



Change agenda

MANAGING DIVERSITY LINKING THEORY AND PRACTICE TO BUSINESS PERFORMANCE

Foreword

In the global market place of the twenty-first century, the pace of change in business practice is faster than ever before. Organisations are striving to keep one step ahead of competitors to gain and sustain market share and to appease the increasingly voracious appetites of customers regarding products and service delivery. Customers are fickle when it comes to loyalty and in recent years many leading high street names have suffered reduced business performance by failing to connect well enough with customer expectations.

As Gary Hamel said in his keynote address at the CIPD Annual Conference in October 2004, the one certainty in business today is that change is the only thing that is constant, but he warned, change is itself changing.

Against this fluid background, the challenge organisations face is to be able to respond to change in ways that assure survival. Many see managing diversity as an opportunity to improve business performance – and the growing base of case study evidence is showing us that this can be a reality.

Creativity, innovation and flexibility are important responses that organisations need to master in the fight for economic survival. This CIPD Change Agenda looks at the relationship between these responses and managing diversity and suggests the adoption of a new balanced scorecard to help organisations improve business performance by integrating diversity into their business strategy and operational activities.

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Executive summary

The rhetoric from business tells us that creativity, innovation and flexibility are essential to sustainable success and that managing diversity is seen by many as providing an opportunity to play a winning game to ensure economic survival.

So how does managing diversity contribute to business success and what evidence is there that it does? This Change Agenda examines the theory and practice and concludes that good diversity management does indeed add value. But it warns against paying lip-service to diversity and ignoring the organisational contexts and circumstances in driving progress. It emphasises that organisations need to be in it for the long haul – there are no quick-fix solutions.

CIPD research carried out by Anderson and Metcalfe in 2003 made it clear that the full benefits of managing diversity haven't yet been fully explored by organisations. The corollary is a paucity of robust academic evidence establishing the business case. Yet more and more organisations are finding from practical experience that there are benefits to be gained and that managing diversity makes sound business sense.

Organisations use definitions of diversity that are almost as diverse as the subject itself, but what is clear is that the central theme of 'valuing everyone as individuals – as employees, customers, and clients' extends diversity beyond what is legislated for through to the positively valued.

Business exists in competitive and changing markets, which means that all employees must make significant contributions to business success and add value in every conceivable manner. But everyone is different, so organisations need to be able to harness individual workers' unique differences and convert them into competitive advantage.

This challenge puts a premium on value systems that are inclusive, fair and ethical. We know from the essential characteristics of the psychological contract employees expect with their employers that being valued is vital. This is why managing diversity is so important to enhancing business performance and, as CIPD research evidence shows, is correlated with good people management.

Diversity complements equal opportunity initiatives because ethical and 'fair practice' arguments can be combined with the recognition and valuing of difference for business benefit.

While the empirical evidence that underpins the business case for diversity is still evolving, the mounting anecdotal evidence from employers' practices that diversity works is persuasive. Governments, leading employers and employee unions are strongly committed to various diversity agendas and are building best practice into their activities.

Against the background evidence that suggests that poor diversity practice leads to reduced performance and increased costs, it follows that the better management of diversity is a business imperative.

Diversity programmes require cultural and organisational change. But change is often unpredictable and multi-dimensional and difficult to manage. The success stories for managing diversity can be classified into the four balanced scorecard dimensions:

- customer focus
- innovation, creativity and learning
- business process improvement
- the financial bottom line.

This Change Agenda therefore argues that a causal link between good diversity management and business performance improvements can be both informed and monitored by using a diversity balanced scorecard that identifies diversity objectives, competences and activities that are aligned with business performance objectives.

Introduction

Background

Anderson and Metcalfe (2003) recently reviewed the evidence for managing diversity. They suggested that, while there are claimed benefits for diversity, and similarly, there are suggested disadvantages, the 'paucity of robust research examining the impact of diversity upon business' has raised questions about the existence of any connection. The business benefits of diversity have been widely contested, ever since the idea was conceived. And, even now, there is an ongoing debate as to whether there is indeed any discernable business benefit.

The definition of diversity is almost as diverse as the subject itself, and this has made the interpretation of findings and experience highly judgemental. The CIPD defines diversity as 'valuing everyone as individuals – as employees, customers, and clients'.

Others, like Zurich are more specific, stating: 'At Zurich Financial Services we believe that managing diversity is about valuing people as individuals. The scope of this definition includes age, colour, disability, ethnicity, economic status, family/marital status, nationality, religious belief, sexual orientation, spent convictions, part-time working, political opinion/affiliation and gender reassignment.'

The definition continues: 'It also embraces the range of individual skills, educational qualifications, work experience and background, languages and other relevant attributes and experiences that differentiate us; all differences that can result in varying experiences, values, and ways of thinking, behaving, communicating and working.' In this way the business case for diversity has become a 'holy grail' to justify the efforts and passion with which diversity is defended and promoted.

The report by the Department for Trade and Industry (DTI), *The Business Case for Diversity and Equality* (2004), with its driving principle, 'prosperity for all',

has recently contributed to this discussion with a summary of best practice in diversity. This publication combines the economic realities of skills shortages and growth barriers with a compelling set of case studies and a strong economic argument: 'By employing more women, more older people and encouraging a wider ethnic mix, a business is able to identify more closely with its customer base, draw from a broader range of perspectives, and won't be short of recruitment options.' This belief has been supported by work from the United Nations, which explains '... diversity efforts in the workplace facilitate the exchange of new perspectives, improve problem-solving by inviting different ideas, and create a respectful, accepting work environment, all of which make good business sense' (Reichenberg 2001).

The UK economy, and the population, are changing in many ways and, as a result, employers are being required to think and behave more responsively and creatively. Employers have to rethink what their organisations look like and how they manage. Both customer groups and potential employees are ageing and there are greater numbers of women in them than ever before. It is predicted that, by 2014, the UK will have more people over 65 than under 16 years, and the ethnic population will have grown to represent a significant economic segment.

Legislation is not the main driver

The 1970s in Britain witnessed the enactment of sex and race equality laws. The effects of the equal opportunities laws of the 1970s were felt in the 1980s, when equal opportunities management gained widespread academic and business recognition. By the 1990s, many large companies had declared themselves to be either 'committed to equal opportunities', or 'equal opportunities employers' (Cockburn 1991).

But the momentum and commitment to equal opportunities, by industry and Government, has failed to deliver on its promise and, despite the rapid take-up of equal opportunities by British industry, discrimination in the workplace has, in practice, proved persistent. This is evidenced by the resilience of horizontal and vertical segregation and the pay gap by gender, ethnicity and disability – the key forms of discrimination monitored by national surveys in Britain, for example, by the Equal Opportunities Commission (EOC), the Disability Rights Commission (DRC), and the Commission for Racial Equality (CRE).

Furthermore, *The Workplace Employment Relations Survey* (Cully et al 1998) highlighted another significant problem in terms of equality as only 64 per cent of the survey companies had policies on equal opportunities. Drawing on a comparative analysis, Özbilgin (2002) noted that the answer might be in ideological and cultural mechanisms of support rather than in legal approaches to equality.

CIPD research (2005), *Discrimination and the Law: does the system suit the purpose?*, argues that, although law may be an enabler, it can also hinder progress, particularly when the law is badly designed.

More recently, as reported in the national press, the evidence indicates that the legislative approach to equal opportunities, which assumes that equality is about sameness, hasn't succeeded in opening the doorway of opportunity to all:

'The number of women directors involved in running Britain's biggest businesses has been in steady decline for the last three years ... Among the largest firms listed in the London Stock Exchange, only 57 per cent have a female representative on the board, according to a study published by Cranfield University's school of management. This compares with 58 per cent of FTSE 100 companies last year and 64 per cent in 1999. Of this small band of women directors, more than 85 per cent occupy part-time, non-executive roles. Only 10 women hold executive positions – and they are outnumbered, by their male colleagues, by more than 17 to one' (Connon 2001).

In October 2004, Julia Finch of the *Guardian* wrote, 'a report by accounting firm Deloitte says only 3% of executive directors and 8% of non-executives are female and suggests that promoting more women into the most senior echelons of UK business may have slipped down the agenda of big public companies.'

Managing diversity and equality of opportunity

While there's some evidence to suggest that equal opportunity employers have outperformed less-aware firms eg Howard's (1999) review of the US top 100 companies, it's equally the case that the evidence for diversity is less robust than warranted by the enthusiasm for it (see Anderson and Metcalfe 2003). What is clear is that progressive firms see a positive correlation between diversity and productivity and competitiveness (Parker and Hall 1993), but are more likely to identify equal opportunities with legislation and cost. Diversity serves as a driving force, while equal opportunity is a regulating one.

The proponents of the equal opportunities management approach have assumed an operational approach to equality, supported and monitored by equal opportunities units, which are staffed by specialists. However, the supporters of the relatively new diversity management approach argue that the equal opportunities approach fails to emphasise the strategic importance and value of diversity and equality, focusing on the operational processes of promoting equality, and considering equality in terms of its cost implications rather than the organisational benefits it may offer.

Table 1: The key attributes of/differences between the equal opportunities and diversity management approaches

Equal opportunities approach	Diversity management approach
Externally driven	Internally driven
Operational	Strategic
Equality costs money	Diversity pays
Group-focused	Individual-focused
Process-focused	Outcome-focused
Ethical, moral and social case	Business case

Source: Modified from Hollinshead, Nichols and Tailby 1999, p434.

The new diversity management thinking suggests that diversity management goes beyond the equal opportunities management considerations as described by the law, and promises to make a positive and strategic contribution to the successful operation of business. So diversity management is being hailed as a proactive, strategically relevant and results-focused approach and a welcome departure from the equal opportunities approach, which has been defined as reactive, operational and sometimes counterproductive. These differences are encapsulated in Table 1.

Diversity has its critics

While the management rhetoric appears to be in favour of diversity, there's also an alternative view that questions both the substance and nature of diversity. Initial criticisms levelled at equal opportunities approaches have been counteracted by a critique of the diversity approach. It has been asserted that diversity management focuses on the business case of diversity and equality, failing to recognise the value of the stakeholder and ethical cases that should underpin future policy and practice (Kirton and Greene 2000). The ethically questionable nature of the diversity management approach and the apparent lack of a business case for the equal opportunities management approach have polarised their theoretical as well as industrial development.

Amartya Sen (1999) argues that the emphasis in ethical analysis should be on what people do rather than why they do certain things. So, rather than adopting a cynical approach to business take-up of diversity, its possible benefits should be examined. The existence of a business case for diversity management should therefore not automatically make it an unethical practice (see Cornelius and Gagnon 2000 for a review of the ethical and business cases for diversity).

Diversity: evidence in practice

The business case for diversity revisited

Anderson and Metcalfe (2003), summing up their findings, have indicated that the evidence that diversity can deliver a business benefit is complex, arguing that many workforces are diverse in a range of both invisible and established categories (see Table 2). The very diversity of the work and the way that different forms of diversity are expressed mean more work is needed to examine causal linkages between diversity and business outcomes. The authors also recognise the importance of diversity management, commenting that ‘without appropriate management and organisational culture, benefits of diversity may not be realised and disbenefits may occur.’ The ‘disbenefits of diversity’ are identified as including increased conflict within the workforce; poorer internal communications; and increased management costs.

Diversity can be considered an expression of difference, which, if successfully managed, should reduce the costs associated with the disbenefits of diversity, and may contribute to business performance – though the basis for this argument remains tenuous. Bringing about a possible change in the balance of difference within a workforce must be a consequence of any

diversity policy that promotes valuing individuals, so it must consider diversity management as part of the organisational change agenda. According to the Cabinet Office: ‘To achieve true diversity, an organisation may have to make a significant change to its culture. As well as developing a vision of the future in which diversity is valued and thriving, the organisation may need to examine its history and challenge present practice, by looking behind the policy statements to examine the reality experienced by people in their daily work.’

The increasingly positive perceptions of diversity

While Anderson and Metcalfe’s (2003) review of the empirical research suggests that the cause-and-effect relationship between diversity and bottom-line business benefit is stated but not demonstrated, there is an increasing weight of case study and anecdotal narrative evidence. In addition, the existence of increasing numbers of independent sources that support a link are becoming difficult to ignore.

Table 2: A diverse workforce includes many types of diversity

Social category diversity	demographic differences such as age, race, ethics, gender
Informational diversity	organisational differences such as education, tenure, function
Value diversity	psychological differences in personality and attitudes

There is rich evidence in the form of indices, case studies and statistics that are arguing for a causal relationship between diversity and its business case. For example, Table 3 summaries Kandola and Fullerton's (1998) findings which demonstrate that diversity can contribute to the bottom line in a number of ways: through cost reduction; improvements in staff and skills retention; and improved sales performance and productivity.

In April 2004, Quentin Reade of *Personnel Today* quoted Douglas Klein, President of Sirota Europe, who had conducted a global study of diversity covering over 3 million staff and had determined the 'hygiene' nature of diversity ie without diversity policy and practice, they claimed a consequential 350 per cent reduction in enthusiasm and identified clear business outputs. 'Klein said the research shows that if diversity is embedded in the company culture, it allows people to work co-operatively, enhances management, and boosts creativity and innovation.'

Although there is the risk of reverting to essentialism, the assumed value of gender difference sometimes serves to promote diversity. Rebecca George, Chair

of the DTI-backed pan-industry Women in IT forum, strongly believes that modern business requires a diversity of skills and a broad team-based capability that encourages value creation and delivery. George says, 'Women bring many needed skills to the team, particularly in data analysis, for example. When you are working on the kind of diverse problems that software developers face now, it makes sense that a diverse team will lead to a better output. You need a variety of different approaches to solve things.'

In addition to the UK examples, the EU has conducted a significant research programme on diversity and has concluded that the evidence is substantial. Their findings are reported in *The Costs and Benefits of Diversity* (European Commission 2003). The authors suggest that '... the most important benefits arising from the implementation of diversity policies arise from strengthening organisational and human capital. Along with knowledge capital, these are the principal intangible assets used by companies in a wide range of sectors to establish competitive advantage and to create value.'

Table 3: Diversity and the business case

Organisation	Practice	Benefits
Aetna	On-site daycare centre	Post-maternity turnover reduced from 23% to 12%
OAG	On-site daycare centre	Post-maternity turnover reduced from 23% to 12%
Corning	Training in gender awareness	Used to spend \$4 million per year recruiting and training women. Since diversity training was implemented, drop-out expense has been cut in half
Helene Curtis	Extended maternity leave	Turnover of new mothers reduced from 31% to 7%
Household International	Family-friendly policies	Cut new mother turnover from 40% to 25%
Compaq Computers	Telecommuting	Selling six times as many computers as under the previous system

Source: Diversityatwork 2005.

The key findings from this survey of 200 companies in four EU countries have identified that:

- There is a link between organisational commitment to diversity policy and practice and perceptions of business improvement (Figure 1).
- There is a relationship between measurement and action – they say ‘what gets measured, gets done.’
- The transformation of employers into diversity-capable ones is challenging due to complex transnational legislation, ignorance of business benefits and resistance to change.
- The ‘hard evidence’ to substantiate the return on investment for diversity is yet to be proven.

Figure 1: Perceptions of diversity practice on business performance as determined by survey



Base: Companies with active diversity policies
Source: CSES Survey of companies

A balanced scorecard of practice

There are many examples of good diversity practice that deliver business benefits (see the resource list of useful websites on page 24). Though the evidence reviewed shows that, while the business case for diversity may be difficult to measure explicitly, the balanced scorecard approach may be useful in illustrating and highlighting 'input' processes to which diversity contributes indirectly to the financial 'bottom line'. The balanced scorecard identifies three inputs (customer focus, business processes, and innovation and learning) from which there is a financial output – the business case.

Customer focus

Age-neutral policies at Aberdeen City Council

As a public sector provider Aberdeen City Council is very sensitive to the community it serves, both in terms of the demographics of the population and the consequential impact this has on its own recruitment practices. Aberdeen City Council, like many employers, is increasingly aware of the ageing population and the reducing talent pool at the younger end, and to overcome difficulties of recruitment and skills shortages, has adopted an 'age-neutral' employment policy that encourages application from all ages and this includes those aged 65+. Aberdeen City Council have benefited from a more positive perception from their consumer, who is in turn their future employee (Agepositive 2005).

Age no limit at Tesco

'It is attitude, not age, that makes for great service for our customer,' says Tesco, and this opinion is shared by its staff. Margarette Spencer, employee (age 76) says, 'I enjoy working and I meet new people each day. My job keeps my mind active and stops me from growing old. Tesco didn't care how old I was. I wanted to work and they gave me the opportunity.' Recent research has taught us that, not only do shoppers like dealing with staff of all ages, but employees from all age groups

consistently state that they enjoy working in an age-diverse team' (Agepositive 2005).

DisabledGo and Marks & Spencer make accessibility accessible

'Ten million people shop at Marks & Spencer a week. Keeping abreast of customer profiles is therefore critical. Yet, despite increasing awareness of disability and the 1995 Disability Discrimination Act, the 9 million disabled people in the UK are still largely invisible.' To change this, Marks and Disabled Go worked in partnership to make information available to disabled customers about town-centre access to business, goods and services, via a disabled access information database.

The information was provided via the Internet, and this has become a great success, receiving more than 250,000 visits per month. Furthermore, Marks & Spencer and DisabledGo are working together – to provide disabled customer staff training; offer employment opportunities to over 100+ disabled people; and make improvements to store access and product ranges – and opening the doors to a major customer group who are otherwise excluded (BITC 2004).

Business process improvement

Wising up to age at Barclays

Barclays Bank, like many financial institutions in the 1990s, witnessed significant downsizing, with the resulting loss of people, their skill and knowledge and 'corporate memory'. The outflow of personnel impacted on Barclays' ability to recruit externally, creating problems acquiring new staff. But the challenge couldn't be resolved exclusively by recruiting young people.

With senior management support, Barclays set out to recruit and retain a broader range of age groups by removing age barriers, including researching the

notion of 'working to 70'; changed flexible working and retirement options to attract and support greater breadth of personnel; introduced long-service awards; and supported staff through awareness, staff training and development opportunities. Barclays now employs more people over 50 than under 21.

The identified business benefits have included an increase in the number of over-60s who elect to continue their employment (and retain their knowledge and experience) to over 61 per cent. The cost of retention (and reduced training and development costs) can be directly matched by business benefits (Agepositive 2005).

Work-life balance at Nationwide Building Society

In a very competitive market, where differentiation is difficult, Nationwide has looked inside to deliver the 'outside benefits'. Nationwide has created a strong ethos of flexible working practice that encourages key personnel who might otherwise be restricted in their options. Working practices like job-sharing, compressed working weeks, homeworking and annualised hours have allowed employees to adapt their work to fit their personal lives.

Results indicate that employee satisfaction has risen by 14 per cent, employee retention/return to work following maternity is 93 per cent (equivalent to £3 million savings), and overall turnover of staff is one of the lowest in the industry, calculated to be worth £10 million a year (BITC 2002).

Creativity and innovation

Award-winning engineering at BAE Systems

In 1999, BAE developed its Respect at Work programme, which encourages the valuing of others. It was supported with training and the appointment of managers responsible for monitoring and investigating good behaviour. BAE believes that respect for others has led to improved productivity, a 22 per cent improvement in recruitment and increased employment of women. In 2003, two of BAE's female recruits were recognised with the first and second places in the Young Women Engineer Awards (DTI 2004).

Different strokes for different folks at BP

Getting to the top of a big business like BP means travelling a long way from the petrol pump. BP's Mutual Mentoring Programme is designed to remind and refresh senior executives by getting them closer to the coalface, pairing them up with junior executives who are typically different to them. As Sarah Murray (2004) from the *Financial Times* reports: 'The pairings are designed to foster understanding between people of different genders and backgrounds so, for example, a junior woman might be mentoring a senior man, and executives of different national origins or ethnic backgrounds are often put together.'

BP reports that, not only has the programme proved very motivating for both senior and junior staff, but the sharing of understanding is leading to improved communications and decision-making (Murray 2004).

New cultures, new ideas at Bernard Matthews

Having a strong brand is not enough when your local employee population is small, there is a limited skillset, severe shortages and the firm needs to expand. For Bernard Matthews, the solution was to recruit overseas (Portugal), bringing in a significant immigrant workforce to mix and work with existing staff locally. This has led to an increase from 3 per cent to 30 per cent of Portuguese employees.

Matthews responded to the challenge by developing support networks, local English-language training and creating partnerships with the Norfolk Police and the Home Office, as well as a 'fast-tracking' programme at HSBC, to ensure bank accounts could be opened quickly. So the challenge of skills shortages was resolved by adopting a diverse workforce and, in response, generated innovative thinking to solve the problems of practical implementation (BITC 2004).

Summary

As demonstrated by the examples above, there is an increasing volume of evidence that is suggesting a convincing link between valuing people and value creation in business. More and more, the evidence says 'diversity is working'. As the adage goes: 'If it looks like a duck, smells like a duck, feels like a duck, tastes like a duck, and sounds like a duck ... it's a duck.'

Clearly, managing diversity well is providing greater opportunities to organisations, and businesses are experiencing better performance, greater market awareness and are more innovative and responsive. The financial performance is a consequence of good business practice and market conditions. There is growing evidence linking cost reductions, efficiency improvements and a more effective business philosophy to the management of diversity.

Enter the diversity balanced scorecard (BSC)

An evaluation framework for managing diversity to support business goals.

Forces in balance

The current experience of diversity management demonstrates at least four main ways in which diversity can contribute to business performance:

- 1 Diversity in employment promotes cost-effective employment relations.
- 2 Diversity enhances customer relations.
- 3 Diversity enhances creativity, flexibility and innovation in organisations.
- 4 Diversity promotes sustainable development and competitive advantage.

Kaplan and Norton's (1992) balanced scorecard (BSC) is a model developed to integrate non-financial considerations, such as customers, internal processes, learning and diversity, with the long-term financial success of organisations. They argue that the non-financial considerations, which are often not measured, should be measured and strategically integrated into management systems and processes.

In the light of this, the development of such a framework for diversity could be the basis of its management and measurement. To illustrate this, the experiences of Jacobs and Barabino (1999) are considered. They conducted a series of field studies in North America and Europe in order to understand the criteria behind the success of diversity management initiatives. Their findings are supportive of a balance scorecard approach.

They identified the following components as vital to the successful management of diversity initiatives in their field study organisations.

- top management demonstration of continued support for cultural diversity, perceiving it as a market opportunity rather than business threat
- basic corporate values informed by diversity principles
- the existence of a fully integrated HR management system at corporate-strategy level and organisational policy and initiative levels
- acceptance that diversity management is seen as a transformational change process rather than a quick-fix solution
- people viewed as 'capital assets' and 'knowledge workers', rather than business costs.

Eight propositions for a diversity balanced scorecard

Proposition 1: Diversity in employment promotes cost-effective employment relations

Iles (1999) argues that the recruitment, retention and promotion of a diverse workforce are significantly more cost-effective than the discriminatory alternative. Similarly, Cox and Blake (1991) assert that an organisation's ability to attract, retain and motivate people from diverse cultural backgrounds may lead to competitive advantages in cost structures and through maintaining the highest quality of human resources.

In this way, employers have more choice from a greater skills base, improved employee satisfaction, reduced internal disputes, greater workplace harmony, improved retention and more effective and fairer promotion of talent. As well as these potential benefits, Harung and Harung (1995) point to promoting diversity in order to improve job satisfaction and to enhance the spectrum of ideas, perspectives and ways of thinking in organisations.

The introduction of new working practices (often driven by technological development) and the integration of divisional areas within organisations could be facilitated where a multicultural environment exists. Diversity management may potentially benefit internal processes by improving the effectiveness of total quality management programmes (Harung and Harung 1995), reducing resistance to change programmes, increasing the effectiveness of development programmes (Snell and Hui 2000), enhancing the development and integration of knowledge-based management systems, supporting multinational and multicultural integration of business units (Palich and Gomez-Mejia 1999) and finally by facilitating and improving communication between and within the organisation.

Proposition 2: Diversity enhances customer relations

Morrison and Morrison (1991) used Hostede's (1980) international cultural diversity work to note that customers are more responsive to suppliers with their own traits. Therefore customer service and satisfaction would be enhanced when market and customer diversity is matched by internal service diversity ie language, cultural and ethnic differences are harmonised, in such a way that the customer and supplier may 'speak the same language'. Similar findings are also provided by Lichtenthal and Tellefsen (2001) that organisations would benefit from matching sales people to the demographic attributes of the buyers, as their research identifies that buyers are more trusting of sales people who share similar cultural attributes to themselves.

Matching internal employee diversity to population diversity can provide performance benefits which enhance awareness of consumer needs (Smith and Cooper-Martin 1997), improve the organisation's ability to segment and target differential groups

more effectively, provide a more accurate means of communication with the target audience (Stankevich 2001), improve customer service and customer interface, proactively foster customer-driven research and development and new product development, and also increase the loyalty and retention of satisfied staff and customers.

Proposition 3: Diversity enhances creativity, flexibility and innovation in organisations

Senge (1990) argues that the learning organisation, an organisation which can effectively transform itself as its environment changes, exists only when individuals and groups are allowed to think and learn differently. The flexibility, creativity and ability to innovate are enhanced by the existence of dissimilar mindsets ie like-minded people make like-minded decisions which limit the breadth and depth of thinking. Iles and Hayers (1997) support this and state that diversity contributes to effective decision-making in organisations, as a culturally diverse project team can make use of a diverse range of perspectives offered by its members, drawing on their diverse technical expertise.

While the benefits of internal flexibility and efficiency have positive financial implications, good diversity management can make a significant contribution to the way in which organisations think and learn. Good diversity management may also increase the effectiveness of training and development, create greater potential to innovate, improve sensitivity to organisational dysfunction, enable early recognition of environmental change and opportunity, develop more cost-effective solutions to existing problems, and enhance organisational capacity to foresee further growth.

Proposition 4: Diversity promotes sustainable development and business advantage

Examples of diversity management creating sustainable advantage include the external recruitment of diverse top-team talent to inject new ideas and challenge the organisational mindsets and ways of doing things that can hinder change and organisational progress. But, in doing this, care needs to be taken to ensure the diverse talent is not cloned into the existing culture, eroding the benefits that the diversity can offer (*Women in the boardroom: a bird's eye view*. CIPD Change Agenda 2004).

Jain and Verma (1996) support the four above propositions and quote Watson et al (1993) who suggested that culturally diverse groups relative to homogeneous groups are more effective both in the interaction process and job performance.

Proposition 5: Diversity diminishes ‘cultural relatedness’

Palich and Gomez-Mejia (1999) consider the negative impact of diversity in terms of its adverse effects on ‘cultural relatedness’ and firm efficiencies. They suggest that diversity may cause disutility, as well as utility because in diverse workforces the cultural relatedness would be significantly reduced and homogeneity may indeed bring about market, production, technology-related benefits and improve shared experiences of managerial cognitions, strategy formulation, implementation and control. The Palich and Gomez-Mejia (1999) study propose seven hypotheses, which suggest that efficiency of the firm was reduced by the increase in diversity of the organisation. Although this work wasn’t based on an empirical study, it was nevertheless important in illustrating potential disadvantages of diversity.

Proposition 6: Flexibility, which managing diversity fosters, needs to be financially supported

Mayrhofer (1997) argued that flexibility through diversity is not an end in itself. The learning organisational theories of Argyris and Schon (1978) and Senge (1992) support the concept of flexibility as a form of responsiveness to the environment. But the financial investment generated to support flexibility is initially at least, usually derived from the rigidity of value creation structures ie manufacturing or distribution.

Proposition 7: Diversity may jeopardise workplace harmony

Diversity supports the concepts of differential systems and perspectives existing in harmony. But the tendency for managers to create rules and guidance to support successful environments (what Miller (1990) called the Icarus Paradox and Janis (1972) termed ‘group think’) means that diversity is limited by regulations. There is also inadequate evidence to suggest that diversity enhances workplace harmony, while it certainly demands the management of conflict.

Proposition 8: Organisational slack and tight fit may conflict

The ‘just in time’ (JIT) approach to business is largely driven by a need to be flexible in relation to demand and lean in production. But these two aspects contradict each other. To be effective, the process utilises low numbers in highly skilled teams, but also assumes a mechanical logic in responding to the supply chain. So diversity within limits is the consequence, with little opportunity to change team structures without opposing existing structures. But managing diversity is about managing difference, paradox and complexity and ultimately about achieving a balance between different forces and challenges.

Propositions 1 to 4 are positive forces of diversity, while propositions 5 to 8 are negative forces. The best business performance will be dependent on the context of the business, so that getting things done quickly may sometimes be better achieved by a uniform group acting in a mechanistic manner.

An economic reality of commercial organisations is that life can only be sustained by revenue and profits. Failure to achieve financial success for any length of time is terminal. Good diversity management may support the financially ailing organisation by reducing the cost of change programmes, increasing the performance of the individual and the organisation, reducing decision-making time and cost and reducing human asset costs. Also through flexible work practices, it increases the value of human resources, maximises share prices and reduces the costs of competitive employment activity (such as headhunting, sensitive intelligence, staff retention).

The range of evidence seems to confirm two critical key and opposing issues on which there is little debate:

The successful adoption of an empowering and appropriate diversity policy may lead to organisational benefits, which may produce bottom-line business value. Failure of organisations to be effective in managing their diversity policies and practices may lead to disenfranchisement of the workforce from the business, and to cost and productivity deterioration.

Summary

There is no denying the mounting empirical and anecdotal evidence that good diversity management can lead to improved business performance where the business contexts and market conditions are taken into account appropriately. Conversely, poorly developed and poorly matched diversity practice can be detrimental to business, creating conflict without gain, raising expectation without delivery, and increasing cost without benefit. The key is the sensible adoption of good practice, tailored to reflect good diversity practice and specific business goals. Organisational responses will therefore ultimately be unique to every business but reflective of good practice, inclusion, fairness and ethical behaviour, and changing circumstances in order to be valid and systemic to business success.

This is why the diversity-focused BSC can be a useful tool. It helps organisations to concentrate on the importance of business drivers, customer focus, business processes, and learning and development, as opposed to end-result indicators. The most significant of these is financial performance. In their most recent article, Kaplan and Norton (2001) explain how this works: 'the balanced scorecard retains measures of financial performance but supplements these with measures on the drivers – the lead indicators, of future performance.'

The diversity BSC framework provides a basis for diversity management; both in determining the unique business drivers for any organisation, and in identifying what can be measured. While robust academic proof of the business case for diversity may still be denied by the use of a diversity BSC, it does provide a reference point that captures what organisations should be doing to manage diversity, how this management may change, and what impact it may have on business performance.

The strategic significance of managing diversity

Diversity at the heart of management

Testimony to the importance of diversity are the palpable benefits that are delivered when managing in complex and challenging environments. Value is created in every diverse organisation through reduced staff turnover, greater enthusiasm and motivation, improved customer relationship management, and improvements in other activities that contribute to the business drive. Good diversity management can result in improved innovation and new product success rates, stronger corporate branding and customer and supplier partnerships based on long-term trust and financial return.

Every aspect of organisational life is sensitive to diversity, whether this involves decisions about external customers, consumers, suppliers, competitors, or other stakeholders, and, internally, issues concerning staff, management and resources. Sensitivity is critical, since diverse relationships can't be managed through legislation and contracts alone. Diversity requires a mutual respect, obligation to and appreciation of others, irrespective of difference and a focus on contribution and value.

Integrating and mainstreaming diversity can only be possible if the strategic and financial value of diversity is recognised along with other reasons (ethical and social justice) for its adoption. Diversity must demonstrate strategic significance, which means contributing and enhancing the ability to deliver value. The literature and experience related to managing diversity do support the notion of its strategic significance in terms of the diversity's impact on and response to demand-driven market change; innovation and creativity; the need for flexibility and the importance of change management; legislation and governance; and sustainability through knowledge management and employee relations.

Diversity and the psychological contract

Understanding the psychological contract – the unwritten deal regarding the employment relationship between an employer and an employee – is key to managing diversity as it relates to the way in which individuals feel valued.

Professor David Guest (CIPD 2004) says the healthy psychological contract is contingent on:

- the extent to which employers adopt people management practices
- the employees' sense of fairness and trust and belief that the employer is honouring the 'deal' between them

and will have a positive impact on business performance where the psychological contract is positive and encourages increased employee commitment and satisfaction.

The concept of the mutual obligation to others is central to managing diversity – there must be give and take on both sides for the deal to work and contribute to business performance.

Diversity 'done right' is the 'right thing'

Drucker (2001) says: 'Efficiency is doing things right, whereas effectiveness is doing the right thing.' The difficulty for business, or for that matter any organisation, is knowing when to be efficient, and when to be effective. The successful organisation balances efficiency and effectiveness through its application of appropriate diversity management policies that support efficiency by 'doing things right', and enhances effectiveness by 'doing the right things'.

Diversity may allow organisations to flow between states of reaction and proactivity, because the driving force for action is embedded in the entire firm. Every employee gains by contributing their value, and the barriers to this value exchange are reduced. Diversity

means groups may work more effectively, information is identified, collected and exchanged actively (because this information concerns value), and communication is in the language of the listener, not the talker.

Diversity contributes to the community

The community is the people who work for the organisation, it is the economic, social and political environment, and it is the customers who buy the products. A diverse community means a diverse employee base, a complex market and a potentially dissatisfied customer. Customers and the community can choose between suppliers and so understanding and valuing the community is part of understanding and winning the customer.

At national level, for example, diversity policies that support ex-offender employment can be shown to have a beneficial outcome not only for employers but also for society by reducing reoffending rates and crime.

The DTI notes that women entrepreneurs are statistically more likely to succeed than their male counterparts. So why aren't women managing more corporate businesses and why are businesses failing to manage the gender diversity of top talent?

The traditional style of 'keeping to the knitting' in business practice (Peters and Waterman 1982) is not necessarily a successful recipe when managing dynamic and diverse market places.

This diverse world is changing fast too, so perhaps it's time to stop knitting and strive to learn some new skills to manage this diversity, and the challenges and opportunities it presents, better than we do at the moment. We need to remember that no one runs to second base with a foot on first.

Managing diversity and the business case: measurement is the way forward

Managing diversity is not like traditional approaches to equal opportunities. It can't easily be legislated for, nor can it be target-driven. Valuing differences in others isn't achieved through training programmes focused on legal obligations or authoritarian management dictates. It comes from understanding that diversity involves all of us, all of the time, and that everyone has a self-interest and stakeholder responsibility to engage in improving our understanding of it and the ways in which it affects us all, both at work and in society.

Ultimately valuing difference involves a mindset change and an emotional connection. This can be personally uncomfortable, but grappling with it enables people to grow as individuals too. It is this mindset change that can inform the way people behave at work regarding relationships with colleagues and customers, how people do their jobs and respond to the needs of customers and clients in terms of operational activities and product and service design and delivery.

That is why we need a new way to show how managing diversity well, works.

A theory to test and a technique to test it

As we've acknowledged, the academic evidence for managing diversity may not yet be robust but the anecdotal experiences of organisations is convincing. If we accept this, we need to work backwards to identify an acceptable explanation, then test the hypothesis.

From the evidence we have considered, our conclusions are that there are four positive effects of managing diversity well, which can be measured:

- 1 Diversity in employment promotes cost-effective employment relations.
- 2 Diversity enhances customer relations.
- 3 Diversity enhances creativity, flexibility and innovation in organisations.
- 4 Diversity promotes sustainable development and business advantage.

Each of these propositions leaves a 'tell-tale' signature – of satisfied customers, faster product development or above-industry-standard performance. If the precursors to business success can be matched to diversity practice, the theory can be confirmed, and what the experience tells us can become the evidence.

A diversity BSC

The development of a diversity BSC is underpinned by the simple idea that it's not possible for organisations to manage what is immeasurable. The non-financial considerations, which are often not measured, should be measured and strategically integrated into management systems and processes.

The BSC is already a recognised form of business measure. It can be used to consider the strategic nature of diversity, identify the measures (evidence), help determine the expectations and be used to compare the observations. Is what was expected being seen? Does greater employee diversity lead to more sales, profits and longevity, and so on?

A diversity BSC may also look at the contributors to business performance: What specific aspects of diversity lead to customer-focused improvements? How does creativity result from diversity, or does it? Can diversity policy lead to better employee satisfaction and retention?

If you've worked in the field of diversity, you'll be shouting the answer. It just makes sense, doesn't it? And often the simplest of ideas – eg valuing everyone as individuals – are the most powerful. If robust academic evidence is essential to convince more organisations to get to grips with the challenges, there is now a theory to be tested, and a mechanism for testing it. But, in the meantime, employers should keep working at making progress because organisational testimonies show how it makes business sense to do so.

Conclusion

The debate surrounding managing diversity has been influenced by the reluctance of some businesses to adopt managing diversity as a business practice without the proof that it pays off. This is a healthy conflict that helps to fuel the gathering of evidence. But it hasn't put a blanket stop on organisations going ahead anyway and it's these pioneering organisations that have produced the success stories that help others recognise the potential advantages. As a result, there's now an overwhelming body of practical evidence and information about good diversity management that delivers perceptible business benefits. It's organisations themselves that provide the irrefutable proof that managing diversity can't be sidelined.

'If it looks like a duck, smells like a duck, feels like a duck, tastes like a duck, and sounds like a duck ... it's a duck.'

Diversity is not an entity, but a philosophy. Diversity is like a universal language – there are no barriers to people. Instead, the language of diversity encourages and values difference. Diversity is central to business strategy because universal language means everyone can talk, exchange and contribute, and this has implications for leadership, change and control.

A diversity BSC could provide the basis for a rigorous and business-focused measurement system to help organisations determine specifically what diversity management approaches contribute to business performance in ways that support business progress. At last, organisations have a way of evaluating what they do to drive diversity into the heart of their businesses. This could be just the beginning of evidencing the business case for good diversity management.

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Website sources

Diversity at work www.diversityatwork.com

Personnel Today www.personneltoday.com

Sirota Europe www.sirotaeurope.com/

Zurich Financial Services www.zurich.co.uk (search for 'diversity')

Department for Trade and Industry www.dti.gov.uk

The Cabinet Office www.cmps.gov.uk/diversity/

Age Positive www.agepositive.gov.uk

Business in The Community www.bitc.org.uk

Cornell University www.ilr.cornell.edu/

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