



## **MANAGING DIVERSE HUMAN RESOURCES EFFECTIVELY: A BUSINESS MODEL**

Programme for the Practice of Diversity Management

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

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## Managing Diverse Human Resources Effectively: A Business Model

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## Foreword

The Programme for the Practice of Diversity Management is in the process of developing several diversity-related Business Models. This Business Model addresses the role of diversity management in effective HR management. A matching Toolkit addresses the implementation of diversity initiatives to enhance the HR function.

### Other Resources for Diversity Management:

*The Business Case:*

HRM Case

Knowledge Firm Case

International Business Case

Marketing Case

Theory of Diversity and Group performance

*Business Models:*

Diversity Management: the Big Picture

Managing Diverse Human Resources Effectively

Expatriate Management

Capturing the Diversity Dividend

Going Global

Adding Value through HRM

*Toolkits:*

Attract, retain and motivate

Keys to Expatriate Success

Adding Value through HRM

Using Diversity Climate Surveys

*Diversity Management in Australia – the State of Play*

Capturing the Diversity Dividend

Report to Business on Aboriginal Employment

## PROGRAMME FOR THE PRACTICE OF DIVERSITY MANAGEMENT

The Programme for the Practice of Diversity Management is a collaborative arrangement between the Department of Immigration and Multicultural Affairs (DIMA) and the Australian Centre for International Business (ACIB) funded through DIMA's Productive Diversity Partnership Programme.

The mission of the Programme for the Practice of Diversity Management is to meet the practical needs of business by developing a business case for productive diversity, providing business models for diversity management, and creating toolkits and checklists for assessing diversity.

The Programme invites your firm to become a member of the electronic diversity network, which brings Australian business together to promote good diversity practices.

Join the diversity network on-line at [www.ecom.unimelb.edu.au/acib/diverse/](http://www.ecom.unimelb.edu.au/acib/diverse/)

## Executive Summary

### Diversity Management: Introduction to HR Models

This business addresses stage one in diversity management. It examines the conflict and associated problems that arise from ineffective diversity management.

### The Business Case: Bottom-line Benefits of Diversity Management

Effective diversity management improves the bottom line.

### Missed opportunities: Mind of the CEO

On specific HRM issues many CEOs do not make the connection between effective diversity management and cost reduction.

### What is Workplace Diversity?

Diversity encompasses all the ways that people differ, including observable and unobservable differences as well organisation-related characteristics.

### The Evidence: How Poor Diversity Management Impacts on the Bottom-line

Ineffective diversity management results in conflict and communication problems. This can lead to low job satisfaction and commitment, high absenteeism and turnover, and greater discrimination and harassment costs.

### Addressing the HR costs of poor diversity management

Firms can implement HRM strategies to address the costs associated with poor diversity management. HRM intervention can improve the bottom line.

### Action Areas for Effective HR Management

Diversity management targets a series of action areas that can be addressed with diversity practices and policies for greater HR effectiveness. Each action area includes a series of key steps designed to realise the 'diversity dividend'. Table 1 summarises the key steps in these action areas.

Table 1. Key Steps in Action Areas

<p><b>1. Key steps: top management</b></p> <ul style="list-style-type: none"> <li>• Establish top management awareness of the 'business case' for diversity management</li> <li>• Cultivate top management support for diversity management</li> <li>• Allocate resources to diversity management initiatives</li> <li>• Set diversity goals for <i>all</i> levels of the firm</li> </ul> <p><b>2. Key steps: audit</b></p> <ul style="list-style-type: none"> <li>• Survey staff</li> <li>• Analyse survey data</li> <li>• Build a firm diversity profile</li> <li>• Establish inclusive diversity taskforce</li> <li>• Investigate current processes, culture, policies &amp; practices</li> <li>• Develop new, more effective, policies and practices</li> <li>• Encourage and reward positive behaviour</li> <li>• Build new cultures</li> </ul> <p><b>3. Key steps: Strategic goal setting</b></p> <ul style="list-style-type: none"> <li>• Develop a diversity vision</li> <li>• Set specific diversity goals</li> <li>• Link diversity goals to strategic goals</li> </ul> <p><b>4. Key steps: social integration and cohesion</b></p> <ul style="list-style-type: none"> <li>• Apply audit data to identify social integration &amp; cohesion problems</li> <li>• Establish HRM policies and processes to address such problems</li> <li>• Create reward mechanisms for inclusive behaviour</li> </ul>	<p><b>5. Key steps: training, education &amp; awareness</b></p> <ul style="list-style-type: none"> <li>• Invest in awareness training at all levels</li> <li>• Tailor training to individual needs</li> <li>• Ensure that multiple communication channels are established</li> <li>• Maintain interest in diversity</li> <li>• Build awareness to create support for diversity management</li> <li>• Build a common understanding of benefits and challenges</li> <li>• Emphasise common goals</li> </ul> <p><b>6. Key steps: attract, retain and motivate</b></p> <ul style="list-style-type: none"> <li>• Conduct an audit of the recruitment and selection function</li> <li>• Improve the recruitment function</li> <li>• Improve the selection function</li> <li>• Conduct an audit of the appraisal function</li> <li>• Improve the appraisal function</li> <li>• Conduct an audit of the promotion function</li> <li>• Improve the promotion function</li> <li>• Conduct an audit of the reward function</li> <li>• Improve the reward function</li> <li>• Develop retention strategies</li> </ul> <p><b>7. Key steps: structuring teams</b></p> <ul style="list-style-type: none"> <li>• Investigate opportunities to increase autonomy</li> <li>• Establish team-based structures</li> </ul> <p><b>8. Key steps: metrics</b></p> <ul style="list-style-type: none"> <li>• Measure performance against goals using available data</li> <li>• Survey staff on diversity goals and whether they have been attained</li> <li>• Chart and distribute success</li> </ul>
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## Diversity Management: Introduction to HR Models

There are two distinct yet connected stages in diversity management. Stage one addresses the conflict and associated problems that arise from diversity when it is left unchecked. Stage two involves leveraging the creativity and innovation capabilities that reside within diverse groups. Stage two cannot be achieved without first managing stage one. This business model addresses stage one. Stage two is the subject of a separate model.

The purpose of this business model is to set out for CEOs and HRM managers:

- The HRM business case for managing diversity to reduce costs
- The evidence of how managing diversity can reduce these costs
- HRM strategies for managing diversity to reduce costs.

## The Business Case: Bottom-Line Benefits of Diversity Management

Diversity management offers a myriad of benefits to individuals and firms. The efficient use of human resources is critical to business success. A firm's human capital is a key asset in creating learning organisations and a potential source of competitive advantage.

Diversity on its own, does not necessarily produce business advantages. Only when diversity is properly managed for bottom line benefits does it add value. Ineffective management of diverse workplaces leads to individual and organisational costs. In particular, ineffective or non-existent diversity management leads to lower job satisfaction and commitment, which increases absenteeism and turnover and decreases individual and group performance. These costs affect the bottom line. Effective diversity management reduces these bottom line costs.

## Missed Opportunities: Mind of the CEO

A 2000 survey recently undertaken by the Australian Centre for International Business showed that 65% of CEOs identified cost reduction as an important strategy.

On specific HRM issues many CEOs did not make the connection between effective diversity management and cost reduction.

Only 14% of CEOs ranked diversity management important for reducing absenteeism; 31% ranked it of no-low importance. Thirty-two per cent of CEOs ranked diversity management of high importance to workforce productivity, but 14% ranked it of no-low importance. Only 14% of CEOs considered diversity management of high importance for recruitment. Only 28% of CEOs ranked managing diversity as of high importance to overall cost efficiency.

The survey also showed that CEOs have not implemented diversity management policies and practices to reap the bottom line benefits of having a diverse workforce.

***Workplace diversity that is not managed productively imposes costs.***

## What is Workplace Diversity?

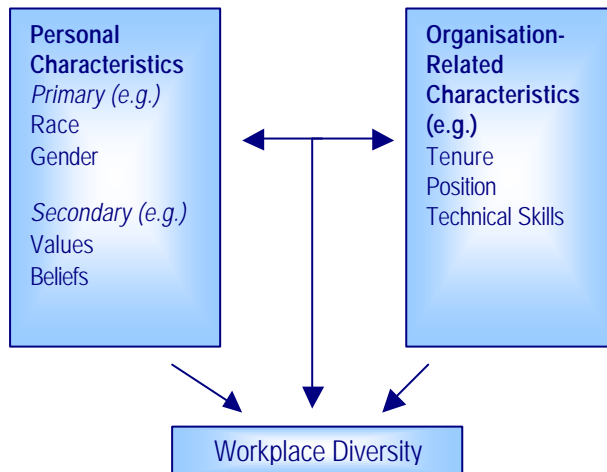
Diversity encompasses all the ways in which people differ. Individuals differ on both a personal basis and in terms of organisation-related characteristics.

There are three components of diversity:

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

The complex interaction of these characteristics gives rise to workplace diversity, as depicted in Figure 1. The existence of workplace diversity poses a number of challenges for firms. Left unchecked, these challenges translate into significant individual and organisational costs, impacting negatively on the bottom line.

Figure 1. Components of workplace



### The Evidence: How Poor Diversity Management Impacts on the Bottom Line

Workplace diversity that is not managed productively imposes costs. Empirical research has traced the relationship between workplace diversity and bottom line costs.

There has been considerable research undertaken to examine the impact of diversity in workplace settings. This research has considered the impact of diversity on individuals, groups and organisations. The general findings and predictions from diversity-related research are summarised in Figure 2.

#### The 'problems' of workplace diversity

Australian workplaces are becoming more diverse. Evidence has shown that increased diversity, left unmanaged, is associated with conflict and communication problems. This occurs because diversity brings with it

differences in communication styles, perspectives, understanding, values and beliefs.

During interaction at work, individuals are attracted to people who are similar to themselves. Similarity reinforces individuals' self esteem and people tend to judge similar others more favourably than people who are different to them. This leads to the creation of 'in-groups' and 'out-groups' in social and work settings, impeding social cohesion and integration. These processes have been shown to impact on both individual and organisational outcomes as shown in Figure 2.

#### *Job satisfaction, commitment and withdrawal behaviour: counting the costs*

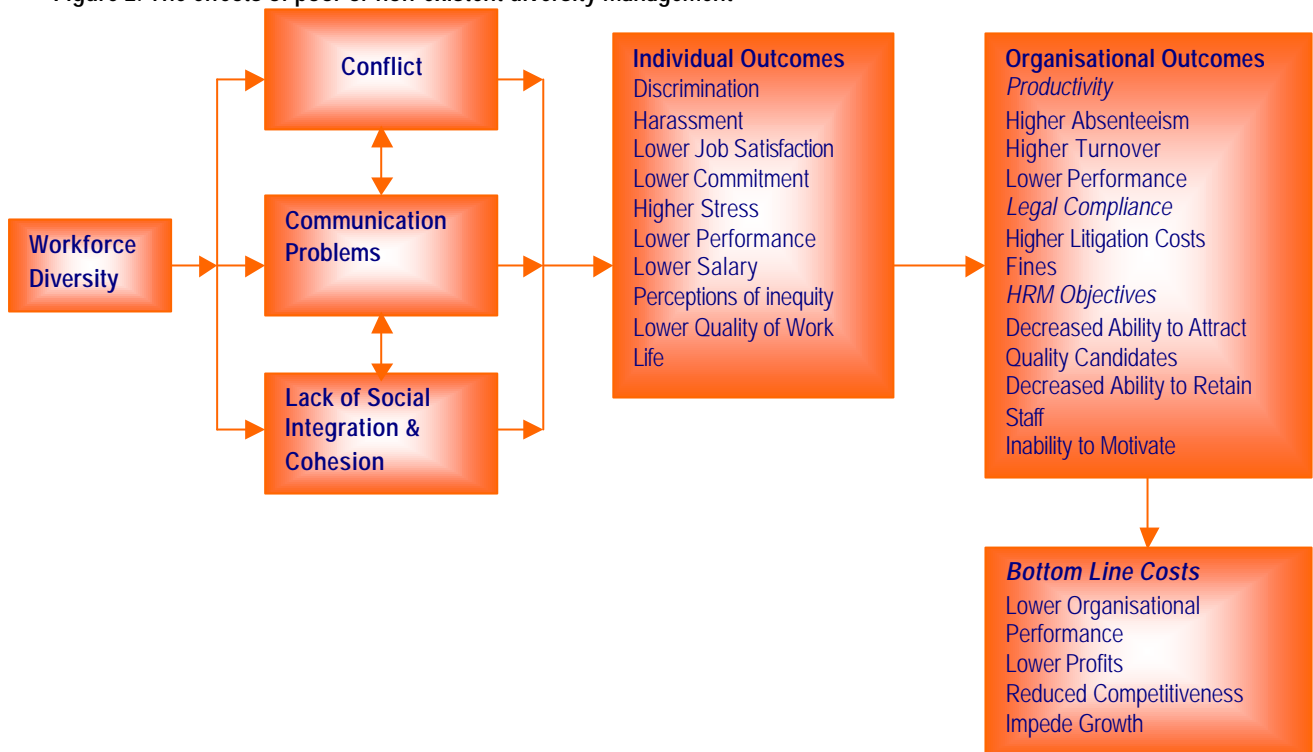
Job satisfaction is generally lower for individuals who belong to under-represented groups within a work setting.

This translates into lower commitment to work groups and the organisation. Lower satisfaction and commitment are key causes of high absenteeism and turnover rates.

Turnover increases for those in under-represented groups because of lack of group cohesion and social integration.

Higher turnover and absenteeism for under-represented staff represents a significant cost to firms. Estimates of turnover costs have ranged from \$12,000 to \$340,000, described in Table 2.

Figure 2. The effects of poor or non-existent diversity management



As Table 2 demonstrates, the cost of turnover is high for Australian firms. The aggregate costs of turnover in Australian industries are more alarming. In a study of six five-star hotels, aggregate turnover costs were estimated at \$2,624,386. Diversity management policies and practises can help to reduce these costs, having a positive effect on the bottom line.

Individual job dissatisfaction adds up to higher absenteeism and turnover rates for minority groups in the workplace. Absenteeism, like turnover, reflects low job satisfaction and organisational commitment. It has been estimated that absenteeism costs Australian employers more that \$7 billion per annum.

*Discrimination and harassment: counting the costs*

Discrimination and harassment represent two unfortunate individual outcomes from workplace diversity. Preventing and addressing harassment and discrimination of employees is the legal responsibility of employers.

There is evidence that performance appraisal, remuneration and promotion are often discriminatorily applied. Appraisal, remuneration, and promotion are not always solely based on merit.

Those that are 'similar' to their supervisors may be appraised more highly and rewarded more handsomely than those that are 'different'. For individuals, such treatment reduces job satisfaction and commitment, and may induce stress. Discrimination affects perceptions of equity and lowers the quality of work life.

***Preventing and addressing harassment and discrimination of employees is the legal responsibility of employers.***

The organisational costs of discrimination and harassment are reflected in the bottom line through lost productivity, staff time, legal fees, compensation and settlement costs. It has been estimated that a relatively serious or complex

integration all of which have been identified in diverse work settings. Figure 3 shows that low job satisfaction and commitment are strong predictors of absenteeism and turnover.

Such 'diversity problems' impose direct costs on the firm's bottom line. Poor or non-existent diversity management leads to absenteeism,

Table 2. Estimates of Turnover Costs

Study/Estimate	Worker Type	Costs Included	Estimate of Cost (\$)
B. Cronin (AIM) 2001	Employee	Lost productivity of departing employee	30,000-60,000
		Lost productivity because position is vacant	60,000-120,000
		Lost productivity of new employee	30,000-60,000
		Lost productivity of co-workers and manager	20,000-60,000
		Employee processing costs	40,000
		TOTAL COST	150,000-340,000
NRMA 2000	Manager		48,000
	Other Staff		12,000
Westpac 2000	Senior Manager		60,000
	Employee	With 8 years experience	40,000
Abbott, De Cieri and Iverson, 1998	Female Manager	Includes estimates for lost productivity	75,000
Johnson 1995	Individual		93-200% of salary

discrimination or harassment grievance costs a firm \$35,000. Immeasurable reputation effects are also incurred, which impede attraction, recruitment, and retention of quality staff. Reputation can also influence customer and channel member relations. Even when discrimination does not result in legal action, *perceived* inequity feeds into lower job satisfaction and commitment and higher intention to exit. Inequity is correlated with lower productivity, causing a negative impact on the bottom line.

turnover, lower productivity, legal costs and reduced performance. Poor diversity management inhibits HRM in achieving its three fundamental objectives of attracting, retaining and motivating employees.

The following section addresses strategies for firms to address the costs of poor or non-existent diversity management.

**Addressing the HR costs of poor diversity management**

Rather than reflecting insurmountable obstacles, diversity 'problems' reflect poor or non-existent management of workplace diversity. Firms can implement HRM strategies to address the costs associated with poor diversity management.

Low job satisfaction and organisational commitment stem from conflict, communication problems, and a lack of cohesion and social

Figure 3. What causes absenteeism and turnover?



## Action Areas for Effective HR Management

Diversity management targets a series of action areas. An action area is an aspect of HRM that can be addressed with coherent policies and practices. Each of the eight action areas in this model encompass a series of key steps, which are specific processes for realising the diversity dividend.

### 1. Action area: top management

To be successful, diversity management strategies need top management champions. The first step is to inform top management of the business case for diversity management. The recent ACIB survey of Australia's leading firms revealed that CEOs did not recognise the importance of workplace diversity and that organisations have failed to implement diversity management policies and practices.

***Firms can implement HRM strategies to address the costs associated with poor diversity management.***

Top management must set targets and allocate resources to diversity management. Next, they must develop systems for encouraging and rewarding new behaviours aimed at building a new culture.

Top management must champion diversity at all levels in firms. For the importance of diversity management to be recognised throughout the firm, it must have support from the upper echelons of the firm. Sound leadership is imperative for any management initiative.

#### *Key steps: top management*

- Establish top management awareness of the 'business case' for diversity management
- Cultivate top management support and commitment for diversity management
- Encourage top management allocation of resources to diversity management initiatives

### 2. Action area: audit

Diversity management requires data on firm diversity and the culture of the firm. A firm should conduct a diversity and culture audit.

A diversity audit provides firms with the opportunity to identify the diversity within its workforce. The process and aims of such a process are similar to a skill audit commonly undertaken by HRM practitioners. A survey of all employees is undertaken seeking information, such as cultural identification and language skills. This provides management with a 'diversity picture' of their firm, identifying skills and assets of the firm's human resources. The process allows for the construction of a firm diversity profile.

Adopting a survey style that gauges values, perceptions and beliefs can provide firms with information on

unobservable characteristics of diversity as well as more observable characteristics.

A culture audit identifies institutional biases. The establishment of a diversity taskforce is an important first step. The taskforce should involve employees from throughout the firm. The culture audit investigates organisational processes, culture and HRM policies and practices.

The audit should address both formal and informal cultures. It should investigate formal policies and procedures, as well as informal practices that may not be explicitly documented and sanctioned.

#### *Key steps: diversity audit*

- Survey staff
- Analyse survey data
- Build a firm diversity profile

#### *Key steps: culture audit*

- Establish inclusive diversity taskforce
- Investigate current processes, culture, policies and practices
- Develop new, more effective, policies and practices

- Encourage and reward positive behaviour
- Build new cultures

### 3. Action area: strategic goal setting

Firms should set goals for their diversity programmes. Diversity goals should reflect the firm's diversity vision and must be linked to the strategic goals of the firm. These goals may include targets for absenteeism and turnover rates or increasing the representation of particular groups. This promotes inclusion and reinforces the message that the firm is serious about diversity management.

#### *Key steps: strategic goal setting*

- Develop a diversity vision
- Set specific diversity goals
- Link diversity goals to strategic goals

### 4. Action area: social integration and cohesion

Social integration and cohesion are essential for effective group process. Diversity in the workforce initially gives rise to interpersonal conflict and communication problems. Left unchecked, this leads to protracted problems.

Firms can apply knowledge gained through the culture audit to identify existing integration and cohesion problems. Having identified such problems, firms can identify areas where HRM strategies can assist in encouraging integration and cohesion in work groups.

The diversity taskforce, established at the audit stage should be charged with developing effective policies and practices to enhance social integration and cohesion. By improving social integration and cohesion, firms establish teams in which all members feel valued and able to fully participate in the life of the firm. Unproductive conflict is minimised.

Firms must offer incentives for establishing more inclusive group processes. Many Australian firms have neglected the importance of diversity management for achieving social integration and

cohesion. The ACIB survey revealed that only 33 percent of CEOs recognised the high importance of diversity management for establishing cohesive firm cultures. It is crucial that top management fosters a culture that encourages *all* individuals to feel valued.

#### *Key steps: social integration and cohesion*

- Apply audit data to identify social integration and cohesion problems;
- Establish HRM policies and processes to address such problems; and
- Create reward mechanisms for inclusive behaviour.

### 5. Action area: training, education & awareness

Training and education improves individual and organisational outcomes. It must be tailored to the needs of specific individuals and teams at all levels of the firm. For example, senior managers may benefit from external one or two day diversity awareness seminars and workshops. Such training is designed to position them to champion diversity needs throughout the firm. Non-supervisory staff requires workshops specifically directed at day-to-day needs.

The value of diversity should be continuously communicated through multiple channels to maintain interest and support. Such channels may include formal training sessions, diversity newsletters and regular meetings to discuss diversity issues. Multiple communication channels ensure that all staff are made aware of the need for diversity management. Awareness is essential for establishing widespread support for diversity initiatives.

The aim of any diversity awareness and training is to build a common understanding of the positive aspects of diversity, to create an understanding of diversity challenges and to emphasise the common goals of organisational members. Training and education should also help in building cohesion, which has been shown to improve satisfaction and commitment and to reduce absenteeism and turnover.

*Key steps: training, education*

- Invest in awareness training at all levels;
- Tailor training to individual needs;
- Ensure that multiple communication channels are established;
- Maintain interest in diversity;
- Build awareness to create support for diversity management;
- Build a common understanding of benefits and challenges; and
- Emphasise common goals.

**6. Action area: attract, retain and motivate**

The key objectives of HRM are to attract, retain and motivate top quality employees. These objectives are achieved through the recruitment and selection, appraisal, reward and promotion functions. HR managers need to take diversity into account when operating within these functions.

Management must remove discriminatory practices, both formal and informal, from recruitment, appraisal and reward systems. This requires investment in training and education in diversity management.

Attracting top quality staff is the role of the recruitment function. Firms must ensure that recruitment actively targets people with the *best* potential to make the greatest contribution to the firm. Removing formal and informal discriminatory practices opens up the largest possible pool of prospective employees.

Firms should actively pursue applicants from socio-cultural groups that are underrepresented. The recruitment campaigns of many firms often focus only on a limited pool of applicants. Firms who spread their recruitment pool over a wider area receive the benefits of a more diverse pool of skills and experience.

Appraisal systems need to be investigated; since there is considerable evidence that appraisal is not always based purely on performance. A

sophisticated appraisal system is the *360-degree* system, which incorporates assessment by individuals' superiors, subordinates and peers. This achieves more balanced outcomes relative to appraisal solely by individuals' direct supervisors.

Firms' rewards for good performance should be targeted at individuals' motivations. Not all individuals are motivated by the same forces. Individuals should be given a choice from a set of possible rewards for strong performance. For example, some individuals may prefer cash bonuses, while others would prefer paid time off to spend with their families.

***Firms must ensure that recruitment actively targets people with the best potential to make the greatest contribution to the firm.***

Individuals and teams should be rewarded for behaviours and achievements that the firm perceives as valuable. A firm that values diversity should reward employees for behaviours that encourage cohesion amongst diverse groups.

Promotion based on merit rather than on the basis of in-groups or similarity should be a key goal of any firm. Bias in promotion may be overcome through strategies, such as mentoring schemes. Mentoring schemes provide an opportunity for under-represented staff to learn from role models and may also serve to break down barriers between staff.

*Key steps: basic HRM functions*

- Conduct an audit of the recruitment and selection function
- Improve the recruitment function
- Improve the selection function
- Conduct an audit of the appraisal function
- Improve the appraisal function
- Conduct an audit of the promotion function
- Improve the promotion function
- Conduct an audit of the reward function
- Improve the reward function
- Develop retention strategies

## 7. Action area: structuring teams

Policy changes that increase employees' participation in decision-making increase job satisfaction. Top management should consider how to increase decision-making responsibility at lower levels of the firm. While autonomy improves job satisfaction, it also reduces absenteeism and turnover. It also encourages all employees to discuss and share information and participate in higher quality problem solving. Team-based structures are best for facilitating increased autonomy in decision-making.

### *Key steps: autonomy*

- Investigate opportunities to increase autonomy
- Establish team-based structures

## 8. Action area: metrics

Diversity management strategies should not be implemented without appropriate monitoring mechanisms. They should be regularly assessed for their effectiveness. Such assessments will facilitate continuous improvement in diversity management.

Firms can track applicant and recruitment data to measure whether they are attracting a broader range of individuals to their organisation. Staff surveys track improvements in job satisfaction and commitment, as do feedback sessions. The success of the organisation in reaching these goals should be charted and distributed.

### *Key steps: gauging progress*

- Measure performance against goals using available data;
- Survey staff on diversity goals and whether they have been attained; and
- Chart and distribute success.

## The Business Case Restated

The HRM business case for diversity management is simple: poor diversity management incurs costs; effective diversity management reduces costs. HRM is a useful tool for implementing strategies aimed at reducing the costs associated with poor diversity management. Diversity management can improve job satisfaction and commitment. Specifically, diversity management aims to reduce conflict, communication problems, lack of cohesion, and discrimination. Diversity management improves the bottom line.

This business model provides information for CEOs and HRM managers in three areas. It

- sets out the HRM business case;
- provides evidence that diversity management can reduce costs; and
- provides strategies for tackling these costs.

A separate business model explores the added value of creativity and innovation derived from effective diversity management.

***Diversity management improves  
the bottom line.***