



Change agenda

# MANAGING DIVERSITY MEASURING SUCCESS

# Foreword

Managing diversity is complex. As organisations seek to make it a mainstream business issue in order to gain competitive advantage and address legal obligations, ways of evidencing the derived business benefits are in growing demand.

The CIPD commissioned research to explore the challenges involved in measuring the impact of managing diversity and the measures in general use.

The information covered in this Change Agenda spotlights where diversity can make a difference and in what ways there can be both positive and negative outcomes unless diversity is managed successfully.

The report goes beyond the use of numerical targets and the adoption of diversity standards that signal how progressive organisations are in creating diverse workforces. It discusses ways of tracking change resulting from the implementation of objectives designed to deliver organisational objectives that reflect diversity and the need for organisational culture and business context to be taken into account.

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# Introduction

Diversity management developed as a philosophy in the late 1980s in North America with the publication of *Workforce 2000*, a report indicating changing labour market demographics.

In the 1990s, the concept gained popularity as a new management approach in the UK and has continued to do so because of the prevailing social and economic climate. It's now not a choice but a requisite for any successful workforce strategy because of the competitive pressures on organisations to sustain and improve economic performance and the changing expectations and aspirations of society.

These pressures are forcing attention on the need to address contextual realities, which have traditionally been ignored. The people management implications of this are that an employee pool composed of white, able-bodied, heterosexual males is now out of date as it doesn't reflect the composition of the labour market.

Labour market statistics show that the workforce of the twenty-first century is becoming more and more diverse in terms of factors such as race and ethnic origin, gender, age, sexual orientation and political and religious belief.

# Diversity and the business background

The current business environment has three key features:

- changing patterns of labour market demographics
- the increasing globalisation of business
- changing patterns of work organisation, production and competition.

## Changing patterns of labour market demographics

The number of able-bodied, young and middle-aged white males is qualitatively and quantitatively insufficient to meet the demands of the competitive business market. As Gilbert and Stead (1999) predicted, the proportion of women and ethnic minorities in the workforce has continued to increase. Coupled with the ageing of the UK population, this presents both serious challenges and opportunities for employers.

The demographic pattern changes are complex and especially important as they are accompanied by a skills shortage, continuing economic growth, more people living longer and healthier lives, a birth rate below replacement level and low economic activity levels for older workers.

Because of these social changes, traditional approaches to employment policies and practices are failing. And to access underused segments of the labour force, employers are being forced to make radical changes to their approaches to recruitment, reward and retention and so on.

Additionally, to avoid high turnover rates in a diverse workforce, appropriate culture changes are needed to create a more open and comfortable environment where everyone fits in, feels valued and can contribute their best. Rigid, traditional workplace cultures tend to

exclude non-traditional employees and can undermine business performance.

Another factor that contributes to the increasing diversity of the workforce is international migration which is seen as a solution to the skills shortages reported by employers. Research indicates that the need for importing highly skilled labour is increasing (Briscoe 2001, Cervantes and Guellec 2002). And Philpott (2002) notes that there is a shortage of skilled workers in the UK and government policy supports the immigration of appropriate high human capital.

Commenting on the rising importance of equal opportunities policies for the successful management of diverse and scarce human resources in UK organisations, Straw (1989 p1) says that, 'In the past, with a plentiful workforce to draw upon, it [equal opportunities] has been an approach, which some organisations have chosen to adopt as a part of good professional practice. Yet in the 1990s against the background of demographic change, an understanding and practice of equal opportunities policies is essential if the UK is to meet the demands of an increasingly competitive market, and, indeed, if some organisations are to survive at all.'

It's also argued that, with declining homogeneity in the workforce, it has become crucial for organisations to develop equal opportunities and diversity management policies to retain the skills of employees with diverse backgrounds in order to protect their competitive position in the marketplace, (Shaw 1993, Gilbert and Ivancevich 2000).

## The increasing globalisation of business

Multinational corporations have the added challenge of managing diverse cultural issues, 'In international ventures', says Allard (2002 p14), 'diversity is not an option; it is automatically part of the package, and

some sort of diversity management framework is a necessity.' Similarly, Marable (2000) points out that, 'In today's period of globalisation, corporate capital requires a multicultural, multinational management and labour force.'

The challenging business environment faced by multinational corporations requires quick responses and flexibility to cultural contexts, both to meet consumers' demands for products and services and to address the supply of labour as well as informing mergers and acquisitions.

For a multinational corporation, having workforce diversity may help it to be better at dealing with the diverse cultures it operates in and to design and implement strategies to improve market penetration and product differentiation through greater innovation or better integration. Adler and Ghadar (1990 p253) argue that managers of multinational corporations can use cultural diversity 'to differentiate products and services when culturally distinct markets and/or workforces must be addressed, and as a primary source of new ideas when innovation is needed.'

If not managed effectively, national workforce diversity can become a factor that destroys an organisation's fabric and minimises an individual employee's performance. As Adler (1986 p118) puts it, 'Only if well managed can culturally diverse groups hope to achieve their potential productivity.'

Stereotyping and discrimination on the grounds of nationality frequently undermine effective communication in international teams and can lead to misunderstanding and conflict (Phillips 1992).

Loosemore and Al Muslmani (1999 p95) argue that problems related to inter-cultural communication can be overcome by developing sensitivity to cultural diversity. However, it would be naive to expect cross-cultural understanding and sensitivity to automatically grow out of unmediated interactions between employees from different backgrounds (Chevrier 2003).

Conversely, the implementation of proactive diversity management policies can transcend communication problems and conflict stemming from diversity among

employees and help to create an inclusive organisational culture based on trust – which enhances the sense of belonging and helps to improve business performance, personal commitment and motivation.

### **Changing patterns of work organisation, production and competition**

In the highly competitive global market of the twenty-first century, organisations increasingly need to adopt principles of, to use the Piore and Sabel (1984) term, 'flexible specialisation', which allows wider space for cost reduction, diversification and innovation simultaneously.

Several authors argue that the business environment is becoming increasingly dynamic and accompanied by greater uncertainty and more intense competition. This demands the reduction of organisational rigidities and the development of higher levels of adaptiveness and responsiveness to change, more flexibility and fostering teamwork through flatter organisational networks (Blazevic and Lievens 2002, Schneider and Northcraft 1999, Schoenberger 1997; Procter and Mueller 2000).

In their work on competencies in UK business, Kandola and Pearn (1992) point out the shift from a 'parochial outlook' and 'procedure-bound' approach to 'company commitment' and 'innovative, open-minded' thinking, which are considered to be positive outcomes of flexible forms of work organisation.

As competition continues to increasingly focus on diversifying consumer demands, the need for more innovative work teams composed of people from diverse backgrounds also rises. Ashkanasy et al (2002 pp328–329) argue that, in the service-oriented economy, employees need to develop the necessary skills and background for communicating with, and for understanding and meeting the demands of, diverse groups of customers. Furthermore, in academic and business circles, it's argued that learning organisations with high levels of innovative capacity and adaptiveness will be the survivors of the harsh business competition of the twenty-first century (Blazevic and Lievens 2002, Carroll and Hannan 2000).

As illustrated below, many authors advocate that 'A higher degree of organisational diversity leads to more varied interpretations about the nature of problems,

opportunities and solutions as a consequence of higher degrees of learning. A heterogeneous innovation project team takes into account a broader range of perspectives, has a higher degree of learning and is involved in more information processing activities' (Blazevic and Lievens 2002 p379).

Reflecting on the future of diversity management, Allard (2002 p23) points to the growth of virtual organisations and the decentralisation of power within organisations. These trends, according to Allard (2002 p24), necessitate 'increasing the diversity of organisational workforces, learning about diverse cultures, greater networking and increased collaboration among diverse personnel in order to maximise organisational competitiveness and creativity'.

In summary, to meet the challenges of the new economy, employers need to recruit a diverse workforce and develop effective diversity management strategies to foster flexible, motivated and capable workforces and efficient work teams that display high levels of performance and commitment.

As Carroll and Hannan (2000 p152) say, 'An old evolutionary principle recognises that in an uncertain world, diverse systems are more likely to possess appropriate responses than homogeneous systems. As environmental uncertainty rises, so too presumably do the advantages of diversity.'

# Impact of diversity on business performance

The external exigencies of economic and social change necessitate the take-up of diversity management initiatives at organisational level, but it's also possible to identify more explicit links between diversity and business performance.

To identify the inter-relationship between business performance and diversity at organisational level, it's important to be clear about how diversity and performance are defined and measured.

## Defining diversity

Definitions of diversity range from distributive concerns based on the traditional categories of race, ethnicity and gender to the inclusion of a vast array of differences in age, sexual orientation, disability, employment status, tenure, function, educational background, lifestyle, religion, values and beliefs in addition to race, ethnicity and gender.

In the recent CIPD report, *Diversity: Stacking up the evidence* (Anderson and Metcalf 2003), three different types of workforce diversity were identified:

- **Social category diversity** relates to differences in demographic characteristics, such as age and race.
- **Informational diversity** refers to diversity of background such as knowledge, education, experience, tenure and functional background.
- **Value diversity** includes differences in personality and attitudes.

One of the most influential and well-received definitions of diversity management in the UK is given by Kandola and Fullerton (1998 p7):

'The basic concept of managing diversity accepts that the workforce consists of a diverse population of

people consisting of visible and non-visible differences including factors such as sex, age, background, race, disability, personality and work style and is founded on the premise that harnessing these differences will create a productive environment in which everyone feels valued, where all talents are fully utilised and in which organisational goals are met.'

Although there's a growing body of literature on the effects of workforce diversity on business success, research in the area remains scant and unsystematic regarding the definition of what constitutes diversity, the unit of analysis and dependent variables under investigation. So it's difficult to reach scientifically substantiated conclusions on the impact of diversity on business performance, despite the fact that organisations themselves identify business case arguments for managing diversity.

## The positive benefits of managing diversity

The benefits of diversity indicated in the literature that has been reviewed for this report can be summarised in the following three broad statements:

- Diversity enhances customer relations and increases market share.
- Diversity enhances employee relations and reduces the cost of labour.
- Diversity improves workforce quality and performance in terms of diverse skills, creativity, problem-solving and flexibility.

## Diversity enhances customer relations and increases market share

Research findings suggest that having a diverse workforce leads to increased market share and increased sales to minority-culture groups (Fernandez 1991, Cox and Blake 1991, Cox 1993).

This is explained by the preference of many customers to buy from people like themselves and from organisations that promote diversity (Morrison 1992).

Diversity contributes to increased market share because it enhances an organisation's ability 'to deal more sensitively with multicultural domestic and foreign customers, thereby increasing customer satisfaction, keeping and gaining market share' (Bhadury et al 2000 p144).

In his research on managing diversity at IBM, Thomas (2004) exemplifies the benefits of responding to customer diversity. At IBM, one of the positive business outcomes of successful diversity management has been the increase in revenue from \$10 million in 1998 to \$300 million in 2001, just through partnerships with a more diverse group of vendors (Thomas 2004 p98).

#### **Diversity enhances employee relations and reduces the cost of labour**

Several studies indicate that employers who successfully manage diversity are better at attracting and retaining skills and talent 'because many workers are drawn to companies that embrace diversity' (Woods and Sciarini 1995 p19).

As well as recruiting the best people in the labour market by embracing diversity, such employers can also benefit from cost savings by having a more cost-effective recruitment process. McEnrue (1993) found that the recruitment expenditure of organisations that value diversity is 40 per cent less than that of those that don't and that they suffer less from high costs of labour turnover, absenteeism and discrimination lawsuits (Fernandez 1991, Cox 1993, Morrison 1992).

#### **Diversity improves workforce quality and performance in terms of diverse skills, creativity, problem-solving and flexibility**

The effects of diversity on organisational outcomes, such as performance, creativity, teamwork and problem-solving, are the areas that attract the interest of researchers most of all. In fact, most of the diversity research focuses on these aspects, although the findings suggest mixed and conflicting results.

Advocates of diversity management argue that an inclusive diversity climate increases the performance and productivity level of employees through increased job satisfaction and commitment (Morrison 1992). They also argue that diversity fosters an adaptability to environmental change and organisational flexibility – and provides a competitive edge by doing so (Cox 1993, Cox and Blake 1991, Fernandez 1991).

Another frequently cited benefit of diversity is improved quality of management due to the effects of anti-discrimination policies (Cox 1993, Fernandez 1991, Morrison 1992).

Additionally, McEnrue (1993) found that embracing diversity leads to decreased levels of frustration among supervisors who gain the skills to understand and manage groups with diverse backgrounds.

Similarly, at top management level, several studies indicate that teams composed of diverse members outperform homogeneous teams and have more capacity for problem-solving and decision-making (Bantel and Jackson 1989, Hambrick et al 1996, Smith et al 1994).

There's also evidence that workforce diversity improves organisational effectiveness through increased organisational and individual creativity and innovation, and improves decision-making and problem-solving by providing work teams with different and diverse perspectives (Bhadury et al 2000, Cox 1993, Fernandez 1991, Cordero et al 1996, Cox and Blake 1991, Kirchmeyer and McLellan 1991, Hoffman 1978).

Watson et al (1993) examined the effect of cultural diversity on interaction processes and performance in a 17-week experimental study with 173 undergraduate students. They defined cultural diversity on the basis of ethnic and national differences among the group members and found that in-group diversity has negative impacts on process and performance in newly formed groups.

However, at the end of the 17-week study, the culturally diverse groups caught up with the culturally homogeneous groups and, although the overall



performance was the same for both, the culturally diverse groups were more effective in two tasks: identifying problem perspectives and generating solution alternatives.

In an experimental study, Nemeth (1986) also found that minority groups were more creative and innovative. Watson et al (1993), commenting on the multinational teams, pointed out that 'a diversity of world views increased the contributions that members of cross-cultural teams brought to bear on complex problems and were potentially more creative in problem solving than national homogeneous teams.'

# The negative outcomes of failing to manage workforce diversity

A review of diversity literature shows that sometimes increasing diversity is portrayed as a magic formula that will automatically provide employers with competitive advantage. But empirical research evidence is conflicting.

Results can show advantages and disadvantages (Williams and O'Reilly 1998, Raghuram and Garud 1996, Dwyer et al 2003, Chevrier 2003). In fact, workforce diversity isn't a competitive organisational strength unless it's effectively managed. Allard (2002 p14) notes that, 'Just having diversity does not by itself guarantee greater business success nor does it guarantee qualitative social and creativity improvements.'

Research findings suggest that simply changing the structure or composition of the workforce doesn't lead to business success (Haight 1990, Cox and Blake 1991, Ancona and Caldwell 1992 p321, Phillips 1992). On the contrary, in some instances, workforce diversity may even undermine business performance.

Allard (2002 p13) observes the hoped-for advantages of diversity engineering. He explains that desired outcomes include such intangibles as fresh outlooks, higher morale, increased flexibility, multiple perspectives, increased problem-solving skills, increased creativity, reduction in intergroup tensions, and improved market opportunities. But potential disadvantages include impasses in reaching agreements, miscommunication, confusion, ambiguity, fear, resistance and backlash from majority members, unrealistic expectations, high cost of litigation, and recruitment difficulties.

The negative outcomes of not managing diversity include low morale, ambiguity, conflict and tension, confusion and communication problems. These undermine organisational attachment and reduce effectiveness and workforce cohesion (Chevrier 2003, Wharton and Baron 1987; Tsui et al 1992; O'Reilly et

al 1989, Tsui and Ashford 1991, Thomas and Ely 1996, Cox 1993, Nemetz and Christensen 1996, Robbins 2001).

In their review of the literature on the effects of diversity, Milliken and Martins (1996 p408) found that diversity in gender, race or age may lead to higher turnover rates.

Similarly, Jackson and colleagues (1995) noted that diversity may create discomfort for individual members of a workforce and result in lower organisational integration and attachment. Still others argue the possibility that, even if diversity fosters better performance, the costs of co-ordinating diverse workforces can impede its advantages (Ancona and Caldwell 1992; Murray 1989).

Ancona and Caldwell (1992 p323) explain the negative effects of diversity:

'The group literature points to the difficulty of merging different cognitive styles, attitudes and values, such as those found in teams with diverse members. If not managed effectively, this diversity can create internal processes that slow decision making and keep members from concentrating on the task. Teams made up of individuals from different "thought-worlds" may find it difficult to develop a shared purpose and an effective group process.'

Cordero et al (1996 p206) conclude that 'homogeneity in group composition creates positive outcomes because of the effects of the similarity-attraction effect, that is, that people are attracted to those who are similar to themselves.'

## The diverse impact of diversity on individuals

Studies analysing the impact of diversity on different groups of employees indicate that the effects of and

reactions to workforce diversity may show variations among different groups of individuals.

For instance, white men react more negatively and display lower levels of morale, job satisfaction and innovation in diverse work groups than women and those from ethnic minorities, who react more favourably and show evidence of increased job satisfaction and participation (Wharton and Baron 1987, Tsui et al 1992, Cordero et al 1996, DiTomaso and Hooijberg 1996).

Soni (2000) conducted case study research in large public sector organisations to examine the relationship between race/ethnic and gender identities, perceived discrimination, job satisfaction, interpersonal relationships, and attitudes toward workplace diversity and diversity management initiatives.

The results of the study showed that women and ethnic-minority employees were more receptive to diversity management initiatives, perceived greater discrimination and reported less job satisfaction and less satisfying interpersonal relationships than their white male colleagues.

Similarly, Rubaii-Barrett and Beck (1993) examined the differences in work climate perceptions and levels of job satisfaction between different ethnic groups in a survey administered to 268 local government employees in New Mexico. The findings of this study suggested that attitudes towards diversity are moderated by the ethnic identities of employees.

These conflicting research findings on the effects of diversity suggest that it's not diversity per se that automatically leads to business success or failure.

Two important general points can be made about the relationship between diversity and business success.

- 1 The effects of workforce diversity are conditioned by other organisational and contextual factors.
- 2 Diversity can't be used as a competitive organisational strength unless it's managed effectively.

# Factors that influence the effects of diversity

There are at least four main moderating or intervening variables that condition the effects of diversity:

- the nature of work tasks
- corporate business strategy
- diversity and organisational context
- diversity and context.

## The nature of work tasks

Regarding the effects of the nature of work tasks on the diversity–business-success relationship, Cordero et al (1996 p206) suggest that, 'Homogeneity appears to be a benefit for groups with more routine tasks, while heterogeneity produces benefits for groups with more complex and interdependent tasks.' In other words, diversity among employees delivers a competitive advantage for organisations when the performance of novel and complex tasks that require high levels of creative thinking, innovation and problem-solving skills are involved (Dwyer et al 2003, Jackson 1992).

## Corporate business strategy

The impact of diversity on business performance also displays variations in accordance with corporate business strategy (Richard 2000, Schuler and Jackson 1987).

Dwyer et al (2003 p1010) tell us, 'A growth-oriented, culturally diverse organisation benefits from employees who are flexible in their thinking and who are less likely to be concerned about departing from the norm.' Their research findings suggest that firms adopting growth strategies benefit from the increased levels of performance stemming from gender diversity at managerial level.

The positive relationship between business performance and workforce diversity in growth-oriented organisations holds true for race diversity as well as gender diversity; but race diversity is shown to be

associated with harmful and negative outcomes for the downsizing firms (Richard 2000).

## Diversity and organisational culture

The third point that needs to be considered in analysing the advantages and disadvantages of diversity regarding business success is organisational culture. It's argued that certain organisational cultures nurture the positive effects of diversity while others dampen them.

According to the research findings of Chatman et al (1998) organisational cultures based on collectivist values positively moderate the relationship between workforce diversity and business performance by dissolving the conflicts stemming from and fostering the potential benefits of diversity.

Dwyer et al (2003 p1017), in their research of 535 banks on the relationship between management-level gender diversity, growth orientation and organisational culture, found that 'the impact of gender diversity on performance was dependent on the organisation context.'

Using the typology of cultures developed by Quinn and his colleagues, Dwyer et al argued that workforce diversity provides business benefits in a 'clan culture – characterised by participation, teamwork, employee focus, consensual problem-solving and decision-making – and in an adhocracy culture – characterised by flexibility, spontaneity, individualism, entrepreneurship, creativity, and adaptability (Dwyer et al 2003 pp1011–1012).

Another feature of the organisational culture that moderates the effects that diversity has on business performance is the extent to which equal opportunities and diversity are part of it.

Knouse and Dansby (2000) argue that organisations that embrace equal opportunities and diversity gain advantage through increased effectiveness, satisfaction

and commitment among employees. They say the diversity of employees, such as their race, ethnicity, gender, age, education and rank, affects individual behaviours and attitudes towards equal opportunities, which in turn affects personal satisfaction, effectiveness and commitment.

In their survey of 922 employees, Rynes and Rosen (1994) found that employees who received diversity training were more supportive of diversity.

Bendict et al (2001), in a survey of 108 US diversity training providers, concluded that diversity training is most beneficial when it embodies an organisational development approach.

Swann et al (2004) observed a group of MBA students over a semester and found that verification of personal self-views fostered identification with and performance in diverse groups.

Similarly, Polzer et al (2002) investigated the moderating effect of self-verification processes on the relationship between diversity and performance on MBA students. Both demographic characteristics (for example, sex, race) and functional categories (for example, job function) featured in the definition of diversity they used. They found performance was more enhanced in groups where levels of self-verification were high.

But Bhadury et al (2000 p144) found several studies which suggested that workforce diversity can have both positive and negative impacts on organisations. However, the nature of the impact diversity has, depends to a large extent on the nature of the diversity climate rather than the existence of diversity.

In their experimental research, Gilbert and Stead (1999) examined the effects of diversity management on the perception of qualifications and competences of employees from different race and gender groups. Two experiments involving samples of 179 and 220 undergraduate business students were conducted and the results showed that the qualifications and competences of women and racial minorities hired under diversity management programmes were viewed more positively than those of people recruited under affirmative action programmes.

## Diversity and context

To assess the impact of diversity on organisational performance, it's crucial to overcome 'the widespread use of the "one-size-fits-all"' approach (Mor Barak 2000 p347).

Glastra et al (2000 p709) advocate a contextual approach to managing diversity:

'If diversity management is to have a positive impact, it must develop adequate solutions to organisational problems in the workplace. Issues such as structural arrangements, cultural patterns and the nature of the core business, external relationships and the strategic mission of an organisation all need to be taken into account. This calls for thorough and detailed organisational analysis.'

Unfortunately, most research on diversity published in management literature focuses on interpersonal and inter-group issues. Empirically based research on the impact of workforce diversity at the organisational level is scarce. Furthermore, most of the research on the outcomes of diversity comes from experimental and laboratory studies rather than empirical research conducted in actual organisational contexts.

Without careful investigation of the effects of diversity in different organisational contexts, most of the writings in the diversity literature therefore fail to fulfil the criteria of scientific analysis and to provide blueprint conclusions about the business advantages of 'good' diversity management.

In order to gain the benefits of workforce diversity and to establish a grounded and robust diversity management approach, more systematic research and monitoring has to be conducted by both academics and practitioners on the outcomes of diversity policies and practices at the organisational level. To do this, we need to:

- transcend the rhetoric of the business case for diversity and undertake research on the actual impacts of workforce diversity on business performance
- follow up the impact of diversity management initiatives, programmes and training at several organisational levels.

# Diversity and the business case

Quantitative information about the impact that managing diversity has on business performance is important to gain organisational support for diversity management.

As Robinson and Dechant (1997 p21) noted, 'the presentation of a robust business case increases the likelihood of obtaining the leadership commitment and resources needed to successfully implement diversity initiatives.' However, they argue that, 'Evidence on diversity's impact on the bottom line has not been systematically measured and documented for easy retrieval and use.'

## Diversity and the balanced scorecard

Kaplan and Norton's (1996) balanced scorecard model presents a robust business technique to measure and quantify the impact of diversity at different levels and functions of business. By using the balanced scorecard, it may become possible to predict the economic value added by intangible organisational resources such as workforce diversity, inclusive organisational cultures and good diversity management.

In the balanced scorecard model, three main levels of perspective determine the financial perspective

## Ford of Britain

The practice in Ford of Britain displays a good example of measuring and monitoring diversity using the Balanced Score Card (BSC).

In the company, ownership of and responsibility for diversity goals and objectives are cascaded down all levels of organisation through a Diversity Balanced Score Card (DBSC).

In the DBSC, different areas of business are covered, including policy and planning, selection, developing and retaining staff, corporate image, and corporate citizenship. Furthermore, the systematic nature of the BSC system for diversity-related objectives requires setting clear targets and putting corresponding activities in place. Accordingly, use of a DBSC allows the company to integrate diversity strategies in the action plans of all plants and functional areas, as well as to monitor the level of diversity achievement in each function and plant across the UK.

At Ford of Britain, the DBSC results are evaluated annually. In the light of these reviews, new action plans and strategies are set out for the following year. Hence, the company follows the cyclical four-step BSC process of planning and target setting, strategic feedback and learning, clarifying and translating the vision and strategy, communicating and linking (Kaplan and Norton 1996 p274) in managing and measuring its diversity management strategy, policy and activities.

The Ford of Britain DBSC system drives the diversity management process of the company by providing it with clarity and focus in policy, strategic targets and intervention, senior and middle management ownership, organisational learning opportunities, and a robust feedback and review system.

(related to the financial outcomes and shareholder values), which is the fundamental priority of a corporate strategy: 'customer perspective' (related to the customers' satisfaction), 'internal perspective' (related to the internal operations) and 'learning and growth perspective'. Strategies regarding the 'learning and growth perspective' underpin the previous two and deal with HR issues. In other words, it is the first link of a chain of activities that lead to the achievement of the desired financial outcome targeted by a business strategy.

In the CIPD (2005) Change Agenda *Managing Diversity: Linking theory and practice to business performance*, the Institute advises organisations to develop and use a strategic diversity measurement system in the form of a 'diversity scorecard' to showcase diversity's impact on business performance.

Research commissioned and sponsored by the Cabinet Office, Barclays and CMPS (2002), *The Business of Diversity*, which covered 140 leading organisations from both the private and public sectors, suggests that organisations are beginning to use this technique to measure the impact of diversity and equality.

# A review of diversity measures

## Diverse approaches

There are inter-sectoral variations in the measurement and management of diversity. In the UK, for example, the private, public and voluntary sectors have taken different approaches. The balanced scorecard approach tends to be more widely adopted across large private sector firms while the Diversity Excellence Model produced by the Cabinet Office is more likely to be adopted by public sector organisations, and voluntary sector organisations tend to use either.

There are various reasons for this divergence, but the main reasons relate to fundamental differences behind sectoral motives in taking up diversity initiatives.

For example, in the public sector, the key drivers for change have been legal obligations and the better delivery of services to diverse communities. In the private sector, business case arguments have been predominant, particularly regarding recruiting and retaining talent and improving competitiveness in the marketplace. The voluntary sector, on the other hand, has been particularly driven by a concern to align their volunteer profiles with those of the communities they serve. These different contextual objectives have influenced the design and choice of measurement tools, notwithstanding overall differences in the understanding of the nature and complexity of diversity and what initiatives, interventions and management techniques facilitate progress.

## Some of diversity measurement tools

### International Personnel Management Association diversity benchmarking tool

Neil E. Reichenberg (2001), the Executive Director of the International Personnel Management Association, reported that his organisation has developed and tested a best-practice benchmarking tool for managing diversity in the public service sector. A study examined a wide range of initiatives on the basis of six criteria:

- the success of the initiative over time
- evidence of qualitative and quantitative business results
- the availability of recognisable positive business outcomes such as customer satisfaction improvements
- innovation
- the transferability of the initiative to other organisations
- how purposeful and meaningful the initiative was for benchmarking purposes.

A range of best practices were identified and presented through United Nations reports to an international audience.

Benchmarking good practices in diversity management helps to identify and promote different approaches and to stimulate progress by sharing learning experiences.

## European Foundation Quality Management Excellence Model

The European Foundation of Quality Management (EFQM) Excellence Model was introduced in 1992 as a benchmark for quality awards in Europe and is one of the best-established models of business excellence. It is overviewed as 'a non-prescriptive framework based on nine criteria. Five of the criteria used are described as 'Enablers' and four as 'Results' criteria.

The 'Enablers' criteria cover what an organisation does. The 'Results' criteria cover what an organisation achieves. 'Results' are caused by 'Enablers', and feedback from 'Results' help to improve 'Enablers'. The weakness of the EFQM model is that it doesn't directly engage with the issue of diversity and so it fails to relate business excellence to one of its key indicators. Furthermore, the model suggests a simplistic causal link between 'Enablers' and 'Results' and fails to recognise



the existence of structural constraints and contextual variables that impinge on the results that organisations achieve.

### **The balanced scorecard**

The increasing appetite to demonstrate the added value of managing diversity brings into the spotlight the balanced scorecard designed by Kaplan and Norton (1996). This is a tool that focuses attention on business processes, outcomes and activities that are important to the organisation as well as its external constituents. The balanced scorecard integrates both qualitative and quantitative measures, linking them firmly to the strategic objectives of an organisation. Diversity management has been linked to the balanced scorecard in a number of large private sector organisations in the UK. Organisations that use the balanced scorecard as their orienting tool for integrating their diversity strategies are able to demonstrate unambiguously how and to what extent the diversity objectives have been achieved.

One concern about the implementation of the balanced scorecard in terms of diversity management is the variable nature of the significance that's attributed to diversity issues as the balanced scorecard reflects and integrates the values of organisations as well as quantitative objectives.

Where perceptions about diversity are misinformed, the risk is that this will be reflected in the way the balanced scorecard is used, so it's imperative that organisations make clear what their vision of diversity is, communicate this and train people to understand it, build objectives into business planning and performance assessments and monitor and review progress.

### **The Diversity Excellence Model**

The most popular model for measuring and managing diversity in the public sector is the Diversity Excellence Model (National School of Government 2005), which is based on the EFQM model. Although this model allows for an internal focus on diversity concerns at the level of the organisation, it suffers the same setbacks as the EFQM model in that there is a lack of contextual understanding and an over-simplistic attribution of causal relationships between enablers of diversity and positive organisational outcomes.

### **Further diversity measures**

Other widely used diversity management measures, benchmarks and standards are summarised in the Appendix.

# Measuring the impact of diversity to make progress

Measuring impact is important to help track progress and show how the successful management of diversity can improve business performance. Impact can be shown in a variety of ways. The checklist below indicates the kinds of issues that need to be measured and monitored regularly to show impact:

- the attitudes and behaviours of employees about equal opportunities and diversity attitudes
- the representation of diverse groups at different levels of organisation
- monitoring information for different categories of employees in connection with recruitment, performance appraisal, promotion and compensation
- measures of employee loyalty, engagement, motivation and commitment
- individual performance ratings and levels of job satisfaction
- costs of labour turnover, absenteeism, recruitment and litigation costs such as discrimination lawsuits
- success of communication and interaction with and between employees from diverse backgrounds
- organisational performance, creativity, problem-solving and decision-making abilities
- business statistics regarding market penetration, diversification of customer base and levels of customer satisfaction.

## Recommendations for measuring the impact of managing diversity

Six broad recommendations for measuring the impact of managing diversity at the organisational level can be drawn from the review of literature discussed in this Change Agenda:

- 1 Draw up a clear organisational definition of diversity, communicate this to employees and take action to help them understand it, how it affects them and how it should be taken into account in how they do their jobs. (The CIPD defines diversity as 'valuing everyone as individuals – as employees, customers and clients' – see the CIPD (2005) guide, *Managing Diversity: People make the difference at work but everyone is different.*)
- 2 Conduct a detailed needs analysis specific to your organisation with a view to examining the needs of the employees, customers and any other stakeholder groups the organisation depends on for economic success.
- 3 Regularly audit, review and evaluate progress and keep qualitative and quantitative data on the areas in the checklist above.
- 4 Conduct employee attitude surveys to identify the impact of diversity initiatives.
- 5 Conduct a cost–benefit analysis of the diversity management initiatives and programmes (ie specify the costs involved in the implementation of diversity management programmes and the expected returns and any costs that might be incurred in not taking any action).
- 6 Consider adopting the diversity scorecard to monitor your organisation's performance with regard to diversity. (See the CIPD (2005) Change Agenda, *Managing Diversity: Linking theory and practice to business performance.*)

# Conclusions

The importance of introducing measures to show the added value of managing diversity is very clear. But it's also important to consider the positive and negative impacts that can arise. It's the ability to manage diversity that makes the difference – not just diversity itself.

Academic evidence spotlights areas in which diversity has an impact, but organisations need to customise initiatives and interventions to manage diversity in ways that contribute to organisation objectives.

As the CIPD research published in *Diversity: Stacking up the evidence* (Anderson and Metcalf 2003) shows, organisations are still on the nursery slopes as far as learning how to manage diversity is concerned.

# Appendix

## Equality standards

*Racial Equality Means Business* is a benchmarking standard for employers produced by the Commission for Racial Equality (CRE). It aims to help employers move beyond mere compliance with legislation and to design and adopt practical policies on racial equality in order to boost staff performance and customer loyalty. The standard is based on the methodology of total quality management and is complementary to initiatives that encourage a people-centred approach to management. Although the standard has been drawn up with larger organisations in mind, it provides a model flexible and adaptable enough to meet the needs of different kinds of organisation and can be used in a wide range of situations as a flexible management tool. Based on the business case for equality, *Racial Equality Means Business* is designed as a self-assessment measure to help indicate future areas of action and measure past achievements.

The standard provides employers with a checklist of the range of actions that may be involved in designing, planning and implementing racial equality programmes. More importantly, the standard includes a framework for measuring achievement across six broad areas at five levels. These areas are: policy and planning; selecting, developing and retaining staff; communication and corporate image; corporate citizenship; and auditing for racial equality. Measurement in each of these areas starts with a first level which covers the very basic foundational requirements for an effective programme and develops through progressive levels towards actions that focus on change and positive outcomes.

Although the *Racial Equality Means Business* standard is designed particularly to assess racial equality programmes, it can be used in conjunction with standards designed for other groups such as women, people with disabilities and older employees, and it can be adjusted to include different forms of diversity.

In addition to *Racial Equality Means Business*, which is a general standard for employers, the CRE has designed other standards targeting specific audiences, for example, the *Equality Standard* for local authorities; *Learning for All* for education institutions; *Bridging the Gap* and *Measuring the Gap* for acute, community, and ambulance services, NHS trusts, and social care providers such as social services departments and residential and nursing homes.

Among these, the *Equality Standard* for local government demonstrates how the *Racial Equality Means Business* standard can be adapted and adjusted to cover different strands of workforce diversity. Modelled on previous CRE standards for racial equality in local government, the *Equality Standard* aims to help local authorities monitor and assess all their equality work using a single standard for race, sex and disability. The standard was produced in partnership with the Equal Opportunities Commission, the Disability Rights Commission and the Employers' Organisation for Local Government. Like the *Racial Equality Means Business* standard, it is also based on a measurement framework across five levels.

For more information, visit: [www.cre.gov.uk/](http://www.cre.gov.uk/)

## Diversity Excellence Model

The *Diversity Excellence Model (DEM)* has been developed by the National School of Government. It is based on the *EFQM Excellence Model* and links diversity to it. The *EFQM Excellence Model* is used as the standard to address and measure diversity and to link diversity to the bottom line. The *DEM* aims to provide organisations with a robust tool to self-assess their diversity levels and measure their success in diversity management by charting progress. The model takes a holistic approach to diversity management and has a focus on expectations and perceptions of all stakeholders. In this way, it provides a framework

to assess in detail the integration of diversity through all functional areas. Currently, the *DEM* is used predominantly by public sector organisations, including the City of London Police; the Civilian Equality Unit, Northern Ireland; the Crown Prosecution Service; the Defence Procurement Agency; the Department of Health; Social Services and Public Safety, Northern Ireland; the Home Office; the Inland Revenue – Cumbernauld; Lancashire Police; Merseyside Police; Metropolitan Police; Northumbria Probation Service; and the Wiltshire Constabulary.

For more information, visit:  
[www.nationalschool.gov.uk/diversity/index.asp](http://www.nationalschool.gov.uk/diversity/index.asp)

### **Diversity Driver**

The *Diversity Driver* is a structured self-assessment tool for organisations to benchmark where they are in terms of diversity management. It has been developed by the Back to Work Company, BQC Performance Management Ltd and the Fair Play Partnership, with

support from Yorkshire Forward. Like the *DEM*, it is also based on the *EFQM Excellence Model*. It provides a baseline on which to build plans and check progress regarding diversity management. It has a customer focus as well as a focus on the internal workforce. The *Diversity Driver* enables organisations to identify their strengths and weaknesses in the field of diversity and to prioritise areas for action. It targets all organisations, including small organisations in the public, private and voluntary sector organisations.

For more information, visit:  
[www.fairplaypartnership.org.uk/diversitydriver.html](http://www.fairplaypartnership.org.uk/diversitydriver.html)

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