



THE INNOVATION AND LEARNING ADVANTAGE FROM DIVERSITY: A BUSINESS MODEL FOR DIVERSITY MANAGEMENT

Programme for the Practice of Diversity Management

Department of Immigration and Multicultural and Indigenous Affairs in
Cooperation with the Australian Centre for International Business

**THE INNOVATION AND LEARNING
ADVANTAGE FROM DIVERSITY: A
BUSINESS MODEL FOR DIVERSITY
MANAGEMENT**

2002

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Foreword

The Programme for the Practice of Diversity Management has developed a range of diversity management resources. This Business Model argues that an organisation will achieve greater innovation and more effective learning through diversity management. A matching Toolkit addresses strategies for more effectively managing this innovation and learning.

Resources for Diversity Management

The Business Case:

HRM Case
Knowledge Firm Case
International Business Case
Marketing Case
Theory of Diversity and Group Performance

Business Models:

Diversity Management: The Big Picture
Capturing the Diversity Dividend
Engaging Senior Managers
From Compliance to Strategy
Managing Diverse Human Resources Effectively
Adding Value Through HRM
The Innovation and Learning Advantage from Diversity
Managing Diverse Teams
Going Global
Expatriate Management

Toolkits:

Attract, Retain and Motivate
Adding Value Through HRM
Effective Management of Diverse Teams
Innovation and Learning
Using Diversity Climate Surveys
Building Cross-Cultural Capabilities
Keys to Expatriate Success
Engaging Senior Managers

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 and Indigenous Affairs (DIMIA) and the Australian Centre for International Business (ACIB) funded through DIMIA's Productive Diversity Partnership Programme.

The mission of the Programme for the Practice of Diversity Management is to meet the practical needs of business by developing a business case for productive diversity, providing business models for diversity management, and creating toolkits and checklists for assessing diversity. The Programme invites your firm to become a member of the electronic Diversity-Network, which brings Australian business together to promote good diversity practices.

Join the diversity network on-line at <http://www.ecom.unimelb.edu.au/acib/diverse>

Executive Summary

Diversity Management, Innovation And Learning

This Business Model argues that an organisation will achieve greater innovation and more effective learning through diversity management. Such learning and innovation will represent a knowledge advantage for the organisation, which may result in higher profits.

The Value Of Diversity In Learning

Learning is conflictive by nature. Learning is also experiential. Situations where individuals and groups find their existing mindsets, beliefs and knowledge sets challenged will produce effective learning. This is more likely to happen when there is diverse mix of participants and in an environment in which all individuals feel their views are valued.

What Is Workplace Diversity?

Diversity refers to all the ways in which individuals differ. Workplace diversity includes both personal and organisational-related characteristics.

Missed Opportunities: Mind Of The CEO

A 2000 ACIB survey demonstrated that most Australian-based firms are yet to recognise the innovation advantages of diverse workplaces. This represents a substantial missed opportunity for Australian business.

Knowledge, Learning And Innovation In The Workplace

The aim of a knowledge organisation is to create and nurture an environment where innovation is expected, respected and rewarded. An innovating organisation will develop new knowledge and ideas into marketable goods or services, or organisational changes that improve efficiency.

The Link Between Diversity Management And Innovation And Learning

The innovation and learning advantage from diverse groups is one aspect of the business case for adapting management practices to create an environment more suited to a diverse mix of employees. Other business case aspects will also contribute to the innovation and learning advantage, such as greater retention of employee knowledge, and a larger pool of high potential job applicants.

Action Areas For Harnessing The Innovation And Learning Advantage

Organisations can harness the innovation and learning advantage through attention to key action areas. Each action area includes a series of key steps designed to realise the *diversity dividend*. Figure 1 summarises the key steps in these action areas.

Figure 1: Action Areas and key steps for harnessing the innovation and learning advantage

<p>Action Area: Establishing diverse work teams</p> <ul style="list-style-type: none"> • Use existing diversity data • Consider desired work outcomes • Shortlist candidates • Select candidates • Inform teams of diversity rationale <p>Action Area: Resourcing Teams</p> <ul style="list-style-type: none"> • Assess needs • Provide communication training • Provide conflict management training • Encourage the valuing of difference • Develop team identity • Give the team time 	<p>Action Area: Nurturing a learning environment</p> <ul style="list-style-type: none"> • Audit knowledge • Audit learning • Establish learning and innovation goals • Foster creative abrasion • Establish feedback loops • Reward learning and innovation
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The Innovation and Learning Advantage from Diversity: An Introduction

Organisations are becoming increasingly aware of the importance of knowledge as a source of competitive advantage, and are seeking strategies and structural changes that will improve their learning and knowledge management capabilities. Learning and knowledge facilitate innovation.

The drivers for such innovation are inevitably the employees and managers of the organisation - the human resources - who engage in the learning activity and bring with them unique knowledge sets. An organisation with a greater mix of employees of different cultural backgrounds, mental models, and experience and functional levels will, when appropriately managed, generate more innovative products and services.

Australian workplaces are amongst the most diverse in the world. Many generations of immigration have created a diverse range of cultural backgrounds. The workforce is aging. There are more females employed and more employees come from non-English speaking backgrounds. More people are shifting employers and occupations, bringing with them a greater range of skills, experiences and value sets. This diversity represents a substantial advantage for Australian firms in terms of potential learning capacity and innovation.

The challenge for Australian managers is harnessing this *innovation advantage*. The key is good diversity management, where:

- There is a culture of inclusion
- Difference is valued
- All workers feel their knowledge and learning is respected

Diverse workplaces operate differently to homogenous workplaces. There tends to be greater friction, conflict and communication problems. Harnessed, these are the seeds of learning and innovation. This learning will produce more creative and effective outcomes.

It is the role of management to adapt organisational practices to nurture this diversity. This model examines the nature of

knowledge, learning and innovation, and highlights the role of diversity and diversity management in improving organisational performance in these areas. Three action areas are identified and key steps to harnessing the innovation and learning advantage are outlined.

The Value of Diversity in Learning

Learning is conflictive by nature. Learning is also experiential. Situations where individuals and groups find their existing mindsets, beliefs and knowledge sets challenged will produce effective learning. This is more likely to happen when there is diverse mix of participants and an environment in which all individuals feel their views are valued.

Diverse workplaces have a greater capacity to tackle more complex problems and produce better solutions. They outperform homogenous workplaces as they draw on a greater pool of ideas and because their interaction will produce better solutions.

The challenge for business is to manage this diversity effectively so as to harness these outcomes. This business model should assist managers in arguing the case for greater understanding of the impact of diversity and diversity management on learning and innovation outcomes.

Missed Opportunities: Mind of the CEO

In 2000, the Australian Centre for International Business undertook a major survey of Australian corporations to gauge CEO opinions on the importance of diversity management. CEOs and senior managers made up 80% of the 227 respondents. There were a number of important findings regarding the capacity of Australian organisations to leverage diversity into a learning and innovation advantage.

As shown in Figure 2, only 23 percent of the CEOs and senior managers surveyed ranked diversity management as highly important to innovation. Similarly, only 20 percent ranked diversity management as highly important to problem solving within teams. The link between diversity management policies and workplace outcomes was not generally

understood. Only 33 percent ranked diversity management as highly important to creating a company culture valuing difference. Only 32 percent ranked it as highly important to workforce productivity.

Figure 2 – The views of Australian CEOs on diversity management and innovation

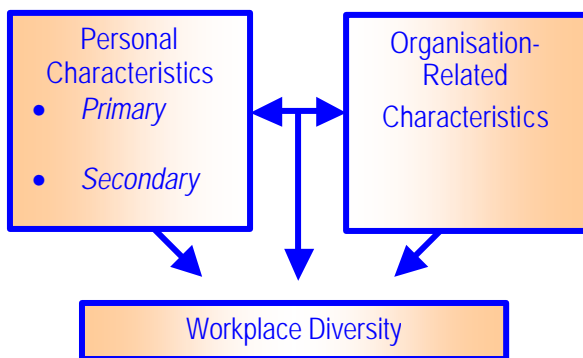


Clearly, there is a need to set out for Australian business the value-in-diversity business case.

What is Workplace Diversity?

Diversity encompasses all the ways in which people differ. Individuals differ on both a personal basis and in terms of organisation-related characteristics.

Figure 3: Components of Workplace Diversity



As illustrated in Figure 3, there are three major components of diversity:

- *Primary personal characteristics* e.g. race, gender, nationality, mental and physical ability

- *Secondary personal characteristics* e.g. marital status, educational level, values, beliefs
- *Organisation-related characteristics* e.g. position in hierarchy, tenure, casual/part-time/full-time status

The complex interaction of these characteristics gives rise to workplace diversity and provides the basis upon which to leverage bottom line benefits.

Knowledge, Learning And Innovation In The Workplace

Research shows that, when harnessed, workplace diversity produces superior problem solving, creativity, and better quality decision-making, which translates into:

- Greater knowledge
- More effective learning
- Higher innovation
- Better servicing of customers and markets
- Increased business competitiveness and success.

Key to understanding the *value in diversity* argument is being familiar with the knowledge, learning and innovation processes that occur in the workplace. It is also crucial that the role of diversity management is understood in terms of its capacity to maximise the learning and innovation outcomes of diverse workplaces.

Knowledge and diversity

Knowledge is important and crucial to the success of business activity. Defining knowledge is, however, not easy. The task has occupied philosophers for millennia. Within this discussion, it is sufficient to draw simple distinctions between information and knowledge, and between explicit and tacit knowledge.

Information is generally described as a flow of messages or meanings. It may be unprocessed. It may contribute to the production of knowledge. Knowledge may be seen as a sub-set of information, in that knowledge may be information that has been *made sense of*.

This distinction is important, as it is indicative of the crucial difference between information management within the organisation and knowledge management. Knowledge management is not concerned with data flows and storage, but rather with the flows of ideas and the generation and storage of knowledge.

Knowledge can be broken into two simple categories - *explicit* and *tacit* knowledge.

Explicit or *codified* knowledge is best identified as knowledge that can be easily communicated, shared and compiled. It may take the form of instructions, manuals, formulae or product specifications. Such knowledge may be protected as *intellectual property* via mechanisms such as patents, copyrights or trade secret protection.

Tacit knowledge is harder to formalise and communicate. It has been described as *knowing how* rather than *knowing about*. It may include processes - both at individual and an organisational level. Tacit knowledge includes individuals' cognitive methods - their *mental models*. This refers to the beliefs, viewpoints, methods of reasoning, and intuitions that an individual may use in approaching and processing information. It also involves the know-how and skills that individuals apply to tasks.

Knowledge represents a resource for an organisation if it is difficult for other organisations to replicate or acquire in the market. Tacit knowledge, embedded within individuals or routines, will be harder to replicate than explicit knowledge. The tacit knowledge retained by individual employees will not continue to be a resource for a given firm if that individual severs their employment relationship with that firm.

Clearly individuals all bring different knowledge to a situation and a workplace. Their knowledge will be shaped by their experiences - work and personal, their cognitive methods and their cultural understandings. The degree of variation will reflect the demographic diversity of the group. Homogeneity in terms of gender, age, cultural background, education levels, functional roles etc. will typically see a narrower range of knowledge sets relative to a more diverse group.

Learning and diversity

Learning is the process of acquiring, adapting, synthesising and challenging existing knowledge. It is said to occur at a range of *levels* - from low-level rote learning and skill acquisition, to higher-level re-evaluations of fundamental processes and beliefs.

Some learning is a cumulative process where existing understandings are validated, updated and augmented with further knowledge. Other learning will involve direct conflict of ideas, with existing understandings challenged and debated, and potentially the result that new understandings emerge.

This learning will happen at both an individual and an organisational level. The role of the *learning organisation* or *knowledge firm* is to utilise the way in which its employees adapt, transform and build upon their knowledge bases. The aim is to harness this learning in such a way that the organisation benefits from it and that the learning represents positive changes to organisational routines and strategies.

A diverse workplace will experience learning differently to homogenous workplace. Differences in communication styles and the greater mix of mental models and value sets will see greater clashing of ideas. Existing views will be more regularly challenged. More situations will arise where individuals are forced to explain their approach to a problem.

The challenge for managers is ensuring employees feel comfortable within these clashes, and see the conflict as manageable and productive. It is also crucial that the tendency towards in-group, out-group behaviour is avoided. These issues are discussed at greater length in [Managing Diverse Teams: A Business Model for Diversity Management](#).

Innovation and diversity

Learning is about modifying and augmenting existing knowledge. The aim is the creation of new knowledge. Crucial from an organisation's perspective is the process of making some portion of the learning and knowledge creation explicit. This may be in terms of the adoption of

new organisational practices or routines, or in the generation of new products or services.

This is the process of innovation. Innovation is about transforming a new idea into a new process, product or service. These innovations must be of value. The aim of innovating is to generate a competitive advantage. Innovation is the key to growth and dynamism in the business world. The aim of a knowledge firm is to create and nurture an environment where innovation is expected, respected and rewarded. Ideally a knowledge firm will develop capabilities in innovation in various chosen areas.

As with learning, a more diverse mix of employees will be more conducive to innovation. Research has shown that the most innovative organisations formed heterogeneous firms, and that diverse teams have significant advantages in teams of creativity and innovation.

At an individual level, innovators are often characterised as those:

- With an aversion to the status quo
- With questioning minds
- From 'outcast' groups
- With fresh perspectives
- New to the organisation

Individuals with such characteristics are more likely to exhibit maverick or outsider tendencies when they find themselves in a heterogeneous group. They will challenge the views of others and be prepared to defend their own perspective.

The link between diversity management and innovation and learning

The innovation and learning advantage will not spontaneously appear in a diverse workplace. The key is managing this diversity effectively. The culture of the organisation will need to be transformed and an environment of inclusiveness must be encouraged. The HRM benefits of diversity management will further contribute to the learning and innovation by reducing employee turnover and improving the organisation's reputation as an *employer of choice*.

Best practice diversity management is about maximising the contributions of all staff to the goals of the organisation by:

- Recognising and accounting for differences in values, beliefs and mental models
- Reducing obstacles to participation, including explicitly seeking to increase numbers in underrepresented groups
- Improving communication and conflict management skills

Diversity management is about providing employees and managers with the necessary skills and understanding to respect the views of each other. It is about adapting the policies and practices of the organisation so that they better suit the needs and *ways of doing things* of all employees. It is necessarily a more open, relaxed, less directed and more flexible form of management.

Adoption of best practice diversity management will facilitate better learning and innovation, as diverse work groups will perform more effectively. Employees will be more open to the ideas of others and more understanding of difference in communication and problem-solving styles. Employees will be aware of the problems caused by stereotyping and isolating minority groups and will adopt more inclusive attitudes. Employees who might typically have felt undervalued or isolated will be more willing to express their views. Thus the actual learning and innovation advantage from diversity will be harnessed.

As has been argued in *Managing Diverse Human Resources Effectively: A Business Model for Diversity Management* and *Adding Value Through HRM: A Business Model for Diversity Management*, there are direct HRM benefits from diversity management, including:

- Lower absenteeism
- Higher employee retention
- Higher job satisfaction
- Higher job commitment
- Improved reputation as an employer of choice

These HRM benefits will improve the innovation and learning capacity of the organisation. Higher employee retention means higher knowledge retention. This knowledge

feeds into the ongoing learning and innovation process. Higher job satisfaction and commitment represents a greater willingness to participate in the intellectual life of the organisation.

Finally, the reputational effects provide a further advantage. Organisations with good knowledge management policies, with a clear focus on innovation, coupled with sound HRM policies embracing diversity, will find themselves attracting more and better applicants. This can only help increase the knowledge base, again improving the quality of learning and innovation.

Action Areas For Harnessing The Innovation And Learning Advantage From Diversity

The ACIB survey demonstrated that Australian business is missing out on the opportunities having a diverse workforce brings. The benefits of diversity do not spontaneously appear: they require strategies, policies and practices to produce a diversity dividend. These strategies, policies and practices are encompassed in the key steps set out in this Business Model.

This section targets a number of action areas that can be addressed with coherent policies and practices. Each of the three action areas in this model encompasses a series of key steps that target specific aspects of creating an environment more conducive to innovation and learning and to harnessing the diversity dividend.

These action areas and key steps are expanded upon in two Toolkits from the Programme. The first two action areas are covered in *Effective Management of Diverse Teams*. The third action area is covered in *Innovation and Learning*.

Action Area: Establishing Diverse Work Teams

Diverse teams will outperform homogenous teams as they draw on a greater pool of ideas and because their interaction will produce better solutions.

Diverse teams that are poorly managed and where team members do not have the requisite skills and understanding to communicate effectively and manage conflict will under-perform. Poor experiences with such teams, or the tendency of *like to select like* may reduce the occurrence of diverse teams in many organisations.

This may mean there is a need to be more proactive in seeking greater diversity within selected teams. It may take an explicit policy of team diversity to achieve the desired results. Positive work experiences within such diverse teams will have positive spillover effects to the rest of the organisations and may generate broader support for greater diversity within the organisation.

Team members must be selected on the basis of their skill sets and expertise. It is important that there is a clear vision of the desired learning outcomes and how team diversity may contribute to these outcomes. Also team members should develop an understanding of how diversity is contributing to their learning.

Key steps: selecting and structuring teams

- Use existing diversity data
- Consider desired work outcomes
- Shortlist candidates
- Select candidates
- Inform teams of diversity rationale

Action Area: Resourcing Teams

The key to innovation and learning with diverse work teams is providing the team members with the necessary skills to function efficiently. 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.

Teams must understand the likelihood of conflict and of communicative dissonance. There needs to be recognition that some forms of conflict can be very constructive. Likewise, the value in different views and means of expression must be emphasised.

Many of the issues around isolation of under-represented groups can be tackled by acting to build a stronger team identity that embraces

difference as a positive. It is also critical that diverse work teams be given time to develop these skills.

Key steps: resourcing teams

- Assess needs
- Provide communication training
- Provide conflict management training
- Encourage the valuing of difference
- Develop team identity
- Give the team time

Action Area: Nurturing A Learning Environment

The aim of the learning organisation is to profit from the pooled knowledge of its employees: the organisational knowledge that is developed, and from the learning and innovation that results. Learning cannot be taken for granted. It is a process that needs to be guided and coordinated. While individuals may, almost unconsciously, learn, it is crucial that the organisation creates some mechanisms whereby new knowledge and ideas are

communicated and harnessed by the organisation.

An environment of communication must be created, coupled with appropriate reward practices.

Key steps: nurturing a learning environment

- Audit knowledge
- Audit learning
- Establish learning and innovation goals
- Foster creative abrasion
- Establish feedback loops
- Reward learning and innovation

The Business Case Restated

Establishment of a well-managed, diverse workplace will have substantial payoffs for learning and innovation. As illustrated in Figure 4, a diverse group of employees brings a wide range of ideas, skills and mental models. In an inclusive environment where these employees feel their differences are valued, this diversity of ideas will see productive and effective learning and innovation.

Figure 4: The innovation and learning advantage from diversity and diversity management

