



THE HRM BUSINESS CASE 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

HR BUSINESS CASE FOR DIVERSITY MANAGEMENT

Janine O'Flynn

Research Fellow, Australian Centre for International Business

Aurora Ricciotti

Research Officer, Australian Centre for International Business

Professor Stephen Nicholas

Co-Director, Australian Centre for International Business

Karen Lau

Research Officer, Australian Centre for International Business

André Sammartino

Research Fellow, Australian Centre for International Business

Nicole Fisher

*Business Manager, Australian Centre for International Business
Faculty of Economics and Commerce
University of Melbourne*

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

TABLE OF CONTENTS

INTRODUCTION

1.0 HUMAN RESOURCE MANAGEMENT AND THE BUSINESS CASE FOR PRODUCTIVE DIVERSITY

- 1.1 Human Resource Management: Defined
- 1.2 Human Resource Management & Productive Diversity
- 1.3 Human Resource Management & Competitive Advantage
- 1.4 Human Resource Management, Productive Diversity, & Competitive Advantage: The HRM Business Case for Productive Diversity

2.0 HRM ISSUES IN PRODUCTIVE DIVERSITY MANAGEMENT

- 2.1 Exploring 'In-groups' and 'Out-groups' as a HRM Problem
- 2.2 Costs of Non-Productive Diversity management
- 2.3 Diversity, Quality of Work Life, & Qualitative Costs: Job Satisfaction & Commitment
- 2.4 Diversity, Productivity, & Quantitative Costs: Performance, Absenteeism & Turnover
- 2.5 Diversity & Discrimination: A HRM Concern
- 2.6 Summary: The Challenge of Achieving Productive Diversity

3.0 HRM AND THE BENEFITS FROM PRODUCTIVE DIVERSITY

- 3.1 Productive Diversity, HRM, & Quantitative Savings
- 3.2 Productive Diversity, HRM, and Qualitative Savings
- 3.3 Summary: Productive Diversity and the Role of HRM

4.0 HRM STRATEGIES TO SUPPORT PRODUCTIVE DIVERSITY

- 4.1 Introduction
- 4.2 Diversity Audits, Cultural Audits, Social Integration and Cohesion
- 4.3 HRM Policy Changes
- 4.4 Finding a Fit between Task Structure and Diversity Type
- 4.5 HRM Functions to Achieve Productive Diversity

5.0 CONCLUSION

- 5.1 Fostering Superior Decision-Making and Problem-Solving
- 5.2 Human Resource Management Delivering the Diversity Dividend

6.0 REFERENCES

EXECUTIVE SUMMARY

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.

5.2 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.

6.0 REFERENCES

THE HRM BUSINESS CASE FOR DIVERSITY MANAGEMENT

1.0 HUMAN RESOURCE MANAGEMENT & THE BUSINESS CASE FOR PRODUCTIVE DIVERSITY

1.1 Human Resource Management: Defined

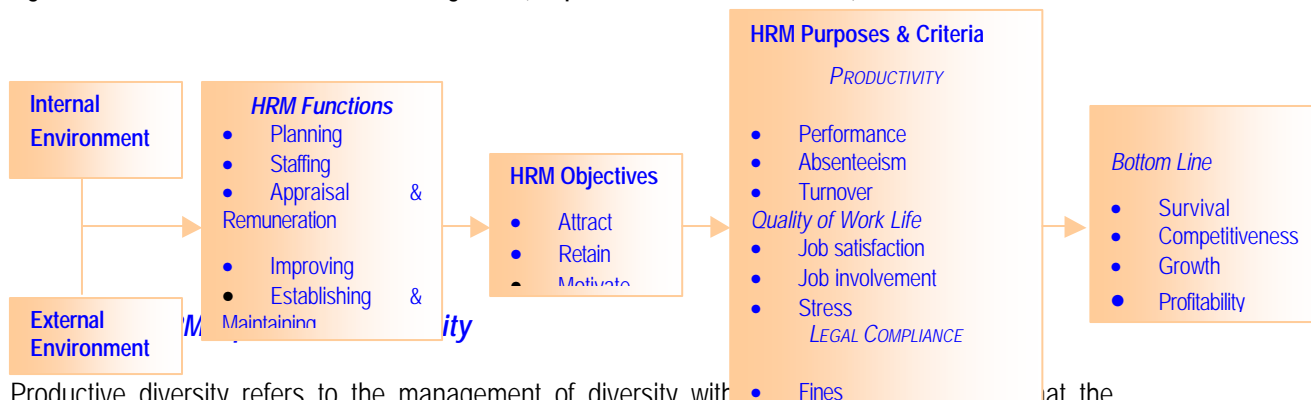
Human Resource Management (HRM) is an approach to managing the human resources of organisations, which

recognises the importance of an organisation's workforce as vital human resources contributing to the goals of the organisations, and the utilisation of several functions and activities to ensure that they are used effectively and fairly for the benefit of the individual, the organisation, and society (Schuler, Dowling et al. 1992:16)

Guest (1987:503) defined HRM as 'a set of policies designed to maximise organisational integration, employee commitment, flexibility and quality of work'. Schuler *et al* (1992) identified five main HRM functions and activities. *Human resource planning* involves planning and forecasting for the organisation's human resource requirements, both in the short-term and the long-term, and analysing the jobs within the organisation to identify duties, purpose, skills, knowledge and abilities needed. *Staffing* the organisation involves recruitment and selection of people to meet the organisation's needs. The appraisal and remuneration function of HRM relates to how employees are assessed and rewarded for their work. Activities that relate to *improving employees' performance and the work environment* include training and development, quality of work life and productivity strategies, and occupational health and safety policies. The final function of HRM is *establishing and maintaining effective working relationships*. The activities of this function include bargaining and grievance procedures, often with union representatives, and understanding employee rights.

Figure 1 sets out a basic HRM model developed by Harvard University in the 1980s. The model links the HRM functions with factors such as the internal and external environment, objectives, and bottom line outcomes. It illustrates the proposed linkages between HRM functions, objectives, purposes and individual and organisational outcomes. One of the main assertions of HRM is that effective management of an organisation's human resources has bottom line benefits. When diversity management strategies are incorporated into human resource management, the bottom line effects of diversity management can be predicted. At the same time, the symptoms of poor or non-existent diversity management can be gauged through an analysis of individual and organisation effects and outcomes.

Figure 1 Basic Model of Human Resource Management (Adapted from Schuler *et al*, 1992:19)



Productive diversity refers to the management of diversity with the aim that the organisation can utilise its diverse stock of information to enhance bottom line outcomes. The theoretical bases for the benefits of productive diversity reside in information and decision-making

theories¹. These theories purport that productive diversity can occur despite the negative impact of diversity caused by social categorisation and similarity/attraction. Productive diversity arises from the effective management of diverse opinions in decision-making and problem-solving, leading to enhanced creativity and innovation. Productive diversity management involves designing HRM functions to influence the role that diversity plays in intra-group and inter-group interactions, which have profound implications for achieving HRM objectives and HRM outcomes.

The HRM business case focuses on improving the human resource (HR) functions (planning, staffing, appraisal and remuneration, improving, and establishing and maintaining) to meet the HRM objectives (attract, retain, and motivate) in order to improve an organisation's bottom line (survival, competitiveness, growth, profitability, and flexibility). Diversity management, done properly, achieves these goals while allowing business to tap into the unique knowledge, skills and experiences of its workforce.

1.3 HRM & competitive advantage

Human capital is an important resource for organisations. As markets change, organisations seek competencies and capabilities, leading to new sources of competitive advantage.² The development of diversity capabilities may lead to diversity-based competitive advantages. The development of a competitive advantage allows firms to position themselves favourably in relation to existing rivals and to resist the entry of new competitors to the market. A competitive advantage is unique to the firm. It allows firms to be sensitive to customers needs, deliver unique products/services and possess advantages that other firms cannot replicate. The ability of firms to effectively manage their human resources raises the potential for capabilities and competitive advantages to be fostered.

Australia has experienced significant structural shifts over the past few decades. The rise of the service sector, which relies heavily on interaction between people, and the coming of the 'information age', which is reliant on knowledge, create a new imperative. We are witnessing a shift to developing dynamic capabilities, where knowledge is integral and human resources are a vehicle for firms in acquiring, disseminating and utilising such knowledge. Not only are human resources the holders of valuable knowledge and information, they are also responsible for its processing and analysis and thus are directly involved in the creation of intellectual capital that sets a firm apart from its competitors.

Not surprisingly, the search for competitive advantage based on human capital has entered the lexicon of CEOs' strategic planning. For most firms, HRM has evolved from a functional role to support the CEO's vision for differentiation, to a strategic role, where a firm's human resources drive what will evolve as the firm's source of competitive advantage. The attributes of the firm's workforce, whether on the "shopfloor" or in the "executive suite", provide potential benefits for the firm's internal efficiency and its external growth. CEOs' perceptions of the diversity within their enterprises will shape how the firm utilises its human capital resources to create competitive advantage.

According to Pfeffer (1995:56), as "other sources of competitive success have become less important, what remains as a crucial, differentiating factor is the organisation, its employees, and how they work". This line of thought argues that human resources form the basis for differentiation and, thus, a firm's competitive advantage in the market place. If organisations can build diversity capabilities it is possible for competitive advantages to arise. Productive diversity management can form the basis of competitive advantage and business success.

¹ See section '2.2 Information and Decision-Making Approach' in *The Theory of Diversity and Group Performance*.

² See section '3.4 Diversity, Core Competencies and Competitive Advantage' in *Corporate Awareness of Diversity in the Australian Workplace: The mind of the CEO*.

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

An important component of the HRM business case for productive diversity is the scope for firms to develop a competitive advantage in managing diverse human resources and derive the benefits of that advantage via bottom line returns. As Dass and Parker (1996:368) state, '...advantage comes not from diversity itself but rather from forging a link between the external environments fostering diversity and internal organisational systems that are capable of capitalising on it'.

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". They divide workforce diversity into two main categories. Several of the advantages fall into the 'inevitability-of-diversity' category, namely those regarding shifts in demographics, cost savings and access to resources. Others can be viewed as 'value-in-diversity' arguments, such as increased value to firm from shifts in organisational structures, or improvements in firm's products and services.

Cox's (1993) later work developed the "value-in-diversity" aspect further. He identifies 'two types of diversity effects on organisational effectiveness:

One type addresses effects that derive from the impact of group identity on the experiences and work outcomes of individual members... equal opportunity and motivation to contribute (EOMC) effects. The other type of effects relates to the impact of cultural diversity in itself... how the performance of homogenous workgroups compares to that of heterogenous workgroups. (Cox 1993:14)

Robinson and Dechant (1997:22) categorise the benefits similarly, as "...costs savings and winning the competition for talent", alongside the "...opportunity to drive business growth by leveraging the many facets of diversity." The cost savings occur in several areas: turnover, absenteeism, and lawsuits on sexual, race and age discrimination. The examples of driving business growth include: improving marketplace understanding; increased creativity and innovation; producing higher quality problem-solving; enhancing leadership effectiveness; and building effective global relationships.

The possibility of creating competitive advantage through productive diversity management should not be the sole driver of a firm's productive diversity agenda. All firms need capabilities and competencies in diversity management, whether they operate nationally or in the global marketplace. Diversity capabilities and competencies will ensure parity with other firms who manage efficiently and effectively their diverse resources. There is a compelling business case for productive diversity, which confers bottom line benefits on firms that manage their diverse resources efficiently.

2.0 HRM ISSUES IN PRODUCTIVE DIVERSITY MANAGEMENT

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

The large body of research into heterogeneous work teams has highlighted a number of potential pitfalls related to diversity management. Much of the focus has been on the conflict arising from the creation of in-groups and out-groups, whose members' behaviour is shaped by stereotyping and cognitive bias, which promotes communication problems, and poor interaction. The theoretical bases supporting the claims that heterogeneous groups will form into sub-groups of in-groups and out-groups and tend to be more dysfunctional, have been summarised into two main areas: social categorisation and similarity/attraction.

Social categorisation theory (Tajfel 1981; Tajfel and Turner 1985; Turner, Hogg *et al.* 1987; Hogg and Abrams 1988) depicts individuals seeking to define themselves through a process of self-categorisation. Self-categorisation may be based on any salient characteristic, such as age, gender, ethnicity, language group, religion or tenure. In defining oneself as a member of a particular social category it is likely that some coworkers are thus viewed as being members of that category. Interacting with those identified as *in* one's category acts to reinforce self-identity, increases group integration and group cohesiveness. Those work colleagues that are not classified as within one's social category are therefore defined as some sort of *other*. It follows that the behaviour of individuals to the *other* is shrouded in assumptions and stereotypes, is less friendly and ultimately less cooperative. This behaviour is amplified in situations where employees are coopted into teamwork with parties they automatically categorise as significantly different from themselves.

The similarity/attraction paradigm focuses on the preferences of individuals to interact with individuals with whom they share common life experiences or values (Byrne 1971). The rationale behind similarity preference or 'homophily' bias is that similar attitudes and values lead to a reciprocal attraction. This, in turn, leads to increased communication, high social integration and a desire to sustain group affiliation. There is an element of crossover with the social categorisation theory, as perceived social group identification serves as a shortcut to identifying those with common experiences or values. Evidence of such behaviour can be seen in several studies. In a study of 94 employees in an advertising agency, Ibarra (1992) identified clear tendencies of employees, particularly men, to form ties based on common gender. O'Reilly, Caldwell *et al.* (1989) surveyed 79 members of 20 work groups within a large US convenience-store chain, and found lower levels of group social integration when work group tenure was not homogenous.

These problems manifest themselves most clearly in communication problems that inhibit the organisation from utilising its pool of diverse information to enhance problem solving, decision-making, creativity and innovation, achieving productive diversity.

2.2 Costs of non-productive diversity management

The potential costs of diversity stem from the ineffective management of social categorisation in diverse workgroups, which promotes poor quality of work life. A strong indicator of quality of work life is job satisfaction and organisational commitment. The quantifiable outcomes, or costs for an organisation, of these, are group performance, absenteeism, and turnover. Levels of job satisfaction and commitment have been shown to differ between demographic groups. In particular there is evidence that 'minorities' in the workplace have lower levels of job satisfaction than 'majorities'. In particular, studies have demonstrated this tendency in relation to diversity of gender and ethnicity. Turnover and absenteeism rates differ on demographic lines, the research shows that people who differ from the majority ethnic group tend to display less positive emotional responses to their employer. Minority groups also tend to be evaluated less positively by supervisors and have higher exit (turnover) rates. Female and non-white workers have expressed concern regarding career progression and the existence of a 'glass ceiling'. Diversity research has also shown that heterogenous teams have process and, sometimes, short-term performance deficiencies when compared to heterogenous teams.

The literature on the effects of diversity on the quality of work life produces supportive evidence for the predictions made by social categorisation and similarity/attraction theories³. This suggests that many organisations have experienced significant problems and have borne great costs as a result of ineffective or nonexistent diversity management practices. Rather than being a reflection of any insurmountable or fundamental obstacles to managing diverse workers, these problems draw attention to the value that effective HRM diversity practices can bring to the firm. That is, HRM strategies that

³ See Section 3 and 5 in "Document 1: The Theory of Diversity and Group Performance"

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.

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

Job Satisfaction and Organisational Commitment: Defined

In general terms, job satisfaction is the gratification that employees get from their job (Moorehead and Griffin, (1998 cited in Eskildsen and Nussler 2000). Job satisfaction reflects employees' perceptions of work: whether they enjoy their work; whether they perceive their jobs as meaningful; and whether they perceive that there are negative effects of their job (Eskildsen and Nussler, 2000). Mueller and Lawler (1999:328) viewed job satisfaction as 'the composite of ... day-to-day work-related positive emotions'.

Organisational commitment refers to the strength of individuals' attachment to an organisation. Alternatively, commitment can be conceptualised as a 'psychological bond between people and organizations (Schappe and Doran 1997:192). Organisational commitment has three main components: a strong belief in, and acceptance of, organisational goals and values; willingness to exert effort on behalf of the organisation; and, a desire to maintain organisational membership (Porter, Steers, Mowdy and Boulian, 1974 cited in Wahn 1998).

Organisational commitment has been investigated extensively because of the positive and negative links with individual behaviours and organisational outcomes. Organisational commitment positively affects performance and retention (Mathieu and Zajac, cited in Wahn, 1998) and it has been shown that low commitment is correlated with poor performance, lower levels of citizenship behaviour and turnover (Wahn, 1998). Numerous studies have demonstrated the positive and negative effects of high or low organisational commitment and it is important to examine this in the context of diversity in the workplace and the costs and benefits that this presents to organisations.

Link Between Job Satisfaction & Commitment

The relationship between job satisfaction and organisation commitment is considered to be significant. If job satisfaction reflects the day-to-day gratification that people get from their jobs, then it acts as an intervening variable between work conditions and affective organisational commitment (Mueller and Lawler, 1999). Job satisfaction has been repeatedly shown to influence affective organisational commitment (Eby, Freeman *et al.* 1999). The interaction between job satisfaction and commitment has been extensively researched, as has the relationship of these variables to other important phenomena including turnover and absenteeism. In general the relationship is that work conditions contribute to job satisfaction; job satisfaction predicts affective commitment and commitment predicts withdrawal behaviour. Whilst job satisfaction precedes affective organisational commitment it is not the only predictor; satisfaction is one subset of behaviour that determines commitment (Mowday *et al* 1982, cited in Eby *et al*, 1999).

Extensive research has considered the link between employees' experiences at work and satisfaction with their job. A number of studies have examined demographic difference, job satisfaction and commitment outcomes. Mueller, Finley *et al.* (1999:188) discussed the general finding in this type of research, stating that:

Homogeneity of members in a group is argued, and found, to produce positive sentiments on the part of group members sharing the homogenous characteristic ... these positive sentiments are expected to increase the satisfaction of these members and increase their commitment to the group. A group member who does not exhibit the homogenous characteristic ... is found to have less positive sentiment and thus reduced satisfaction and commitment to the group.

Overall, social categorisation and similarity/attraction perspectives lead us to expect that those in the dominant work group experience more co-worker support, less role conflict, access to adequate resources and greater autonomy and these factors lead to enhanced satisfaction and commitment (Mueller *et al*, 1999). Therefore, we can expect empirical evidence to demonstrate higher job satisfaction and commitment for those in the majority, or dominant group. The following section reports on studies that have investigated job satisfaction and commitment.

Diversity, Job Satisfaction & Commitment

To understand the effects of diversity on job satisfaction, the literature highlights the influence of several aspects of social categorisation and similarity/attraction theories on group process and how this affects individual work experiences. Specifically, studies examine the impact of proportions on work place experiences, the detrimental effects of diversity on ones' self-identity, the role that similarity plays in attraction to the job, and how social identity leads to the creation of in-groups and out-groups and how this shapes job satisfaction.

To study the effects of proportions, Mueller, *et al* (1999) study the influence of racial diversity in 405 schools on teachers' job satisfaction and commitment. The results reported that "white" teachers when in the minority, experience greater role conflict, less autonomy, inadequate resources and reduced coworker support. These work conditions then reduce their job satisfaction and commitment to the school. The Mueller *et al* (1999) study examined teachers' commitment to teaching as a career in addition to testing for organisational commitment finding that organisational (school) racial composition effects were short-term. That is, commitment to teaching careers was not affected by job satisfaction and commitment at the organisational level. Thus, while lower job satisfaction and organisational commitment may increase the tendency for turnover, this does not mean that teachers will exit the profession. However, whilst this may not pose a significant problem for the education sector, it does in other industries, raising issues of ability to retain staff.

The interactions between gender and job satisfaction at work have been examined in a number of studies. Burke and McKeen (1996) surveyed 792 professional and managerial women, all business graduates of a major Canadian university. The authors investigated the effects of gender proportions in the workplace on a range of work experiences and outcomes. The study found the proportion of female employees had a modest effect on job satisfaction levels. Women who worked in organisations with a substantial majority of males were less satisfied and reported greater intentions to exit than women who worked in organisations with higher levels of female employees. This effect was greater where men numerically dominated senior management positions.

In contrast to Burke and McKeen (1996), Wharton and Baron (1987), using U.S Quality of Employment Survey data on 633 female employees, found that females in male-dominated work situations exhibited *higher* job satisfaction than those in balanced work settings. Women in female-dominated work settings exhibited the lowest levels of job satisfaction. Using data on 822 male employees from the same data set, Wharton and Baron (1987) found that men in mixed gender work settings reported significantly more job-related depressions, decreased levels of job-related satisfaction, and lower levels of self-esteem than men in male dominated or female dominated work settings. Therefore, higher job

satisfaction for men and women was found in male dominated work settings. The complexity of the issue is demonstrated by the finding that women in female dominated settings have the lowest levels of job satisfaction, men in mixed gender settings have the lowest levels, and the extremes work better for men. The contrast in results for the two studies demonstrates that the link between gender and satisfaction is not straightforward.

In an analysis of 98 workgroups of 1584 employees within a life insurance company, Riordan and Shore (1997) found workers from minority groups, particularly minority racial-ethnic groups expressed less positive attitudes to working in the organisation when they found themselves in a minority within workgroups. These findings support earlier findings by Tsui, Egan *et al.* (1992) that diversity effects are felt in disproportion by workplace members usually in the majority, namely whites and males. It was posited that majority whites/males viewed the presence of previously lesser-valued minorities as lowering the value of the work and the status of their position. This suggests that diversity may challenge the way an individual makes sense and gives meaning to their work/job, which may lead to job dissatisfaction and treatment of the firm in a similar way that they would treat out-group members (as predicted by social identity theory).

Tsui and O'Reilly (1989) would argue for the indirect effect that similarity has on job satisfaction, as it is a source of interpersonal attraction, which leads to positive performance evaluations of *same* individuals. Tsui, Egan and O'Reilly (1992) also argued for the indirect and negative consequence of dissimilarity on job satisfaction. They found that similarity in ethnicity affected individuals' attitudes towards their work group, as well as their perceptions of advancement opportunities. Verkuyten, De Jong *et al.* (1993) examined the job satisfaction of 1693 Dutch and non-Dutch public servants in Rotterdam. The study found non-Dutch workers exhibited lower job satisfaction than Dutch workers. Demonstrating the effects of social categorisation and similarity /attraction, non-Dutch workers job satisfaction levels were positively correlated with the time spent with colleagues of similar ethnic backgrounds. These studies confirm predictions for diversity based on the similarity/attraction paradigm, that the greater the intra-personal similarity, the more positive are the attitudes that those individuals hold for each other which underpins a more cohesive working environment and thus contributes to enhanced satisfaction with the job.

It is these cognitive biases in attitudes that explain Tsui, Egan and O'Reilly's (1992) results that diversity was indirectly associated with lower intent to remain and dissatisfaction with the work environment through its indirect effect on performance appraisals. For example, Ferris and Yates (1985) found that diversity in age effects performance appraisals, such that supervisors rated older subordinates lower than younger subordinates and older subordinates tended to rate their own performance higher than did younger subordinates. A later study by Jeanquart-Barone (1996) found that African American subordinates with White supervisors experienced less supervisory support, developmental opportunities, procedural justice, assimilation, and more discrimination than African American subordinates with African American supervisors.

Fossum and Fitch (1985) report findings to support the positive relationship between job satisfaction and salary increases. Furthermore, Heneman and Cohen (1988) argue that salary decision increases are based not only on the subordinates' characteristics but also the supervisors' characteristics. Specifically, those most likely to receive salary increases are subordinates who have similar characteristics to their supervisor. The results from Heneman and Cohen (1988) study of 175 employees showed that 11% and 24% of the variance in employee salary increases were attributable to supervisor and employee characteristics respectively. These findings suggest that diversity can reduce satisfaction since satisfaction is influenced by ones' salary increases, which are influenced by the degree and type of similarities shared by employee and subordinate.

Chatman (1991) examined the connection between value diversity, job satisfaction and intention to stay in a study of 171 entry-level auditors in eight of the largest U.S. public accounting firms. The study found higher levels of job satisfaction and higher intention to stay where there was higher congruence between recruits and firms' values. One of the positive effects of having a diverse workforce is the value diversity that comes with it. This, in addition to other forms of diversity such as knowledge, beliefs, and views of the world create the platform for better quality decisions, innovation and creative problem solving. Chatman's (1991) finding on the link between value congruence, satisfaction and intention to stay demonstrates the critical importance of diversity management and HRM strategies in organisations. This congruence of values needs to be encouraged through the cultivation of common goals and identities, and collective cultures which value diversity.

These studies are important, as they help to explain subordinate job satisfaction and commitment levels when subordinates are in the minority, or are working with diverse individuals. These studies suggest that diverse individuals may experience lower job satisfaction because they do not receive equal reward allocation or advancement opportunities than their non-minority coworkers. In-group out-group behaviour thus creates dissatisfaction with the supervisor-subordinate and the subordinate-subordinate relationship, which can inhibit the effective and efficient achievement of organisational goals.

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

Performance: Defined

According to Williams and O'Reilly (1998), group performance is defined using three criteria. Firstly, that group outputs meet or exceed performance standards set by customers. Secondly, that social processes utilised in the performance of work enhance or maintain the capability of members to work together on subsequent teams tasks. Thirdly, that group members personal needs are satisfied rather than frustrated by the group experience.

According to Williams and O'Reilly (1998), these criteria consider not only the outputs produced by the group but also the personal experience of the group members and the subsequent ability of the group to perform in the future. This definition of group performance is powerful as it recognises that group performance includes the expectation that groups will function over the long term not just as a one off. For example, Guzzo and Salas (1995) consider three aspects of performance in relation to diversity's effect on performance: the individual, the group, and the context within which the group operates. This means understanding the attributes, skills, psychological and behavioural processes of individuals that shape intra-group interaction, while accounting for factors such as the effect of time pressure on group performance or the impact of organisational systems, such as recruitment of reward systems on the group⁴.

Diversity & Performance: Conflict as a HRM Problem

Organisations are increasingly using work teams as functional tools to achieve their strategic objectives. As the workforce becomes increasingly diverse, these teams are also bound to become increasingly diverse. From an information and decision-making perspective diverse teams may be advantageous for organisations especially for teams who perform decision-making and complex tasks (Cox 1993; Watson, Kumar *et al.* 1993). Teams with diverse members have the capacity to see problems from

⁴ See Section 1.4.2 Group Performance in in "Document 1: The Theory of Diversity and Group Performance" for discussion on group performance.

many different perspectives, which ideally lead to the sophisticated understanding of that problem and development of high quality solutions. However, these benefits may be compromised by the conflict that arises from dysfunctional group processes and misinterpretation. Accordingly, in-group or majority members tend to marginalise out-group (minority) members based on their different attributes, inhibiting the benefits of diverse opinion to problem-solving and innovation.

At a glance, the literature shows clearly that diversity leads to conflict⁵. On further inspection, what emerges, as a key issue for HRM, is the different types of conflict those different types of diversity foster. According to Jehn (1995), value and social diversity result in emotional or relationship conflict, while functional background diversity leads to task conflict. Pelled, Eisenhardt *et al.* (1999) argued that task conflict typically enhances performance by facilitating constructive criticism, while emotional conflict reduces performance by inhibiting cohesive group process. Further, they argue that task conflict has more favourable effects on cognitive task performance than does emotional conflict. From a study that included members from 45 teams in the electronics division of three major corporations, Pelled, Eisenhardt and Xin (1999) found that task conflict is caused by functional background diversity. It is argued that task conflict may be constructive in that cross-functional teams can generate a range of problem-solving opinions and enhance the quality of decision-making. However, social categorisation and similarity/attraction create barriers to information sharing.

These findings concur with the theoretical predictions, demonstrating that negative conflict created by diversity in group composition created relationship and process problems, but positive conflict due to diversity improved group performance. The structure of the task can be an important determinant of the relationship between these phenomena. The identification of these inter-related factors provides an opportunity for managers to implement appropriate strategies to channel conflict, as will be discussed in section 5.

Research shows that diversity in group composition poses considerable challenges. However, there are rewards to be reaped when diversity benefits are channelled constructively. These benefits do not emerge spontaneously. Nonaka and Takeuchi (1995) argued that informational diversity offers little benefit to a workgroup whose members cannot work together effectively to harness it. Jehn, Northcraft *et al.* (1999) argued for the effective management of conflict arising from diversity such that the organisation can then harness the information diversity that rises from diverse individuals contributing to task and process decision-making and problem-solving.

Interpersonal conflict will naturally arise in diverse groups. The reasons for the conflict need to be recognised, attenuated, and channelled toward bottom line benefits. Task conflict related to functional background diversity must be encouraged and managed constructively to promote improved creative problem solving. The challenge is to develop strategies to manage both types of conflict such that they positively influence each other. Whether positive or negative effects dominate, depends on the quality of diversity management. The key objective of organisations is HRM that recognises structural differences in groups to capture the positive consequences of homogeneity and heterogeneity, while minimising the cost. HR managers need to understand what types of diversity and what group structures lead to different types of conflict. How these different types of conflict are managed determines whether diversity has a positive or negative influence on the group's performance.

Withdrawal Behaviour: Absenteeism & Turnover

The rationales for withdrawal activity have been extensively investigated. Levels of job satisfaction and workplace commitment have been shown to be accurate predictors of turnover rates (Parasuraman 1982; Blau and Boal 1989; Bedeian, Kemery *et al.* 1991; Hellman 1997). Mathieu and Zajac's (1990)

⁵ See sections 3.3 for discussion of conflict.

meta-analysis identified a positive correlation between organisational commitment and attendance at work, and a negative correlation with turnover. High levels of organisational commitment were associated with lower intentions to undertake alternative job search, and lower levels of intention to leave. Lee (1992) supported this in a study of 840 U.S. Airforce cadets, finding that strategies to improve job satisfaction will improve organisational commitment and reduce voluntary turnover. Cohen (2000) illustrated through several models that there were interconnected relationships between group commitment, organisational commitment, job involvement, work involvement, career commitment, turnover intentions, absenteeism and turnover. The findings suggest that strategies to improve job satisfaction will improve organisational commitment and reduce absenteeism and voluntary turnover. These studies find that there is a basic link between group productivity and quality of work life. Social categorisation and similarity/attraction theories can be used to explore social integration, value congruence and cohesiveness as underpinning this link.

Social Integration, Value Congruence and Cohesiveness as HRM Problems

Social categorisation and similarity/attraction purport that cohesion and social integration is key to a smooth functioning group. Put another way, cohesion is a function of social integration and social integration is a function of similarity and attraction, which promote liking and effective communication. This means that higher levels of social integration will be associated with lower levels of dissatisfaction and higher levels of commitment (Roberts & O'Reilly, 1979; Piper, Marrache, Lacroix, Richardsen, & Jones, 1983; and Krackhardt, Porter, 1986 as cited in O'Reilly, Caldwell, and Barnett, 1989).

Furthermore, social integration has been reported to have a positive influence on absenteeism and turnover (Scott and Taylor 1985; Cotton and Tuttle 1986; O'Reilly and Flatt 1989). The premise for these results is that higher levels of cohesiveness result in increased pressure for conformity, which result in the social alienation of those individuals less able or willing to conform. As Ancona and Caldwell (1992:323) argue "demographic diversity increase conflict, reduces cohesion, complicates internal communications, and hampers coordination within the team". This is in line with Jackson (1992) who argued that heterogeneity is associated with higher turnover because team members will have few social reasons to stay with the organisation. This means that minorities may be more likely to leave the firm for alternative job opportunities. Social alienation contributes to absenteeism and turnover through its effect on job satisfaction. For example, Scott and Taylor (1985), Farrell and Stamm (1988), and Hackett (1989) found a significant negative relationship between satisfaction with co-workers and absence frequency and overall satisfaction and absence frequency.

Diversity, Absenteeism, and Turnover

To study the effect of cohesiveness on absenteeism, Drago and Wooden (1992) examined the moderating effect of job satisfaction. The authors argued that minority employees treat absence as a form of unorganised resistance to the pressure of conformity exerted by the majority. That is, an inability to integrate socially or to work according to group norms leads to dissatisfaction with the workplace, which is made observable through absenteeism. From a study of 14 firms, the results indicated that workgroup cohesion was associated with low levels of absence if job satisfaction was high, but with high levels of absence if job satisfaction was low.

O'Reilly, Caldwell, and Barnett (1989) find that heterogeneity in group tenure was associated with lower levels of group social integration which, in turn, was negatively associated with individual turnover. Social integration is positively associated with similarity and attraction to *like* others, whereby social

integration increases both the opportunities for interaction and the attractiveness of members to one another (Ancona & Caldwell, 1992). The evidence shows that individuals who are 'different' are most likely to be socially alienated, which is a major factor in their decision to exit the firm. Additionally, age diversity was shown to have a direct positive influence on turnover.

These phenomena have also been identified in other studies. Jackson, Brett *et al.* (1991) examined top management teams in the banking industry and found diversity in age and tenure led to higher rates of turnover. Wagner, Pfeffer *et al.* (1984) in a study of 492 hospitals also found heterogeneity in tenure led to higher turnover. Both studies support the argument that diversity raises challenges for firms, and demonstrate the importance of social integration.

A meta-analysis of turnover research undertaken by Hom and Griffeth (1995, cited in Iverson 2000) considered the relationship between certain personal characteristics and turnover. The study found the greater the kinship responsibility (i.e. number of children, children's age, and marital status), the higher the rate of retention. The analysis also found that women were less likely to leave than men, and that lower cognitive ability and higher education were related to higher turnover. This study again demonstrated the challenges posed by having a diverse workforce, and the hazards of ineffective diversity management.

Organisational value congruence can indicate social integration and it has a relationship with withdrawal behaviour. Adkins, Ravlin *et al.* (1996) found from a study of 115 individuals in a Fortune 500 company that value congruence was positively associated with job satisfaction and negatively associated with absenteeism and tardiness. Value congruence was found to have a stronger positive effect on satisfaction and punctuality for individuals with low tenure. Furthermore, job satisfaction was positively associated with high supervisory ratings, which were positively associated with supervisor-subordinate value congruence.

This finding was supported by Chatman (1991), who examined the connection between value diversity, job satisfaction and intention to stay in a study of 171 entry-level auditors in eight of the largest U.S. public accounting firms. The study found higher levels of job satisfaction and higher intention to stay where there was higher congruence between recruits' and firms' values. However, where value incongruence existed between new recruits and the organisation, job satisfaction was lower, and intention to quit increased. These findings paralleled the value-turnover relationship identified in Wagner *et al.* (1984) study of 599 top-management group members in 31 Fortune 500 companies. The research found group members who are most different in terms of individual-level values and orientations are the most likely candidates for turnover. This demonstrates the importance of individual-organisation 'fit' and indicates that, if organisations wish to avoid the costs of high employee turnover, they should take measures to ensure that individuals feel comfortable within the organisational culture.

The diversity-turnover findings of Jackson *et al.*'s (1991) study of 93 top management teams in bank holding companies were consistent with predictions from social categorisation theory. Diversity was measured according to tenure, level of education attained, college curriculum, military experience, experience outside the financial industry, college attended, functional area of expertise and status within the team. The study found a positive relationship between individual turnover and dissimilarity to the group. It also determined that team heterogeneity was a relatively strong predictor of team turnover rates, with heterogeneity tending to create group conflict, resulting in a propensity for members to leave the group. Thus, individual and group factors amongst teams interrelate and influence turnover.

One of the positive effects of having a diverse workforce is the *personal* value diversity that comes with it. This, in addition to other forms of diversity such as knowledge, beliefs, and views of the world create the platform for better quality decisions, innovation and creative problem solving as is predicted by

information and decision-making perspectives. Chatman's (1991) finding on the link between value congruence, satisfaction and intention to stay demonstrates the critical importance of diversity management and HRM strategies in organisations. This congruence of *organisational* values needs to be encouraged through the cultivation of common goals and identities, and collective cultures which value diversity.

2.5 Diversity & discrimination: A HRM concern

Discrimination can be a pervasive but hidden aspect of diverse workplaces. Discrimination affects performance, productivity, job satisfaction and perceptions of equity. Bochner and Hesketh (1994) studied a sample of 263 Australian bank employees of 28 different nationalities. Their study found employees from minority ethnic groups, particularly those from countries ranked as different from Australia on Hofstede's (1980) individualism and power distance dimensions, reported higher levels of discrimination. Furthermore these employees saw greater value in cultural diversity than their majority counterparts.

Investigating a sample of 139 Hispanic employees in Florida, Sanchez and Brock (1996) found that perceived discrimination negatively affected employees' levels of organisational commitment, job satisfaction, and work tension. They also reported buffer effects from variables such as higher experience, higher hierarchical status, and being born in the US.

Conducting a survey of 110 employees in the telecommunications, entertainment, food service and clothing retail industries in the south-eastern United States, Abraham (1999) found a relationship between perceived inequity in working conditions and job satisfaction and intention to exit. Abraham categorised inequity into a variety of different forms. Three forms found to be significant were age inequity, system inequity, and company inequity. Age inequity refers to employees' evaluation of their position and conditions relative to those of cohorts within and without the organisation. System inequity sees employees judge the extent to which they feel their expectations of the implicit social contract regarding working conditions have, or have not, been met. Company inequity involves employees comparing their situation with that of other employees performing different tasks within the same organisation. Abraham found age and system inequities to be predictors of job dissatisfaction and company inequity a strong predictor of intention to exit.

These findings are important to the diversity debate since employees compare their own progression and achievements within an organisation with those of their cohorts and with others around them. Likewise, employees are conscious of, and value, the perceived 'justness' of outcomes they observe. A firm seeking 'satisfied' employees needs to be conscious of any systemic tendencies to discriminate against particular groups. Any indication that certain demographic groups have a tendency to progress more slowly up the organisational hierarchy must be investigated. Such employees may perceive some form of inequity relative to their cohorts and thus exhibit lower job satisfaction. Equally differential skills across demographic groups that might account for differential job progression need to be identified and corrected.

Discrimination can take a multitude of forms, not necessarily overt or conscious. One area in which certain biases appear is the performance evaluation process. Linville and Jones (1980) investigated the effect of differences in race on evaluation processes, finding that non-majority employees received extreme evaluations, both more positive and more negative than the expected norm. Other studies (Greenhaus, Parasuraman *et al.* 1990; Sackett, DuBois *et al.* 1991) found a strong negative bias against black workers relative to whites in US workplaces. Tsui and O'Reilly's (1989) study of 272 superior-subordinate dyads in a Fortune 500 corporation found supervisors tended to rate subordinates of the same gender more highly. These findings support the role of similarity as a bonding mechanism in work relationships, leading to favoured treatment of in-group employees.

A particularly perilous form of discriminatory behaviour is that of harassment. A study by Laband and Lentz (1992) of female lawyers in the US found that sexual harassment in the workplace by colleagues and/or clients was a common experience. Not surprisingly, the experience of harassment was shown to have a significantly negative effect on these employees' job satisfaction, and the negative effect outweighed any positive income effects. Any policy or action that may be deemed discriminatory carries with it risk of legal action by the affected party. Such action can be very costly to the organisation, both directly and indirectly.

Not only does discrimination and harassment raise issues of litigation, it has also been found to affect productivity. The relationship between workplace stability or harmony and productivity is a strong one. The HRM model demonstrates the link between quality of work life (satisfaction, involvement, stress), productivity (performance, absenteeism, turnover) and the bottom line. An important mediating factor in job satisfaction is perceptions of equity or inequity in the workplace. Perceived inequity has been found to impact on productivity. This has been shown in the submission by the Centre for Research in Employment and Work (CREW) to the report *Unfinished Business: Equity for Women in Australian Workplaces* (CREW 1998), examining data from the Australian Workplace Industrial Relations Survey (AWIRS 1995). CREW found that workplaces with high gender equity were more likely to exhibit strong productivity than workplaces with low gender equity. Gender equity was indicated by various measures of firm performance in terms of equal opportunity policies, sexual harassment policies, family friendliness and job segregation. The productivity gains were seen to reflect workers' greater confidence that their performance will be recognised and rewarded, that they will not suffer from inappropriate conduct such as sexual harassment, and that it may be possible to better balance work and family commitments.

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. There is compelling empirical research which demonstrates the potential hazards of ineffective or non-existent productive diversity management. The effects of social categorisation and similarity-attraction on group processes have been shown to create conflict and a lack of group cohesion and social integration, which are detrimental to the task and group performance. For this reason it is important to understand the complexity of the theoretical discussion on social categorisation and similarity/attraction given in sections 2.3 and 2.4 in *The Theory of Diversity and Group Performance*. They explain why diversity when not managed productively; can have negative implications for organisational performance. In doing so, it highlights points of HRM intervention necessary to achieve productive diversity and realise bottom line returns.

Attempting to avoid diversity outcomes by employing a homogenous workforce generates bottom line costs and lost opportunities for developing competitive advantage. There are many potential benefits associated with having a diverse workforce, some of which have been indicated in the research above, especially the ability of diverse groups to generate superior solutions to complex tasks. The next section sets out the benefits of productive diversity management, followed by HRM strategies for achieving productive diversity.

3.0 HRM AND THE BENEFITS OF DIVERSITY MANAGEMENT

The previous section set out the challenges organisations face when they have diverse workforces. These challenges, when not managed effectively, translate into significant costs for Australian business. In particular, lower job satisfaction and its link to absenteeism and voluntary turnover comprises an enormous financial burden for Australian firms. In addition to quantifiable costs that reflect poor diversity

management, Australian business is experiencing lost opportunities present in workforce diversity, such as superior problem solving, creativity, and better quality decision making. These benefits translate into better servicing of customers and markets, and increased business competitiveness and success. Managed effectively, diversity in the workplace translates in to real bottom line benefits. The HR function is improved, the costs of absenteeism and turnover reduced, and the organisation's reputation is enhanced as 'a good place to work'. 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

Minimising Turnover

Turnover, due to ineffective or non-existent productive diversity management is a significant cost to Australian business. Evidence shows that non-majority groups in the workplace tend to have higher rates of turnover and that this is a function of number factors, especially job satisfaction. Quantifying these costs demonstrates the extent to which non-productive diversity impacts on a firm's bottom line. The returns of productive diversity management can be measured by the size of the bottom-line benefits of reducing turnover.

Abbott, Abbott, De Cieri *et al.* (1998) identified a plethora of separation, replacement and training costs incurred by firms that failed to retain female staff. The main reason for exit in this firm was the absence of both family-friendly policies and a culture that accepted multiple commitments. These factors acted to situate some women in the minority and treat them as out-group members. Including estimates for lost productivity, the authors estimated the total turnover cost as almost \$75000 for each high-performing female manager exiting a large Australian professional services firm. This figure sits well with the figures presented by Johnson (1995) of turnover costs per person of between 93 and 200 per cent of their annual salary. A number of Australian firms have attempted to cost turnover in their organisations. The NRMA estimated the cost of replacing a manager at \$48 000, and other staff members at \$12 000 (Iverson, 2000). The Westpac Bank placed a figure of \$60 000 on senior management replacement and \$40 000 for an employee with eight years experience (Iverson, 2000).

The cost of aggregate turnover has been reported as being extremely high. Deery and Iverson (1996) estimated the aggregate costs of employee turnover at \$2.6 million. Since turnover is one of the obvious outcomes of non-productive diversity management, HRM strategies that deal with diversity management will contribute to bottom line benefits. Cost reductions from effective HRM and reduced turnover will contribute to improved individual and organisational outcomes and should feed into improved productivity. Reduced turnover also has other positive effects, such as the retention of skills and knowledge within the firm allowing firms to improve performance through, for example, better service.

Minimising Absenteeism

The potential cost savings from absenteeism are similarly high. It has been estimated that employee absences cost Australian employers more than \$7 billion a year (Riedel, Short *et al.* 1995). The Audit Office of NSW (1998, cited in Iverson, 2000) calculated the *direct* costs of absenteeism in the public sector at \$368.3 million (\$1366 per employee). These estimates underestimated absenteeism costs, as they failed to include indirect costs such as overtime (Iverson, 2000). The high costs of turnover and absenteeism were also highlighted by an Automotive Industry Council (1990, cited in Iverson, 2000) study, which estimated that absenteeism and turnover added \$850 to the cost of each car built. Furthermore, the study found that for a plant of 4 000 employees the total cost of turnover and absenteeism was \$26 million.

The research demonstrated that absenteeism, like turnover, reflects low job satisfaction and low organisational commitment, both of which can be the product of poor diversity management and experiences of work. Given the lack of productive diversity management policies and practices in place, as was shown by a comprehensive survey on work place diversity (Nicholas & Sammartino, 2000), diversity management can reduce absenteeism by improving workplace experiences and alleviating conflict, communication problems, and discrimination. Firms make an active attempt in productive diversity management reap bottom line benefits.

Improving Recruitment

High turnover imposes additional recruitment costs. High turnover injures the firm's reputation as a "good place to work", reducing the quantity and quality of the external labour pool from which the firm draws new and replacement workers. Two of the key HRM functions are recruitment and selection (staffing). High turnover and absenteeism points to a failure in recruitment and selection. The inability to 'attract and retain' impacts on 'productivity, quality of work life, and legal compliance'. These effects feed through to an organisation's bottom line.⁶

Abbott, De Cieri *et al's* (1998) calculations of turnover costs of \$75,000 for females in a professional services firm, included replacement costs associated with searching for and interviewing new applicants. Productive diversity management will reduce this cost as turnover is reduced. There are also clear gains from building a reputation as 'a good place to work'. Firms with a reputation for proactive and superior diversity management policies will have an advantage in attracting new job applicants, expanding the pool of available workers. The US labour market has lead the way on this front, with magazines such as *Fortune* and *Black Enterprise* producing rankings such as the "50 best companies for minorities" (Fortune 2000). In Australia, Hewlett Packard, known for its progressive diversity policies and practices was named 'Employer of the Year' in 2000 and recorded higher than usual individual approaches to the organisation regarding employment.

Cox and Blake (1991) argued that experience and skills in recruiting workers from minority groups will be an increasingly valuable capability as the pool and quality of such workers improves. Dass and Parker (1996: 369) extend the 'access to human resources' argument further claiming, "...organisations that are unable to manage diversity may find themselves competing with rivals founded by former employees".

As organisations come to increasingly rely on their human resources for competitive success, they must be able to recruit from the largest applicant pool possible in order to identify the best people for the job. Organisations that restrict this pool on discriminatory grounds not only act illegally, they fail to bring the best people into their organisation. The same effect occurs when organisations earn a reputation as poor diversity managers; valuable applicants will not be attracted to the firm.

HRM strategies that aim to reduce diversity-related turnover will also reduce the costs associated with recruiting replacements. Repeat recruitment costs are reduced when organisations select the 'right' applicant, which is enhanced by the size of a pool of applicants. Individual-organisation fit will be improved.

Potential Costs of Litigation

There is a substantial body of legislation regarding equal treatment of employees within Australia, including federal and State anti-discrimination, EEO and affirmative action laws, industrial relations laws and awards and enterprise agreements. Under Australian law, it is the employer who is generally legally

⁶Figure 1 sets out these relationships.

responsible when any employee behaves in a discriminatory or harassing way, unless they can show that they took 'reasonable steps' to prevent discrimination or harassment (Lawlink 1999). There are also considerable risks associated with discriminatory recruitment practices that may form the basis of litigation. The cost associated with discrimination and harassment is substantial and potentially impacts upon the bottom line through legal fees, lost productivity, staff time and settlements. Importantly, there are also significant negative reputation effects associated with such cases, which has implications for attracting and retaining quality staff.

The NSW Discrimination Board has calculated the average cost to an organisation of resolving "a relatively serious or complex discrimination or harassment grievance" to be \$35,000 (Lawlink, 1999). Figure 2 sets out the comparative costs of litigation versus investment in diversity management initiatives. Total costs of resolving a discrimination grievance is estimated to cost \$75 thousand, while an investment in diversity training is only \$20 thousand. A survey of diversity training in Australia (Nicholas & Sammartino, 2000) showed that only 14 per cent of CEOs ranked diversity training as of high importance.

Figure 2: Costs versus Investment: Diversity management or Litigation

Costs	
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	
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

In addition to direct costs attached to discrimination EEO costs, organisations incur indirect costs. For example, the reputation effects of a discrimination case can be immeasurable, particularly if the best candidates are deterred from working for the firm. There are also knock-on effects in terms of existing employees who may choose to exit the organisation because of the incident. Attracting, motivating and retaining employees are three key HRM objectives, and they feed into the HRM model as set out in Figure 1. The failures to attract, motivate, and retain employees impacts on the bottom line. Productive diversity management practices and policies taken to prevent these cases reduce settlements and legal outlays and improves the bottom line. HRM and diversity management strategies are critical in these areas, and will be discussed in the next section.

Improving Organisational Performance

In addition to reducing the costs associated with poor or non-existent productive diversity management, such as absenteeism, litigation, and turnover, productive diversity management can improve organisation performance through superior problem-solving, decision making, creativity and innovation. These benefits stem from the 'value in diversity' strand of literature, based on information and decision-making perspectives, and focuses on the benefits that accrue to organisations when they can tap into

the diverse skills, knowledge, information and views of employees. HRM has important contributions to make in this area. When the barriers to achieving these goals are created by social categorisation and similarity-attraction, then HRM strategies become crucial in the management of conflict and communication and the creation of goals. This section sets out some of the benefits that accrue to organisations that manage diversity and harness it to improve the bottom line.

3.2 Productive diversity, HRM, & qualitative savings

Improved Decision-Making, Quality of Ideas and Innovation

From the information and decision making perspectives, diversity improves the quality of decisions, solutions and ideas. The evidence shows that when groups overcome the negative effects of social categorisation, unique information and ideas can be shared between group members, developing higher quality solutions. Given the increasing reliance on team structures in Australian organisations, these process problems need to be resolved so that the positive effects of diversity can be captured.

The 'value in diversity' literature has promoted the notion that heterogeneous workplaces and teams of workers will produce more creative responses to problems, driving innovation. Heterogeneity will create systematic variance in attitude, cognitive functioning and beliefs across demographic variables within the work group. A greater range of approaches to problem-solving and an absence of 'group think', when nurtured, leads to greater innovation by diverse teams. Kilduff, Angelmar *et al.* (2000) find successful teams both experience and allow interpretative ambiguity in the early phases of their development, exhibiting more interpretative clarity over time. Rotter and O'Connell's (1982) research indicates that women and multilingual employees are key team members because they feel more comfortable with such ambiguity.

Ancona (1990, cited in Ancona and Caldwell, 1992) argued that diversity in group composition may slow down progress in the short-term, due to conflict and communication problems. However, there is evidence that diversity fosters speed and innovation over the whole development cycle. In a study of UCLA students, Cox and Blake (1991) demonstrated that well-managed culturally heterogeneous work teams outperformed culturally homogeneous teams. This finding was supported by Kirchmeyer and Cohen (1992), who studied group processes of 180 undergraduate students in teams of four and identified the importance of constructive conflict. They found that greater use of constructive conflict enhanced the validity and significance of a group's decisions and that such conflict induced greater participation and support from ethnic minorities. These studies demonstrate the importance of managing diversity and encouraging constructive, rather than emotional, conflict to produce higher quality solutions.

Studies in the 1950s and 1960s provided evidence for these positive diversity effects much earlier. Hoffman (1959) and Hoffman and Maier (1961) ran a number of experiments at the University of Michigan with four person student groups. The results showed that groups of mixed gender and profiles produced substantially higher-quality solutions than homogenous groups. Diversity leads to greater conflict of ideas, forcing heterogeneous teams to consider more alternatives and leading to higher quality work. McGrath (1984) found complimentary findings, whereby informational diversity raised decision-making perspectives, leading to higher performance. However, these benefits only occur when interpersonal and early-stage problems and conflicts with heterogenous teams are resolved first.

There is ample evidence that ethnically diverse groups generate more creative responses to problems. Laboratory studies (McLeod and Lobel 1992; Watson, Kumar *et al.* 1993) found that ethnically diverse groups do not necessarily produce more ideas in response to problems than their homogenous counterparts, but rather they develop higher quality responses. Watson *et al.* (1993) found this higher quality took time to emerge as the diverse groups at first found some difficulty in communicating and developing appropriate routines.

Much of the research on diversity and performance has taken place in laboratory studies. The general finding has been that in the case of non-routine and complex problems, where creativity is required, 'groups are more effective when composed of individuals with diverse types of skills, knowledge, abilities and perspectives' (Jackson, May *et al.* 1995:150). Research in workplace settings has reinforced this. Pelz (1986, cited in Jackson, 1992) in a study of B29 bomber crews found communication with colleagues with different training and expertise increased productivity. O'Reilly, Williams and Barsade (1997) in a study of 42 teams in a large firm found that higher quality took time to emerge due to early stage difficulties in communication and the development of routines. These findings reflect the interaction between the theoretical perspectives that inform diversity research: interpersonal conflict and communication problems inhibit functioning in early stages, however enhanced performance can occur over time, particularly when early-stage and interpersonal issues are addressed.

Learning and the Creation of Knowledge

Long-term benefits of effective diversity management relate to organisational learning and the creation of knowledge, both important rewards for appropriate HRM strategies. When organisations face the challenges of diversity in the workplace and tap into the decision making, problem solving, innovation and creativity benefits, organisational learning is fostered, creating the knowledge corporation.

Developing a workforce that is flexible and conducive to new and unique ways of thinking and doing is critical. Having a diverse workforce foster corporate learning when productive diversity management policies and practices are supported by HRM strategies. Firms that can harness their diverse human resources are better at service and product innovations and meeting the needs of a diverse marketplace. They meet their needs head on and dominate.

3.3 Summary: productive diversity & the role of HRM

There are a number of HRM benefits from managing diversity. Productive diversity reduces significant costs that emerge when diversity is not managed. Lower job satisfaction and commitment, often caused by conflict, communication problems, and an inability to socially integrate that precede absenteeism and turnover, are confronted and addressed. Litigation from discrimination and harassment cases, which have monetary and reputation effects that impact on the bottom line are reduced. The HRM model demonstrates how these factors fit together and feed negatively into the bottom line. In addition to cost reduction and minimisation benefits, there are clear performance benefits to be captured by firms that use HRM to manage diversity. Decision-making, problem solving, creativity and innovation all benefit from utilising a diverse workforce productively. These benefits translate to bottom line benefits for the organisation. 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 next section sets out HRM strategies that can assist organisations in tapping into the potential of their workforce for the bottom line.

4.0 HRM STRATEGIES TO SUPPORT PRODUCTIVE DIVERSITY

4.1 Introduction

Given the previous discussions on the HRM challenges and benefits of diversity in workforce composition, and the suggestion that HRM strategies are crucial to facing the challenges and reaping the benefits to create a 'diversity dividend', this section sets out specific HRM strategies for organisations. Firms must direct resources to managing diversity effectively in order to reduce the costs of diversity and capture the benefits.

The social categorisation and similarity/attraction literature highlight points of HRM intervention as tailoring productive diversity strategies to task type, task complexity, task interdependence, group longevity, common goals, identity, and collective culture⁷. Intervening at these points of interaction reduces the costs associated with social categorisation and secures the benefits of improved information processing and enhanced decision-making. The literature on the effects of diversity on the quality of work life produce supportive evidence for the predictions made by social categorisation and similarity/attraction theories⁸. This suggests that many organisations have experienced significant problems and faced costs accruing from ineffective or absence of productive diversity management practices. Rather than being a reflection of any insurmountable or fundamental obstacles to managing diverse workers, these draw attention to the value that effective HRM diversity practices can bring to the firm. That is, 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.

The ultimate aim of these HRM strategies is best summarised by Cox (1993:241):

...organisations must be transformed from monolithic or plural organisations to a multicultural model. The multicultural organisation is characterised by a culture that values diversity, pluralism acculturation, full integration of non-majority members both formally and informally, and absence of bias in management systems, and a minimum of inter-group conflict.

Top management needs to support and drive such change. As Nicholas and Sammartino (2000) demonstrated, this has not been the case in Australia. There needs to be a redefinition of Australian firms from monolithic or plural firms to a model of firm that recognises and values the diversity of its workforce. Rather than encouraging assimilation, firms need to develop and encourage cultures that value diversity, that accept and integrate all members and importantly, this integration needs to be both formal and informal. Bias and discrimination in systems such as appraisal and remuneration must be recognised and addressed. In a multicultural firm there is no place for bias in remuneration or appraisal.

4.2 Diversity Audits, Cultural Audits, Social Integration and Cohesion

Diversity Audits

It is not evident that Australian managers are aware of the composition of their organisations. Failures to identify the demographics, attitudes, values and latent skills within a workplace represent missed opportunities. As such, the first step in any firm's attempt to harness their diversity advantage should be to conduct a diversity audit. The process and aims are similar to skill audits familiar to HR practitioners. Information sought would include the cultural identification of employees and information relating to language skills.

Any such audit needs to pay particular attention to the demographics and attitudes of middle and upper management. Even organisations that show up as quite diverse in numerical terms may in fact be quite homogenous higher up the hierarchy. Mono-cultural managerial dominance may be quite deleterious as the views and expectation of this power group will likely be the most significant influence on organisational norms and expectations. These norms, expectations and potentially biases will be embedded in the policies and practices of the organisation, and will need to be confronted if diversity is

⁷ See Section 4 Potential moderators in “Document 1: The Theory of Diversity and Group Performance” for discussion of points of intervention.

⁸ See Section 3 and 5 in “Document 1: The Theory of Diversity and Group Performance”

to be harnessed. Further, it sends mixed signals to employees if top management is championing diversity from a mono-culturist perspective.

Culture Audits

Cox (1993) stresses the importance of also running an audit on the processes, organisational culture and HR policies of the organisation to identify any institutional cultural biases that may exist. For this to be effective organisations should establish a diversity taskforce comprising employees from across the organisation. This may need to be initially facilitated by an external diversity consultant who can conduct an open evaluation of current practices in areas such as remuneration, recruitment, training, performance appraisal and promotions.

The aim of such an audit is to uncover procedural biases, however subtle, and develop new, more effective policies. The audit should extend beyond mere policy to consider what behaviour is encouraged and valued within the workplace's organisational culture. Such a process identifies certain organisationally encouraged behaviours that are accepted by some groups in the firm, but abhorrent to others. The taskforce should be charged with examining the importance of such behaviours in the bigger picture of organisational success, and setting out new behaviours to be encouraged, rewarded and hopefully translated into organisational culture.

Social Integration and Cohesion

Culture audits indicate areas where HRM strategies can assist in creating social integration and cohesiveness. Recognising the diversity inherent in a workforce and responding to these differences can reduce absenteeism, an important precursor to turnover. Further, it can also increase job satisfaction and commitment and improve the work life of employees. The reduction in absenteeism and turnover costs is an important justification for these strategies, as are the more positive attitudinal responses that can be expected from employees.

A lack of social integration or cohesion is a major barrier to group functioning and performance. The basic link between quality of work life and productivity is social integration or cohesiveness. Cohesion is considered the key to smooth group functioning, and it reflects similarity and liking. If similarity and liking can be encouraged, then communication flows are smoother and interpersonal conflict reduced. Higher levels of social integration are associated with lower levels of dissatisfaction and higher levels of commitment, which predict lower absenteeism and turnover. There are a number of strategies that organisations can adopt to foster social integration at a strategic level. Rather than individuals identifying with and liking others based on simple demographic factors, HRM strategies must encourage this identification at a higher level, for example, as organisational or team members. This suggests that corporate culture programs will be important, as will the creation of higher order goals such as respecting diversity and demographic difference.

4.3 HRM policy changes

Culture audits are likely to identify any number of modifications an organisation may need to introduce to company procedures, policies and value systems. These changes will need to be implemented with the support and understanding of all levels of management within the organisation. Such support only comes with a clear understanding of the rationale behind the changes, in particular the bottom-line gains involved. Diversity training at each level of hierarchy is important, and assists in facilitating organisational change.

Iverson, Deery *et al.* (1995) suggest an employee's level of job satisfaction will increase with any change in management policy that increases the employee's participation in decision-making, their

support from co-workers and supervisors, their perception of fair treatment, their promotional opportunities and/or lowers levels of job stress. These factors are important in relation to job satisfaction for workers in diverse work settings. Policy changes that allow for more decision-making power, provide employees with the space to discuss and share unique information and participate in higher quality problem solving.

Support from co-workers and supervisors and perception of promotional opportunities are also important issues that need to be addressed by senior management and HRM strategies. Introducing policies and practices that remove discrimination in appraisal systems and the promotion of individuals based on merit will improve job satisfaction. In particular, minority groups in the workplace need examples of promotion of similar others based on merit (but not tokenism) and fair and equitable appraisals to allay perceptions of discriminatory practices. Diversity awareness and appreciation training of supervisors is critical here, as they are the ones usually responsible for appraisal and remuneration. Alternatively, more sophisticated appraisal systems may be useful, such as the 360-degree system which bases performance appraisal on the input of a number of associated people, including, subordinates, co-workers, self and customers.

When there is a lack of co-worker and/or supervisor support in the workplace then job stress may become an issue. Lack of support may occur when an individual is 'different' and feels ostracised from the majority group, and he/she has to deal with interpersonal conflict and communication problems. The resulting job stress feeds into productivity and performance, and ultimately the bottom line performance of an organisation. The lack of support systems and stress need to be addressed by HRM strategies aimed at reducing interpersonal conflict, increasing task or constructive conflict, and improving training in diversity awareness and appreciation. As Iverson *et al* (1995) argued, management initiatives to deal with stress and support should increase job satisfaction. As an important indicator of absenteeism, performance and turnover, job (dis)satisfaction has real bottom line benefits.

Family or personal responsibilities are a major contributing actor to absenteeism. Iverson (2000) stated that HRM strategies that recognise these responsibilities and build flexibility in relation to absence policies (e.g. flexi-time programmes) can reduce absenteeism rates. Child-care provision or referral service can also assist employees with parental responsibilities, which may cause workplace absence. Recognising that individuals have these responsibilities, and that there are times when they may impact on their work life, demonstrates organisational support for workers. Introducing initiatives to deal with families lead to enhanced job satisfaction and reduced costs associated with absenteeism and turnover.

4.4 Finding a fit between task structure and diversity

As Hickman and Creighton-Zollar (1998) state, diversity has the potential to improve performance under certain conditions. Simply forming a diverse team will not produce positive results; there must be strategic planning and commitment by executive managers, purposeful team structuring, comprehensive training programs and reward systems designed to reinforce teamwork. Top management championing of HRM strategies that address productive diversity is critical. Top management must be seen not only to subscribe to diversity principles and policies, but also to actively implement diversity practices. Encouraging respect for diversity in the workplace, but maintaining a homogenous top management team sends the wrong signals to employees, and also to the wider community.

Teams need to be structured in purposeful ways. There is no benefit from simply selecting a team of workers who differ on a number of characteristics and then expecting enhanced performance. Team members must be selected on the basis of their skill sets and expertise and adequate resources must be provided to guide diverse teams through early-stage hurdles. Training of team leaders and members is critical to the performance of diverse teams. Also, the benefits of diversity come from the positive and constructive conflict that emerges when information and knowledge is shared within groups.

However, if the task to be undertaken is simple or routine, this conflict may emerge as interpersonal conflict. Functionally diverse teams work best when they have complex, non-routine tasks to undertake, and teams should be structured accordingly. Further, reward systems need to be structured to encourage constructive conflict within teams. Team-based performance bonuses, for example, can provide incentives for constructive interactions within groups.

4.5 HRM Functions to Achieve Productive Diversity

Training

Training and development programs are important in improving individual and organisational outcomes. Individuals require awareness training and teams require training in conflict and negotiation strategies. There is scope to offer a broader range of delivery modes, in terms of timing of training, location of training, length of training, language used and communication forms. All employees should receive effective instruction. Organisations may also target for greater training of those employees who currently are disadvantaged due to career breaks or poor English language skills. Organisations may also want to encourage the development of foreign language skills amongst Anglo employees.

Education and Training: Awareness of Issues

One of the biggest hurdles to successful diversity management can be employee hostility to the change it represents. The hostility may be mere fear of change, concern from the majority that they may be losing their power base, or concern from managers that it represents a condemnation of their past practices. Education is a key to addressing these worries and it must be comprehensive and ongoing. It will need to tackle the fears of all parties, and ideally will result in a clear sense of ownership of the issue for all parties.

Cox (1993) described a number of training programs run by US firms. He identified the importance of increasing senior and line management's understanding of the case for diversity, and garnering their support in presenting this case to their employees. He noted a variety of different approaches, dependent on audience, timing and forum. Cox advocated a mix of intellectual and emotion-based learning, and use of a variety of communication modes, from awareness workshops, discussions and video presentations to use of staff newsletters and meetings to keep the issues on the agenda.

THE EMPHASIS IS ON FORMING A COMMON UNDERSTANDING OF THE POSITIVES OF DIVERSITY, AND ALSO AN UNDERSTANDING OF THE REASONS FOR ANY PROBLEMS THAT HAVE ARISEN. AN EMPHASIS SHOULD BE PLACED ON THE COMMON GOALS OF THE EMPLOYEES WITHIN THE ORGANISATION. EDUCATION CONDUCTED WITHIN WORK TEAMS SHOULD EMPHASISE THE COMMON AIMS OF THE GROUP AND THE SCOPE FOR EFFICIENT OUTCOMES. AS MULLEN AND COOPER (1994) AND GAERTNER, MANN ET AL. (1990) HIGHLIGHTED, THE ACHIEVEMENT COMMON AIMS IS LIKELY TO RESULT IN GREATER TEAM SOCIAL COHESION, AS THE PROCESS OF SOCIAL CATEGORISATION BECOMES MORE INCLUSIVE.

Ancona and Caldwell (1992) argued that team level training and facilitation in conflict management and negotiation was required to reduce negative effects. At the organisational level, the authors found that teams needed to be protected from political pressures that frustrate team performance, and rewarded for team-based performance, rather than functional outcomes. Another important strategy was to reward diverse teams in different ways to homogenous teams. Managers must also be aware of the fact that whilst diversity in team composition slows down progress in the short-term, it fosters innovation and speed when we consider the full product cycle rather than a static point within the cycle (Ancona, 1990 cited in Ancona and Caldwell, 1992).

Jackson, May *et al.* (1995) suggest training needs to occur at all levels of the hierarchy to ensure recognition of diversity challenges throughout the organisation. It is important that majority members are trained to consider different perspectives in team processes, and to seek out alternate views on problems or decisions. 'Minority' individuals need training on assertiveness to overcome some of the barriers raised by social categorisation and similarity-attraction processes. Jackson, May *et al.* (1995) stress however, that these different training agendas need to occur simultaneously.

Setting Diversity Goals

The progress and success of diversity-driven change must be monitored and evaluated. This is made easier through the development of appropriate measures of 'diversity success.' Some outcomes of HRM policies are more easily measured than are others. For example, organisations should have ready access to absenteeism and voluntary turnover data. Further, when organisation track applicant and recruitment information, they should be able to measure whether they have been successful in attracting and recruiting quality people, including members of non-majority groups.

More complex data on shifts in job satisfaction, organisational commitment, team allegiances, and attitudes to diversity itself can be gathered from ongoing employee surveys, feedback, and appraisal sessions. When the data format is consistently developed across the organisation, the firm can benchmark outcomes, and communicate organisational success to stakeholders in a meaningful fashion. The consistent use of such monitoring, in particular its visibility to employees, aids the diversity management process itself, reinforcing the message that the organisation is serious about change.

A further signal of the weight the firm places on the diversity agenda is to establish clear and accountable diversity objectives for all levels of employees. Evaluation of employee performance in achieving these objectives should be included in the staff appraisal process. Again, this is reliant on the development of relevant and quantifiable data measurement procedures. As Cox (1993:239) outlined, "[t]he ultimate goal must be zero correlation of socio-cultural identity with opportunity, motivation, and achievement as well as full capitalisation on the potential benefits of a diverse workforce."

Recruitment, Promotion, and Flexibility

The most obvious procedural changes are likely to be introduced in the HR areas, such as recruitment, promotion, flexible work practices, and training delivery. At the recruitment stage, organisations should actively pursue applicants from those socio-cultural groups the diversity audits identified as under represented. Such recruitment usually involves targeting advertisements and recruitment drives to particular audiences. It may also include appointing more diversely represented interviewing panels, and ensuring selection criteria be not culturally biased. Affirmative action to hire a greater proportion of employees for under represented groups is an appropriate strategy when there is a sufficiently large pool of suitably qualified applicants.

Promotion procedures should be adapted in a similar fashion, such that cultural biases are removed, and where possible non-majority employees should be encouraged to seek higher positions. It is valuable to implement mentoring schemes in which employees are given the opportunity to learn from

the experiences of successful colleagues. This serves to demystify the career-building process and provides suitable role models for employees that may, in the past, have felt excluded from such promotion considerations.

Another strategy for improving understanding and increasing participation is to make workplace committees more representative of cultural mix. Not only does this provide the “minority” workers with a greater understanding of the organisation and its activities but encourages more effective and innovative committee outcomes. Furthermore, it will, like all these strategic initiatives, reinforce the message that the input and participation of all employees is valued and that the organisation is committed to diversity management.

One of the biggest obstacles to the work outcomes of large numbers of employees is the value that organisations place on the traditional career structure. It is still harmful to an employee's employment and promotion prospects to have spent any considerable period of time out of paid employment. Time out of work is still viewed as a sign of a lower level of career commitment, and by extrapolation, organisation commitment. External responsibilities, such as family care needs, have also been shown to increase the frequency of absenteeism (Iverson, Deery and Erwin 1995). Although increasing numbers of fathers are accessing paternity and family leave, discontinuous careers and childcare stresses remain overwhelmingly the realm of females. With an aging population, care for aged parents and other family members will add further to these pressures. All these factors have differential impacts across diverse workers, according to ethnicity, gender, socio-economic status and age.

Implementing workplace schemes that allow for greater working hours flexibility, telecommuting, family leave, job-sharing, and childcare initiatives should relieve many of these pressures. Likewise, a greater emphasis on achievements and competencies, rather than tenure and experience levels, in recruitment and promotion criteria should reduce the cultural bias against employees who have chosen to take career breaks. Applicants who have, through necessity, been involved in adult education rather than paid work, such as migrants from non-English speaking backgrounds will also benefit from such a change in perceptions and practices.

Technology-Supported Teams

An important point made by Jackson (1992) in relation to heterogeneity, creativity, problem solving and decision-making, is that face-to-face interaction may not be the most advantageous form of communication. Process issues affect performance in heterogeneous (personal attributes) groups and face-to-face communication may exacerbate this, due to social categorisation and similarity/attraction effects. This then raises issues about how best to facilitate communication flows between group members to capitalise on their superior creative and decision-making power. In modern organisations this may be facilitated by information technology that allows for real-time communication, without the need for face-to-face interaction. Jackson, May *et al.* (1995) concur, arguing teams need not meet face-to-face on a regular basis, and instead they can rely on electronic communication methods. The benefit of this, they argue is that,

Technology helps ensure anonymity so that when an idea is put forth, it is judged on its own merit, not by the location on the status hierarchy of the team member who put it forth (Jackson, May et al. 1995:153).

This suggests that technology can act as a ‘leveller’ in organisations. As Jackson, May *et al.* (1995) argue, anonymity acts to reduce the negative effects of social categorisation and similarity-attraction allowing ideas to be judged on their merit, rather than perceptions and stereotypes.

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. Additionally, HR managers need to tailor their strategies to the structure of the group or the context within which they operate, as they support particular types of interactions. Some of the HRM strategies, set out above, assist in overcoming the negative effects of social categorisation and similarity-attraction, but there needs to be methods of encouraging the predicted superior performance.

Whilst team-based structures can be detrimental when social categorisation and similarity-attraction phases are not addressed, they also hold the key to tapping into a diversity dividend. Jackson *et al* (1995) suggest that organisations should familiarise team members with the causes and effects of status hierarchies in teams through awareness training. This should raise consciousness about why some members do not contribute their thoughts, why different members have high or low status (as social categorisation theory predicts), and why people are constructed as qualified or unqualified. Alternative strategies include, creating situations where status hierarchies develop due to *expertise* not irrelevant status characteristics such as gender or race. For example, teams could be constructed of members all from the same level within the organisation. An alternative is to separate the team into groups of similar individuals and train a team leader to integrate the output of the subgroups (Jackson *et al*, 1995). This strategy is second best, since it is better to provide training to team members.

Fostering successful teams requires the development of trust and the creation of interdependence between members. Managers need to recognise, however, that this takes time. As Hickman and Creighton-Zollar (1998:191) showed in their study of diverse self-directed work teams;

The development of interdependence and trust emerged as team members spend time together. This includes collaborative work time and group social time, which provide opportunities for the development of collegial connections and friendships.

As lines of communication are opened over time, members make valuable contributions and trust and respect is gained, leading to greater openness among members to consider ideas and willingness to take risks (Hickman and Creighton-Zollar, 1998). Much research has demonstrated the importance of providing diverse teams with time to overcome process problems so that performance improvements can emerge (Watson, Michaelson *et al*. 1991; Kirchmeyer and Cohen 1992; Williams and O'Reilly 1998).

5.2 HRM delivering the diversity dividend

There are bottom-line benefits to be gained from managing diversity effectively. Diversity management requires a two-prong strategic approach. The first concentrates on improving the efficiency of the human resource function by reducing the costs associated with poor diversity management. The second goes further, tapping into the positive aspects of having a diverse workforce via fostering superior problem solving and decision-making skills.

The key to these strategies is the support of top management. Management must develop capabilities in managing diversity, endeavouring to mould a competitive advantage over other organisations both domestically and internationally. Such capabilities must be built; they do not emerge spontaneously and they require top management to champion HRM strategies to address diversity issues.

The HRM business case for productive diversity is simple: HRM strategies support the achievement of productive diversity since HRM functions improve individual and organisational outcomes, producing returns for the bottom-line. When human resources are viewed as the source of an organisations competitive advantage, then employees need to be offered the opportunity and support to demonstrate

their potential. Implementing HRM strategies aimed at improving job satisfaction and organisational commitment will assist in reducing absenteeism and turnover, and improve performance. Overcoming the obstacles of social categorisation and similarity-attraction will provide the platform for organisations to harness diversity to improve performance and gain competitive advantages over other firms.

6.0 REFERENCES

- Abbott, J., H. De Cieri, *et al.* (1998). "Costing turnover: implications for work/family conflict at management level." Asia Pacific Journal of Human Resources **36**(1): 25-43.
- Abraham, R. (1999). "The impact of emotional dissonance on organizational commitment and intention to turnover." The Journal of Psychology **133**(4): 441.
- Adkins, C. L., E. C. Ravlin, *et al.* (1996). "Value congruence between co-workers and its relationship to work outcomes." Group & Organization Management **21**(4): 439-460.
- Ancona, D. and D. Caldwell (1992). "Demography and design: Predictors of new product team performance." Organization Science **3**: 321-341.
- Bedeian, A. G., E. R. Kemery, *et al.* (1991). "Career commitment and expected utility of present job as predictors of turnover intentions and turnover behavior." Journal of Vocational Behavior **39**(3): 331-343.
- Blau, G. J. and K. B. Boal (1989). "Using job involvement and organizational commitment interactively to predict turnover." Journal of Management **15**(3): 115-127.
- Bochner, S. and B. Hesketh (1994). "Power distance, individualism/collectivism, and job-related attitudes in a culturally diverse work group." Journal of Cross-Cultural Psychology **25**: 233-257.
- Burke, R. J. and C. A. McKeen (1996). "Do women at the top make a difference? Gender proportions and the experiences of managerial and professional women." Human Relations **49**(8): 1093-1104.
- Byrne, D. (1971). The attraction paradigm. New York, Academic Press.
- Chatman, J. (1991). "Matching people and organizations: selection and socialization in public accounting firms." Administrative Science Quarterly **36**(3).
- Cohen, A. (2000). "The relationship between commitment forms and work outcomes: a comparison of three models." Human Relations **53**(3): 387-417.
- Cotton, J. L. and J. M. Tuttle (1986). "Employee turnover: A meta-analysis and review with implications for research." Academy of Management Review **11**(1): 55-70.
- Cox, T. H. (1993). Cultural diversity in organizations: theory, research and practice. San Francisco, Berrett-Koehler.
- Cox, T. H. and S. Blake (1991). "Managing cultural diversity: implications for organizational competitiveness." Academy of Management Executive **5**(3): 45-56.
- CREW (1998). Unfinished Business: Equity for Women in Australian Workplaces. Canberra, Commonwealth of Australia.
- Dass, P. and B. Parker (1996). Diversity: a strategic issue. Managing Diversity: Human Resource Strategies for Transforming the Workplace. E. E. Kossek and S. A. Lobel. Cambridge, Blackwell.

- Deery, M. and R. D. Iverson (1996). Enhancing productivity: intervention strategies for employee turnover. Productivity Management in Hospitality and Tourism. N. Johns. London, Cassell: 68-95.
- Drago, R. and M. Wooden (1992). "The determinants of labor absence: economic factors and workgroup norms across countries." Industrial and Labour Relations Review **45**(2): 764-778.
- Eby, L. T., D. M. Freeman, *et al.* (1999). "Motivational bases of affective organizational commitment: a partial test of an integrative theoretical model." Journal of Occupational and Organizational Psychology **72**(4): 463-483.
- Eskildsen, J. K. and M. L. Nussler (2000). "The managerial drivers of employee satisfaction and loyalty." Total Quality Management **11**(46): 581-588.
- Farrell, D. and C. L. Stamm (1988). "Meta-analysis of the correlates of employee absence." Human Relations **41**(3): 211-227.
- Ferris, G. R. and V. Yates, L (1985). "The influence of subordinate age on performance ratings and causal attributions." Personnel Psychology **38**: 545-557.
- Fossum, J. A. and M. K. Fitch (1985). "The effects of individual and contextual attributes on the sizes of recommended salary increases." Personnel Psychology **38**: 587-602.
- Gaertner, S., J. Mann, *et al.* (1990). "How does the cooperation reduce intergroup bias?" Journal of Personality and Social Psychology **59**(692-704).
- Greenhaus, J., S. Parasuraman, *et al.* (1990). "Effects of race on organizational experiences, job performance evaluations, and career outcomes." Academy of Management Journal **33**: 64-86.
- Guest, D. E. (1987). "Human resource management and industrial relations." Journal of Management Studies **24**(5): 503-521.
- Guzzo, R. A. and E. A. Salas (1995). Team Effectiveness and decision-making in organizations. San Francisco, Jossey-Bass.
- Hackett, R. D. (1989). "Work attitudes and employee absenteeism: a synthesis of the literature." Journal of Occupational Psychology **62**(3): 235-248.
- Hellman, C. M. (1997). "Job satisfaction and intent to leave." Journal of Social Psychology **137**(6): 677-689.
- Heneman, R. L. and D. J. Cohen (1988). "Supervisory and employee characteristics as correlates of employee salary increases." Personnel Psychology **41**: 345-360.
- Hickman, G. and A. Creighton-Zollar (1998). "Diverse self-directed work teams: developing strategic initiatives for 21st century organizations." Public Personnel Management **27**(2): 187-200.
- Hoffman, L. (1959). "Homogeneity and member personality and its effect on group problem solving." Journal of Abnormal and Social Psychology **58**: 27-32.
- Hoffman, L. and N. Maier (1961). "Quality and acceptance of problem solutions by members of homogeneous and heterogeneous groups." Journal of Abnormal and Social Psychology **64**: 401-407.
- Hofstede, G. (1980). Culture's Consequences: International Differences in Work-Related Values. London, Sage.

Hogg, M. A. and D. Abrams (1988). Social Identifications: A social psychology of intergroup relations and group processes. London, Routledge.

Ibarra, H. (1992). "Homophily and differential returns: sex differences in network structure and access in an advertising firm." Administrative Science Quarterly **37**(3): 422-447.

Iverson, R. (2000). Managing employee absenteeism and turnover for competitive advantage. Human Resource Strategies: An Applied Approach. A. Travaglione and V. Marshall. Sydney, McGraw-Hill: 271-309.

Iverson, R., S. Deery, *et al.* (1995). Absenteeism in the health services sector: a causal model and intervention strategies. Managing Absenteeism: Analysing and preventing labour absence. P. Riedel, M. Short and A. Preston. Canberra, Department of Industrial Relations: 211-228.

Jackson, S., J. Brett, *et al.* (1991). "Some differences make a difference: Individual dissimilarity and group heterogeneity as correlates of recruitment, promotions and turnover." Journal of Applied Psychology **76**: 675-689.

Jackson, S. E. (1992). Team composition in organizational settings: issues in managing an increasingly diverse work force. Group Process and Productivity. S. Worchel, W. Wood and J. A. Simpson. Newbury Park, Sage Publications.

Jackson, S. E., K. E. May, *et al.* (1995). Understanding the dynamics of diversity in decision-making teams. Team Effectiveness and Decision Making in Organizations. R. A. Guzzo and E. Salas. San Francisco, Jossey-Bass: 204-261.

Jeanquart-Barone, S. (1996). "Implications of racial diversity in the supervisor-subordinate relationship." Journal of Applied Psychology **26**(11): 935-944.

Jehn, K. A. (1995). "A multimethod examination of the benefits and detriments of intragroup conflict." Administrative Science Quarterly **40**(2): 256.

Jehn, K. A., G. B. Northcraft, *et al.* (1999). "Why differences make a difference: a field study of diversity, conflict, and performance in workgroups." Administrative Science Quarterly **44**: 741-763.

Johnson, A. A. (1995). "The business case for work-family programs." Journal of Accountancy **August**: 53-58.

Junor, A. and H. Coventry (2001). Diversity management. Australian Handbook of Public Sector Management. C. Aulich, J. Halligan and S. Nutley. Crows Nest, NSW, Allen & Unwin: 86-98.

Kilduff, M., R. Angelmar, *et al.* (2000). "Top management-team diversity and firm performance: examining the role of cognitions." Organizational Science **11**(1): 21-34.

Kirchmeyer, C. and A. Cohen (1992). "Multicultural groups: their performance and reactions with constructive conflict." Group and Organization Management **17**: 153-170.

Laband, D. A. and B. F. Lentz (1992). "The effect of sexual harassment on job satisfaction, earnings, and turnover among female lawyers." Industrial and Labour Relations Review **51**(4): 594-608.

Lawlink (1999). Anti-discrimination guidelines for employers and managers. <http://www.lawlink.nsw.gov.au/adb.nsf/pages/employerguide>.

Lee, K. (1992). Structural changes in the Korean economy and Korean investment in China and ASEAN. Emerging Patterns of East Asian Investment in China From Korea, Taiwan, and Hong Kong. S. J. L. Croix, M. Plummer and K. Lee: 217 - 237.

Linville, P. and E. Jones (1980). "Polarized appraisals of outgoing members." Journal of Personality and Social Psychology **38**: 689-703.

Mathieu, J. E. and D. M. Zajac (1990). "A review and meta-analysis of the antecedents, correlates, and consequences of organizational commitment." Psychological Bulletin **108**(2): 171-194.

McGrath, J. (1984). Groups: Interaction and performance. Englewood Cliffs, NJ, Prentice-Hall.

McLeod, P. L. and S. A. Lobel (1992). "The effects of ethnic diversity on idea generation in small groups." Academy of Management Best Paper Proceedings: 227-231.

Milliken, F. J. and L. L. Martins (1996). "Searching for common threads: understanding the multiple effects of diversity in organizational groups." Academy of Management Review **21**(2): 402-433.

Mueller, C., W., A. Finley, *et al.* (1999). "The effects of group racial composition on job satisfaction, organisational commitment, and career commitment: The case of teachers." Work and Occupations **26**(2): 187-219.

Mueller, C., W. and E. Lawler, J. (1999). "Commitment to nested organizational units: some principles and preliminary findings." Social Psychology Quarterly **62**(4): 325-346.

Mullen, B. and C. Cooper (1994). "The relation between group cohesiveness and performance: an integration." Journal of Personality and Social Psychology **115**: 210-227.

Nicholas, S. and A. Semmartino (2000). Corporate Awareness of Diversity in the Australian Workplace: The Mind of the CEO. Melbourne, Australian Centre for International Business: 148.

Nonaka, I. and Takeuchi (1995). The Knowledge-Creating Company: How Japanese Companies Create the Dynamics of Innovation. New York, Oxford University Press.

O'Reilly, C., D. Caldwell, *et al.* (1989). "Work group demography, social integration, and turnover." Administrative Science Quarterly **34**: 21-37.

O'Reilly, C. and S. Flatt (1989). Executive team demography, organizational innovation, and firm performance. Forty-ninth Annual Meetings of the Academy of Management, Washington, DC.

O'Reilly, C., K. Williams, *et al.* (1997). Group demography and innovation: does diversity help? Research in the Management of Groups and Teams. E. Mannix and M. Neale. Greenwich, JAI Press.

Parasuraman, S. (1982). "Predicting turnover intentions and turnover behavior: a multi-variate analysis." Journal of Vocational Behavior **21**: 111-21.

Pelled, L. H., K. M. Eisenhardt, *et al.* (1999). "Exploring the black box: an analysis of work group diversity, conflict, and performance." Administrative Science Quarterly **41**(1): 20.

Pfeffer, J. (1995). "Producing sustainable competitive advantage through the effective management of people." Academy of Management Journal **19**(1): 55-72.

Riedel, P., M. Short, *et al.*, Eds. (1995). Managing absenteeism: analysing and preventing labour absence. Industrial Relations Research Series. Canberra, Department of Industrial Relations.

- Riordan, C. and L. Shore (1997). "Demographic diversity and employee attitudes: examination of relational demography within work units." Journal of Applied Psychology **82**: 342-358.
- Robinson, G. and K. Dechant (1997). "Building a business case for diversity." Academy of Management Executive **11**(3): 21-31.
- Rotter, N. G. and A. N. O'Connell (1982). "The relationships among sex-role orientation, cognitive complexity and tolerance for ambiguity." Sex Roles **8**: 1209-1220.
- Sackett, P., C. DuBois, *et al.* (1991). "Tokenism in performance evaluation: the effects of work representation on male-female and black-white differences in performance ratings." Journal of Applied Psychology **76**: 263-267.
- Sanchez, J. I. and P. Brock (1996). "Outcomes of perceived discrimination among Hispanic employees: is diversity management a luxury or a necessity?" Academy of Management Journal **39**(3): 704-19.
- Schappe, S., P. and A. Doran, C. (1997). "How does fair treatment affect employee commitment to an organization? a field study of financial holding company employees." The Mid-Atlantic Journal of Business **33**(3): 191-201.
- Schuler, R. S., P. J. Dowling, *et al.* (1992). Human Resource Management in Australia. Pymble, Australia.
- Scott, K. D. and G. S. Taylor (1985). "An examination of conflicting findings on the relationship between job satisfaction and absenteeism: a meta-analysis." Academy of Management Journal **28**(3): 599-612.
- Tajfel, H. (1981). Human Groups and Social Categories. Cambridge, Cambridge University Press.
- Tajfel, H. and J. Turner (1985). The social identity of intergroup behavior. Psychology and Intergroup Relations. S. Worchel and W. Austin. Chicago, Nelson-Hall: 7-24.
- Tsui, A. and C. O'Reilly (1989). "Beyond simple demographic effects: the importance of relational demography in superior-subordinate dyads." Academy of Management Journal **32**: 402-423.
- Tsui, A. S., T. D. Egan, *et al.* (1992). "Being different: relational demography and organizational attachment." Administrative Science Quarterly **37**(4): 549-579.
- Turner, J. C., M. A. Hogg, *et al.* (1987). Rediscovering the Social Group: A self-categorization theory. Oxford, Basil Blackwell.
- Verkuyten, M., W. De Jong, *et al.* (1993). "Job satisfaction among ethnic minorities in the Netherlands." Applied Psychology: An International Review **42**: 171-189.
- Wagner, W., J. Pfeffer, *et al.* (1984). "Organizational demography and turnover in top management groups." Administrative Science Quarterly **29**: 74-92.
- Wahn, J. C. (1998). "Sex difference in the continuance component of organizational commitment." Group & Organization Management **23**(3): 256-267.
- Watson, W., K. Kumar, *et al.* (1993). "Cultural diversity's impact on interaction process and performance: comparing homogeneous and diverse task groups." Academy of Management Journal **36**: 560-602.
- Watson, W. E., L. K. Michaelson, *et al.* (1991). "Member competence, group interaction, and group decision making: a longitudinal study." Journal of Applied Psychology **77**: 803-819.

Wharton, A. and J. Baron (1987). "So happy together? The impact of gender segregation on men at work." American Sociological Review **52**: 574-587.

Williams, K. Y. and C. A. O'Reilly (1998). "Demography and diversity in organizations: a review of 40 years of research." Research in Organizational Behavior **20**: 77-140.