketing and business relations, despite evidence that a diversity dividend can be produced in these areas.

Figure 7 - The Mind of the Australian CEO - Marketing and Business Relations

- 36% of CEOs ranked diversity management as of high importance to serving new buyers
- Only 22% ranked diversity management as of high importance to developing new products domestically
- Only 8% ranked diversity management as important for organising suppliers domestically
- 21% viewed diversity management as of high importance for forming alliances and mergers domestically
- 31% ranked diversity management as of no-low importance for domestic alliance formation

The business case for the integration of diversity management with marketing strategy is similar to that in the HRM case. Managing diversity channels constructive

conflict, which arises from that diversity in productive ways. Capitalising on the value of diversity allows firms to enhance problem-solving decision-making, innovation and creativity, which facilitates the design and implementation of a marketing mix aimed squarely at satisfying the needs of customers and channel members who are not homogenous.

International Business

The link between managing diversity and building international business capabilities is strong. Operating in the international arena means that businesses will face different ideologies, languages, institutions, customs, beliefs, social systems and business practices. Australian business must interact with people from a variety of cultural, economic, political and social backgrounds. These factors all contribute to the complexity of operating in an international business environment.

As operating internationally becomes more important for Australian firms, diversity management becomes critical. Organisations need to develop diversity capabilities that allow them to navigate culturally complex environments. Diversity management allows firms to undertake international operations more effectively through exporting, franchising, joint ventures, alliances, or direct ownership arrangements.

Firms with members from diverse backgrounds have a higher propensity to internationalise, and if they develop diversity management capabilities, will have a higher success rate. Capitalising on the skills, experience and mental models within the firm makes overseas environments less uncertain, allowing firms broader internationalisation choices, and improving the internationalisation experience.

Harnessing the power of a diverse workforce allows firms to develop new products and services in an international

market and can improve interactions with suppliers, governments, and partners.

importance of diversity management for operating internationally.

Figure 8 - The Mind of Australian CEOs - International Issues

- 37% CEOs ranked managing diversity of high importance for operating in culturally complex environments abroad
- 23% ranked diversity management as of high importance to developing new products in overseas markets
- 15% ranked diversity management as of high importance to organising new suppliers
- 26% viewed diversity management as of high importance to dealing with host country governments
- 27% ranked diversity management as of high importance to mergers, joint ventures and alliances; almost 20% ranked it no-low importance

Figure 9 - The Mind of the Australian CEO - International Issues

- 25% ranked diversity management of high importance to supervising overseas subsidiaries
- 20% ranked diversity management as of high importance for supervising overseas employees
- CEOs view language skills as more important than cultural skills in negotiating new ventures
- External consultants were as highly valued as culturally skilled internal managers
- Firms do not use their human resources as effectively as they could in expatriate assignments

A crucial issue for firms operating internationally is the management of expatriates. The ability of expatriates to navigate culturally complex environments plays an important role in the success of international business. It is estimated that between five and ten per cent of Australian expatriate assignments fail. US research reveals that the estimated direct costs of a failed overseas assignment ranges from US\$200 000 to US\$1.2 million. Further costs may be incurred if the failed expatriate has actually caused damage to an overseas business operation. Effective diversity management improves expatriate success rates, reduces the cost of expatriation, and allows firms to build cross-cultural capabilities.

Diversity management is important for Australian business. Four critical areas have been highlighted where business can reap the benefits of effective management of organisational diversity. The key for CEOs and senior managers is to gain an understanding of the benefits of diversity management for their firm and commit to putting diversity management on the agenda.

Strategic Implications: Integrating Diversity Management into Firm Strategy

The central aim of any strategy is to deliver customer and shareholder value and to grow the firm. Diversity management is a tool for leveraging human resources to improve individual and organisational performance.

Diversity management allows firms to identify employees with appropriate cultural skills for international assignments, reducing the severity of 'culture shock' and associated costs.

Most firms can develop diversity management capabilities and reap the rewards from having a diverse workforce. For *some* firms these can become core capabilities, which will provide them with a competitive advantage in the market place.

The cross-cultural capabilities that develop from managing diversity and leveraging human resources produce prompt bottom line benefits for firms operating internationally. Figure 9 shows that many Australian firms do not recognise the

To achieve these aims, top management must develop diversity strategies and ensure these are integrated with all organisational strategies. Leaders must

develop a diversity vision and a set of goals. Resources must be allocated to diversity management and systems need to be developed that encourage and reward new behaviours aimed at building new organisational cultures.

Getting Started with Diversity Management

Top management action on diversity management is crucial and there are a number of important first steps that senior managers can make:

- Build awareness of the business case for diversity management
- Cultivate support and commitment to the aims of diversity management
- Develop a diversity vision, build strategy and set goals
- Allocate resources
- Set in motion diversity and culture audits

These steps are important ones for senior managers and also signal to organisational members that managing diversity is valued at the highest level. Other materials developed by the ACIB provide detail on the practical implementation of diversity management.

Diversity Management: Good for Business, Good For Australia

A positive outcome for firms in this area also benefits society. Firms and employees will experience positive outcomes in terms of greater job satisfaction and higher productivity. These benefits represent a gain for employees, shareholders and society in general.

Furthermore, there are strong public good benefits from the adoption of effective diversity management practices in terms of

the reduction in systemic barriers to advancement for all members of society.

A company more reflective of the diverse community within which it operates displays a commitment to multicultural society and demonstrates the positive citizenship of the firm. This in turn has positive reputation effects for organisations.

What Happens Next?

The Programme for the Practice of Diversity Management is producing materials for Australian businesses that provide strategic and operational information.

The Business Case

The Programme has developed a comprehensive and compelling business case for diversity management. The business case encapsulates four main areas:

- The human resource management case
- The knowledge firm case
- The international business case
- The marketing case

Business Models

Business models provide a condensed overview of the business case and focus on specific areas of business activities. The models set out the key strategies and steps involved in effective diversity management. A number of models have been developed that will provide practical advice for managers:

- Diversity management: The big picture (overview model)
- Capturing the diversity dividend: The mind of the CEO
- Human resource management: Adding value

- Keys to effective human resource management
 - Team work and group behaviour
 - Going global
 - Expatriate management
 - Innovation and learning
 - Engaging senior management
 - Diversity: From compliance to strategy
- AMP
 - Coca-Cola Amatil
 - Ford
 - Holden
 - National Australia Bank
 - SBS
 - Siemens
 - Westpac
- Bovis Lendlease
 - Drake International
 - Hewlett Packard
 - IBM
 - Rio Tinto
 - Shell
 - Telstra

Checklists and Toolkits

Checklists and toolkits provide practical step-by-step implementation strategies and advice for managers. The toolkits accompany the business models and set out in detail information on action areas and key steps. A number of toolkits have been developed:

- Attract, retain, motivate
- Auditing
- Social integration and cohesion
- Innovation and learning
- Going global
- Keys to expatriate success
- Strategic goal setting
- Engaging senior management
- Training, education and awareness
- Structuring teams
- Metrics

Partnerships with Leading Australian Firms

The Programme has developed partnerships with some of Australia's leading firms: firms committed to best practice in diversity management. Our partners are:

Diversity-Network

The Diversity-Network connects Australian firms to the latest research and ideas in diversity management. The Diversity-Network brings together Australian business, government and universities to provide practical support, best practice and the latest developments in the diversity management field.

Join the Diversity-Network at
<http://www.ecom.unimelb.edu.au/acib/diverse>
 or email
Diversity-Network@unimelb.edu.au

Programme for the Practice of Diversity Management

The *Programme for the Practice of Diversity Management* is a collaborative arrangement between the Australian Centre for International Business at the University of Melbourne (ACIB), and the Department of Immigration and Multicultural Affairs (DIMA). The aim of the collaboration is to produce a business case for diversity management and to provide informative and practical advice to Australian business to assist them in managing diversity effectively. The Programme has developed materials for business, established an electronic Diversity Network and has formed Partnerships with some of Australia's leading firms.