

the diversity dividend

Australia has one of the most culturally and ethnically diverse workforces in the world, yet research by the Australian Centre for International Business shows that few companies put diversity management into practice or recognise the benefits for the bottom line.

As one of the most culturally and ethnically diverse nations in the world, Australia has a largely untapped resource in its diverse workforce—a resource that potentially holds the key to future business success.

The different perspectives, skills and life experience that a diverse workforce brings to the workplace can enhance an organisation's capacity to embrace the changing needs of employees, business and customers.

Yet new research shows that few Australian firms have prioritised diversity management (DM) and even fewer have developed diversity capabilities.

A survey of 227 CEOs in some of Australia's largest corporations has revealed that top management generally fails to recognise the importance of diversity management, both for employee and organisational performance.

Almost 4.4 million Australian residents are overseas-born, 3.5 million residents are second-generation Australians, and 2.5 million Australians speak a language other than English at home.

Australia's indigenous population is approaching 400,000 and is growing at a faster rate than the non-indigenous population. The female workforce has reached 4.2 million

and is growing at a faster rate than male participation rates.

As well as this cultural, ethnic and gender diversity, Australian workplaces include people who differ across characteristics such as age, religion, sexual orientation, socio-economic status, education, family status, and physical and mental ability. People also differ in relation to more organisation-related

characteristics such as tenure, training and hierarchical position.

While these differences pose challenges, they also present incredible opportunities for Australian business.

Diversity in the workplace presents myriad challenges to employees and HR managers alike.

Differences in religion, gender, education, age, culture and so on mean there is a tendency for short-term interpersonal conflict to arise, because people have different perspectives, experiences, ideas, opinions and values. Interpersonal conflict also occurs because people tend to be attracted to people similar to themselves, leading to factionalism or 'in' and 'out' groups in the workplace.

The effects of this sort of interpersonal conflict on performance can be heightened in organisations that have adopted team-based structures, because of the increased frequency of interaction and high levels of interdependence among team members.

This has led to the finding in some studies that diversity in team composition does not produce positive performance effects.

However, HR strategies such as establishing common goals, creating collective cultures and implementing effective diversity management can overcome these problems,

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channelling difference into potential performance pluses.

Paradoxically, interdependence and team-based structures hold the key to unlocking the potential bottom-line benefits of effective diversity management, because diverse teams pool valuable information, undertake careful analysis, improve problem-solving capabilities and enhance creativity and innovation.

While short-term process problems can emerge in diverse workplaces, the long-term performance effects can be positive when diversity is harnessed. We call these effects potential performance pluses.

Performance pluses do not emerge spontaneously. Top management must champion diversity management policies, and HR managers must invest time and resources in the development and implementation of diversity policies and practices.

Potential performance pluses emerge because of the diverse nature of experiences, education, and individual characteristics that people bring to the workplace. Tapping into this valuable resource opens up avenues for superior problem-solving and decision-making, creative thinking, and organisational learning.

Bringing these potential performance pluses to the surface not only benefits employees in terms of their experience of work, it also allows organisations to create and build better relationships with customers and suppliers.

Effective diversity management allows firms to operate in culturally complex environments,

both in Australia and abroad, to improve the efficiency of the human resource management function, to foster organisational learning and the creation of knowledge firms, and to facilitate growth through new marketing, product and service initiatives.

These performance pluses only emerge when diversity management is given significance in organisations, when it is linked with organisational strategies and when top managers become 'diversity campaigners'.

Diversity management is not a new term in Australian HR circles. In some firms, diversity management has evolved from equal opportunity compliance into a proactive approach to the management of valuable human resources.

However, despite considerable attention to the issue of diversity management in the 1990s, Australian business has largely failed to recognise the value and importance of diversity management.

Firms that effectively manage diversity harness the diversity of their workforce and reap the 'diversity dividend'. They attract and retain the best staff, and benefit from the multiple perspectives that a diverse workforce brings to every facet of operations: from product development and marketing to managing international operations.

In contrast, the side effects of poor or non-existent diversity management are obvious and expensive. Absenteeism, staff turnover, low job satisfaction, low commitment and litigation are all symptoms of inadequate diversity management.

The effect on the bottom line is unmistakable. Add to these costs the reputation effects that make it difficult for poor DM firms to attract and retain valuable employees, and the business case for diversity management becomes even stronger.

But, while the evidence of the costs of poor diversity management is stacking up, many Australian CEOs and senior managers have yet to recognise the important link between effective diversity management and bottom-line effects.

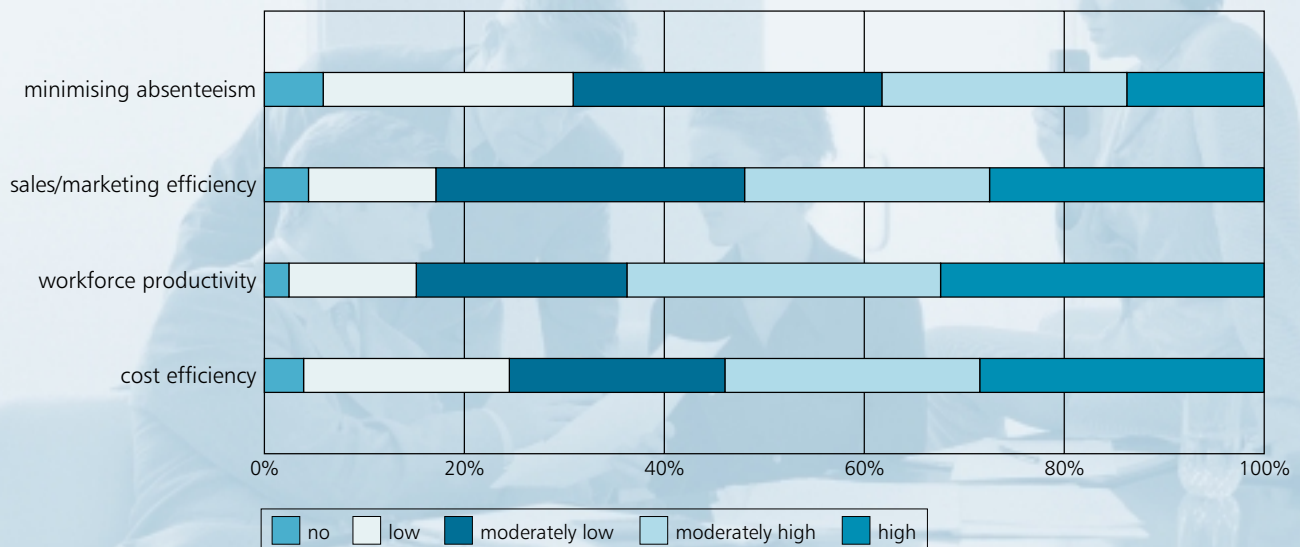
The Australian Centre for International Business conducted a survey of 227 CEOs and senior managers of domestic and foreign-owned international firms in Australia.

It found that CEOs perceive their workplaces as relatively diverse, but that this diversity is unevenly distributed—general management and senior management are more homogeneous than the general workforce.

While 59 per cent of CEOs reported that their firms were ethnically diverse, 39 per cent of firms did not employ indigenous workers, 22 per cent did not employ workers from a non-English speaking background, and only 44 per cent of CEOs described their firm as gender diverse.

The survey showed that basic diversity management functions were not commonly undertaken. Information on the ethnicity of workers was not collected in 73 per cent of firms, 60 per cent had no data on language skills, and 35 per cent had no data on the age of workers.

Diversity management and the bottom line



UNLOCKING POTENTIAL

The Program for the Practice of Diversity Management is situated in the Australian Centre for International Business at the University of Melbourne. Supported by the Department of Immigration and Multicultural Affairs, the program is dedicated to meeting the practical needs of Australian business.

The program is developing a compelling business case for diversity management, which will form the basis of information for business on the implementation of diversity management.

Business models and tool kits will be publicly available as a part of the Federal Government's New Agenda for Multicultural Australia, which promotes the productivity and performance improvements achievable through diversity management.

The program also involves an Electronic Diversity Network, open to all Australian businesses. Your firm is invited to join the Diversity Network via our website at www.ecom.unimelb.edu.au/diverse/ or to contact us on Diversity-Network@unimelb.edu.au

The lack of data means that Australian firms have little information on the characteristics of their workforce, and therefore cannot assess the diversity of their workforce or tap into the knowledge of their employees.

Another worrying finding was the lack of diversity policies in Australian firms. Only 33 per cent of firms surveyed had documented diversity policies and only 14 per cent had Aboriginal employment policies.

Few firms had instituted effective diversity management practices. Only 27 per cent had undertaken diversity training and only 12 per cent had a dedicated diversity officer on staff.

In contrast, 95 per cent had occupational health and safety policies and 83 per cent of firms had equal employment opportunity policies, indicating that the 'compliance culture' remains the dominant approach in Australia.

The survey also showed that CEOs rated diversity and Aboriginal employment policies as of significantly lower importance than EEO and OHS.

Most CEOs failed to see the link between their top three nominated growth strategies and diversity management. The top three strategies were: efficiency in reducing costs in existing products and services; diversification into new products, services and markets in Australia; and globalisation through exporting, alliances and foreign direct investment.

Productive diversity initiatives clearly hold the key to enhancing these growth strategies.

Further, many CEOs did not make the connection between diversity management and bottom-line outcomes. For example, only 14 per cent of CEOs cited minimising absenteeism as a benefit of diversity management, and 31 per cent ranked it as of low or no benefit.

Overall, 16 per cent of CEOs rated diversity management as of no importance and 23 per cent rated it of low importance to overall cost efficiency. Further, 25 per cent ranked diversity management as of no or low importance for the bottom line overall.

There are other areas where CEOs have failed to recognise the importance of diversity management.

Diversity management was regarded as of only medium importance in relation to change management, and 24 per cent of CEOs rated diversity management as of no or low importance to internal communication.

The problem-solving and innovation benefits of diversity management also went unrecognised. The CEOs ranked diversity management as of only medium importance to these issues. Few CEOs saw the importance of diversity management for organising new suppliers.

One area where the potential for diversity management was recognised was in relation to servicing new buyers. In particular, CEOs recognised the potential positive impact of

diversity management on marketing—given culturally and religiously diverse consumers.

But CEOs are not looking at the bigger picture. Strikingly, 30 per cent of CEOs ranked diversity management as of no or low importance in relation to new product development—one of the most obvious by-products of effective diversity management. Only 23 per cent of CEOs ranked diversity management as important to new product development in overseas markets.

In terms of international growth and ventures, an area flagged by CEOs as a key growth strategy, the crucial contribution of diversity management again went unrecognised. More than 30 per cent of CEOs ranked diversity management as of no or low importance in relation to the formation of alliances, despite the fact that using employees with cultural and language skills can enhance international mergers, alliances and joint ventures.

CEOs considered employees' language and cultural skills as of only medium importance in negotiating new international ventures. CEOs said external experts with these skills were as important as the organisation's internal human resources. They did not see the value in having their own people, with inside knowledge of organisational operations, involved in such negotiations. This represents an untapped resource for most Australian firms.

While 68 per cent of CEOs ranked diversity management as of high importance in relation to understanding the cultural complexity of international environments, the practice of managing diversity in this area was low.

Most CEOs used employees with language and cultural skills only 'sometimes' for expatriate assignments. Less than 20 per cent used managers and employees with these intrinsic skills 'always'.

This demonstrates a clear gap between what CEOs report and the practices in Australian firms. This gap is an impediment to international growth and success.

Diversity management also plays an important part in firms' broader social roles, such as developing accepting workplaces and a multicultural Australia. Local CEOs, however, seem not to have embraced this idea.

Surprisingly, only 33 per cent of the CEOs rated diversity management as highly important in creating a corporate culture that values diversity. And only 22 per cent viewed diversity management as of high importance in relation to their social responsibilities.

An alarming finding from the research was that 93 per cent of CEOs were moderately to very satisfied with their firms' productive diversity policies despite the fact that 67 per cent of the firms had no documented diversity policy, 73 per cent had no documented

diversity training, and 88 per cent had no diversity officers.

This lack of recognition of the importance of diversity management in policy and practice stands in stark contrast to Fortune 500 companies in the United States. In a 1998 survey, 84 per cent of HR professionals said their top-level executives consider diversity management important. Clearly, Australian firms are lagging.

Diversity management unlocks the potential of a firm's human resources, improving the bottom line. Harnessing the rich blend of skills, experience, understanding and ways of thinking of a diverse workforce can be a competitive advantage for Australian firms.

Diversity management provides the opportunity to reduce costs associated with absenteeism and turnover, and also provides the opportunity to use diversity for superior problem-solving, innovation, and creativity. Managing diversity across business units and countries can also be enhanced by using the skills already present within Australian organisations, as can new product development and marketing.

Diversity presents challenges to firms and HR managers in particular, but problems associated with having diverse workforces reflect ineffective or non-existent diversity management. And this is a widespread problem in Australia, where there is clearly a lack of diversity management policies and practices.

If Australian businesses are to compete on the domestic and international stage, diverse human resources must be recognised and managed. The management of workplace diversity has the potential to return bottom-line benefits. It is time for CEOs to wake up: investing in diversity management today can produce diversity dividends tomorrow.

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The authors acknowledge the support of the Department of Immigration and Multicultural Affairs.

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