



GOING GLOBAL: 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

NOT TO BE QUOTED WITHOUT PERMISSION

GOING GLOBAL: A BUSINESS MODEL FOR DIVERSITY MANAGEMENT

2001

Karen Lau
*Research Officer, Australian Centre for
International Business*

Professor Stephen Nicholas
*Co-Director, Australian Centre for
International Business*

Janine O'Flynn
*Research Fellow, Australian Centre for
International Business*

André Sammartino
*Research Fellow, Australian Centre for
International Business*

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 diversity capabilities in global expansion. A matching Toolkit addresses the implementation of diversity initiatives to enhance internationalisation.

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 <http://www.ecom.unimelb.edu.au/acib/diverse>

Executive Summary

The Business Case: Bottom-Line Benefits of Diversity Management

Diversity management aids global expansion through enhanced communication, strong interpersonal networks, superior information about overseas environments, sound partner selection and greater flexibility of entry options.

The challenges of cultural complexity

One of the greatest challenges in international business is cross-cultural complexity. Diversity management facilitates the development of cross-cultural capabilities to manage such complexity

Workforce diversity is a missed opportunity in Australian business

Survey results reveal that firms are not making the most of their diversity capabilities.

What is Diversity?

Diversity is all the ways in which individuals differ, both on a personal basis and in terms of organisation-related characteristics.

Understanding Culturally-Complex Environments

Mental Models: a new framework for understanding culture

Mental models reveal how people interpret their environments and understand events.

Convergent mental models: how firms understand

Expatriates who share mental models with host nationals have special cross-cultural capabilities.

Divergent mental models: conflict in homogeneous firms

Divergent mental models with host nationals impose costs on firms by hindering communication.

Why culture is important: rules of the game

Firms need to understand the 'rules of the game' to be able to operate effectively in international environments.

The Evidence: How Diversity Capabilities Impact on the Bottom Line

Internationalisation

Diverse firms are more likely than homogeneous firms to be internationally oriented and identify global opportunities.

Entry options

Diversity management allows firms to select the *best* entry options. The superior international knowledge of well managed diverse firms gives them a wider array of entry options.

Building personal relations

Diversity management facilitates firms in building interpersonal relations and developing international networks.

Expatriate effectiveness

Diversity management encourages the selection of expatriate managers with strong cross-cultural capabilities.

Customer relations

Diversity management enables firms to better know and address the needs of their customers.

Diversity strategies: keys to success

The three key steps to global expansion success are:

1. Establish diverse top management teams
2. Conduct a diversity audit
3. Establish a firm culture that values diversity

The Business Case Restated

Diversity management facilitates the establishment of cross-cultural capabilities, which play a crucial role in global expansion success.

The Business Case: Bottom-Line Benefits of Diversity Management

As Australian business internationalises, it is faced with the challenges of doing business with people from different backgrounds. Australian managers confront new customs, languages, belief systems, social hierarchies, regulatory systems, and business practices. These factors contribute to the complexity and uncertainty surrounding the international business environment. Firms expanding globally must develop capabilities to navigate culturally complex environments. The skills that reside within a firm's culturally diverse workforce are instrumental in developing such capabilities.

When expanding globally, Australian firms are faced with a set of strategic decisions that must be carefully considered to ensure international business success. In particular, firms must decide: where to expand; how to expand; with whom to expand; and with which products to expand. Diversity capabilities help firms to solve these problems and implement optimal solutions. Good diversity management nurtures individuals who understand the complexities of international business and different social and political cultures as well as the firm's products, markets, and strategic direction.

Diversity management aids global expansion through:

- Enhanced international communication
- Strong interpersonal networks
- Superior information about host environments
- Sound partner selection
- Greater flexibility of entry mode

The challenges of cultural complexity

One of the greatest challenges to expanding globally is the cultural complexity of the international environment. As firms expand globally, they are confronted with new systems of values, beliefs and 'ways of doing things' that are not only dramatically different to those of the home country but challenge the behaviours of Australian managers. The need for different behaviours to operate internationally, means that firms must develop cross-cultural capabilities to navigate diverse environments and achieve international business success.

The cross-cultural capabilities that reside within diverse workforces produce superior performance, which has a direct impact on the firm's bottom line

Managing diversity productively is the first step in creating cross-cultural capabilities. The cross-cultural skills that reside within a culturally and ethnically diverse workforce can be applied to international business expansion. Individuals who are proficient in host country languages and familiar with host country cultural and business norms are well positioned to contribute to the firm's international operations. Such individuals will be more effective than those who have little life and work experience in culturally complex environments. The cross-cultural capabilities that reside within diverse workforces produce superior performance, which has a direct impact on the firm's bottom line.

Workforce diversity is a missed opportunity in Australian business

A 2000 survey conducted by the Australian Centre for International Business showed that 68 percent of Australian CEOs ranked managing diversity for understanding the complexity of overseas cultural

environments as of moderate-high importance. Seventy-one percent (71%) of CEOs ranked managing diversity of moderate-high importance for serving new foreign buyers/consumers. Yet, only 20 percent indicated that diversity management was of high importance for managing growth in culturally complex markets, including subsidiary coordination, supervising foreign workers and sharing knowledge across business units. Diversity management was ranked as having equal importance for product development in both domestic and international markets. This suggests that Australian firms are not making the most of their workforce diversity for global expansion.

What is Diversity?

Diversity is all the ways in which individuals differ, both on a personal basis and in terms of organisation-related characteristics. Figure 1 shows that the major components of diversity comprise:

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

Understanding Culturally-Complex Environments

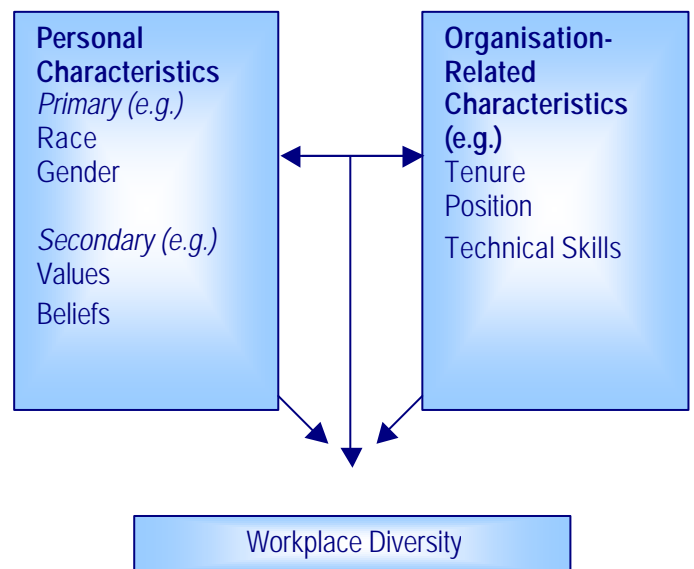
Mental Models: a new framework for understanding culture

Mental models provide a new framework for understanding cultural, economic, political and other forms of complexity. Mental models reveal how people understand their environments, determining

the type of information they receive and the ways in which they process that information. Mental models are deeply embedded in individuals and act as software to process data. Such models are socially learned, educationally reinforced and experientially altered.

Managers who originate from the host country culture have mental models particularly useful to firms operating global alliances, subsidiaries and international joint ventures (IJVs). They understand the formal and informal institutions that motivate actions of host country nationals. Managers with extensive work or life experience in host countries also develop valuable mental models of host environments. Culturally-adept managers apply such mental models to interpret the business environment.

Figure 1. Components of workplace diversity



Convergent mental models: how firms understand

Mental models can converge and operate at the group level. Collective mental models emerge from shared experiences that become stored in a group's 'social memory'. While no two individuals have

the exact same set of mental models, there are many shared mental models amongst people of the same ethnic, religious, linguistic and national groups.

The degree to which individual mental models overlap has been termed 'strategic consensus'. Strategic consensus enhances the ability of interacting parties to coordinate their activities and facilitates collaborative decision-making processes. Individuals are more likely to communicate with each other when they share common features in their mental models.

Australian managers who share a cultural background with overseas alliance partners, managers, workers and government officials reap the dividends of convergent mental models.

Divergent mental models: conflict in homogeneous firms

When mental models between individuals are significantly divergent, there is considerable scope for miscommunication and conflict. Divergent mental models impose costs on business, which must invest in infrastructure to bridge communication gaps. Such gaps are a major cause of IJV failure. Diversity management reduces mental model gaps between home and host nationals, minimising the scope for inter-firm conflict.

Diverse firms are more likely than their homogeneous counterparts to realise that business does not stop at national borders.

Why culture is important: rules of the game

The 'rules of the game' are formal laws and regulations and informal taboos, customs and traditions. These rules vary between countries, and informal rules are often

more important than formal rules. Understanding the 'rules of the game' has important ramifications for international business. Firms need to understand that they may have to operate according to informal 'rules', which may be contrary to formal arrangements. The 'rules of the game' in host countries are different from those in Australia

Informal 'rules' are particularly important in transitional economies, where unfamiliar forms of operating are present and norms and beliefs are different from those found in Australia. Australian firms need managers who can navigate culturally-complex environments in foreign countries and 'play the game' according to the informal 'rules'.

The Evidence: how diversity capabilities impact on the bottom line

Internationalisation

Firms that employ and manage employees from diverse national backgrounds have a greater propensity to internationalise than firms with relatively homogeneous workforces. Research has demonstrated that homogenous groups of people tend to be more insular and domestically focused than nationally/culturally/ethnically diverse groups. Firm homogeneity results in missed opportunities to globalise.

Diverse firms are more likely than their homogeneous counterparts to realise that business does not stop at national borders. Individuals who have maintained business and personal ties overseas are better positioned to identify and exploit new emerging markets overseas

Even when homogenous firms do venture overseas, they often prioritise entry into countries perceived to be culturally similar and holding relatively low degrees of uncertainty. When firms employ, promote

and value the skills of people from diverse backgrounds, overseas environments become less uncertain and more familiar, offering organisations a greater choice of international destinations.

Entry options

Firm diversity increases entry mode options. Internationalising firms enter foreign markets via a variety of entry forms; exporting, licensing and franchising, and equity forms comprising wholly owned subsidiaries, IJVs, mergers and acquisitions. Diversity facilitates firms to select the *best* entry option.

Many firms prefer full equity control, such as wholly-owned subsidiaries, but are less likely to pursue such options in culturally-complex environments, owing to high levels of uncertainty. Without the know-how to operate in culturally distant markets, firms seek out foreign partners and relinquish to them a share of managerial control .

Well managed diverse firms possess special capabilities to cope with difference. They perceive overseas destinations as 'less foreign' than do homogeneous firms. Consequently, they may not believe that IJVs are their only viable choice of equity based entry into overseas markets. With the necessary know-how for working in culturally diverse environments, such firms are better able to choose to enter new markets via modes that offer greater management control, such a wholly-owned subsidiaries.

Diverse firms that leverage their cross-cultural/national capabilities hold a greater body of international institutional knowledge than their homogeneous counterparts. They are well positioned to understand which modes of entry are best suited to the firm's business needs. For example, in some countries, foreign MNEs may face informal sanctions imposed by competitors or government officials

because they lack the informal networks of domestic companies. Foreign multinational enterprises face problems, such as delayed processing of permits, excessive red tape, or even expropriation of their property. Culturally-skilled employees can identify the firm's points of vulnerability and select an entry mode that minimises the risks of informal retribution by domestic competitors and government officials.

Well managed diverse firms possess special capabilities to cope with difference.

Negotiating new ventures

Diverse firms have capabilities for negotiating new international ventures. Clearly, the more a firm knows about a host environment, the better equipped its managers are to make investment decisions. Factors that firms consider when entering a country include, partner selection, employment of local staff, the legal environment, local employer associations, relations between business and government, business licenses and permits, local customer demand, distribution networks, and tax obligations.

Diversity capabilities are particularly important for selecting IJV partners. Research has demonstrated that partner problems are the greatest source of IJV problems and failures. Such problems emerge as a consequence of poor partner selection. Too often, firms rely on poorly informed second-hand information available through diplomatic and expatriate communities in their search for a partner. Diverse firms with managers from host country backgrounds have superior information for partner selection.

Building personal relations

Diverse top management teams enhance the ability of business to build global interpersonal connections. While personal relations play an important role in business all over the world, they are ubiquitous in Chinese business, both within and outside China. The establishment of strong interpersonal relationships and effective communication is critical in creating and maintaining trust between business partners. Trust facilitates ongoing inter-firm trade and cooperation.

International managers of the same cultural background as host country nationals have special capabilities for establishing personal overseas networks. Such managers share many similar personal characteristics and mental models with locals. Studies of human similarity reveal that similar individuals are likely to form favourable impressions of each other, enhancing the potential to establish strong interpersonal relationships. Consistent and reliable interactions within these networks promote trust within the business relationship.

Local language proficiency can be crucial for establishing local networks. Personal relations are difficult to establish when individuals do not share a common language.

Personal connections can be particularly valuable for securing access to scarce resources, such as government licenses, permits, special loans and credit facilities, subsidies, discounted privatisations and contracts. Well connected managers can access informal information about business opportunities that may not be publicly available. Firms that employ such managers have an advantage over firms lacking cross-cultural capabilities.

Expatriate effectiveness

Diversity management practices encourage the selection of expatriate managers with strong cross-cultural capabilities. Such expatriates possess superior skills for managing local workforces and business operations. They are open to 'difference' and can adopt modes of communication that are sensitive both to the needs of local employees and the parent business. Expatriate managers who are fluent in host country languages have the added advantage of an ability to read local trade and business journals that may contain relevant information for business improvements.

Diversity management enables firms to better *know their customers*, both domestically and internationally

Customer relations

There is empirical evidence that shows that customers with different demographic, cultural and linguistic backgrounds have different purchasing and service requirements.

Diversity management enables firms to better *know their customers*, both domestically and internationally. From a mental models perspective, firms that share mental models with their customers, either through shared cultural experiences or repeated exposure to a 'different' culture combined with diversity training, are well positioned to interpret articulated and unarticulated customer needs. Well managed diverse firms develop diversity capabilities that enable them to understand cultural nuances and receive tacit as well as explicit communication. By anticipating customer demands, firms can better address their customers' needs with well targeted products and high quality service, directly impacting on the firm's bottom line.

Diversity strategies: keys to success

There are three key steps for global expansion success:

1. Establish diverse top management teams
2. Conduct a diversity audit
3. Establish a firm culture that values diversity.

These steps, explained below, are the subject of a global expansion toolkit produced by the *Programme for the Practice of Diversity Management*.

Diverse top management teams

Top management team diversity is a key to global expansion success. Well managed diversity amongst top management teams facilitates cross-cultural capabilities, which are imperative for operating in culturally complex environments.

Diverse top management teams have advantages over homogeneous teams. Research has demonstrated that diverse teams are more creative and innovative problem solvers than their homogeneous counterparts. Diverse teams bring a greater array of perspectives to problems, allowing for improved scope for superior outcomes. Such teams have strong capabilities for devising sound global expansion strategies.

Establishing diverse top management teams is an evolutionary process that must occur over time. Top managers are drawn internally through promotion as well as through external recruitment. Top management teams should have a diverse base of technical and managerial expertise as well as diversity of life and work experience.

Skill and managerial experience requirements may limit a rapid

diversification of top management teams. To build top management team diversity, the firm should reevaluate its present criteria for promotion to top management as well as the establishment of a firm culture that is open to diversity.

Top management diversity is a key to global expansion success

Diversity audit

Diversity management requires data on firm diversity and characteristics of employees. A diversity audit provides firms with the opportunity to identify the diversity within its workforce. The process and aims of the audit are similar to skill audits commonly undertaken by large organisations. A survey of all employees is undertaken seeking information on factors such as cultural identification; place of birth and education; and language skills. This provides management with a 'diversity picture', identifying skills of the firm's human resources.

A diversity audit allows for the construction of an organisational diversity profile that identifies the firm's diversity capabilities for managing in culturally-complex environments. Firms can harness this knowledge to identify candidates for gradual mentoring and promotion to senior echelons of management. Individuals identified as possessing cultural diversity skills will also make useful advisors to top management teams devising global expansion strategy.

Firm culture valuing diversity

A firm culture that values diversity will facilitate the internal promotion and external recruitment of diverse top management teams. Such a culture will also create amongst existing relatively

homogeneous top management teams, an 'openness to difference'. Such teams are likely to understand the importance of navigating cultural complexity in global expansion and be more receptive to external advice to navigate this complexity.

The Business Case restated

Diversity facilitates the establishment of cross cultural capabilities, which play a crucial role in global expansion success. Diverse firms tend to be more internationally oriented than homogenous firms. They also possess superior capabilities for making entry mode decisions, establishing new ventures, building personal relations and fulfilling consumer demands.

Diversity is particularly important at senior levels of the firm to maximise global expansion success.

The key to successful global operations is the development of cross-cultural capabilities. Such capabilities make navigating complex international environments easier and improve the firm's bottom line.