



the work foundation

Rising to the challenge of diversity

A discussion of the business case

Prepared by Alexandra Jones, January 2006



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Executive Summary

Diversity is: “valuing everyone as individuals – as employees, customers, clients” (CIPD)

Over the last decade the emphasis of diversity has shifted from assimilating people into existing workplace cultures to ‘managing diversity’ and capitalising on that diversity. Diversity is critical for organisations. The economic and business changes that are occurring, such as open markets, mass customisation, outsourcing and cross functional team-working, together with changing demographics, mean that organisations will have little choice but to have effective diversity policies to ensure they are recruiting from the widest possible pool. Diversity is a key enabler of business strategy and lies at the heart of an organisation’s choices about the future.

The business case for an effective diversity strategy is clear. Effective diversity policies have been linked to high performance organisations and result in:

- Improved performance
- Improved brand awareness
- Improved ability to respond and change through creativity and innovation
- Innovative approaches to products
- Reflective diversity makes customers feel at home

- Higher staff motivation
- Higher staff retention
- Improved employer image

Even if having a diverse workforce is an active aspiration for an organisation, achieving it can be problematic. To help achieve diversity that is beneficial, this report provides business leaders and HR professionals with:

- Clarity about the benefits of diversity on organisational performance
- Explicit links between employee diversity and the wider economic and demographic trends that make diversity a business issue
- Evidence of the need for a strategic approach
- Barriers and enablers to diversity
- What a strategic approach should involve
- A tool to assess what extent your organisation is implementing a systemic diversity strategy.

Why does diversity matter?

The purpose of this paper

Having a diverse workforce has become an active aspiration, rather than an incidental issue, for many organisations. Yet it remains a problematic matter for many leaders, managers and HR professionals. This is because:

- Business leaders do not always make the link between employee diversity and the wider economic and demographic trends that make it a significant business issue, meaning some organisations continue to see diversity as unimportant or primarily a Human Resources issue;
- There is a lack of clarity about the impact of diversity upon different areas of organisational performance, meaning there is uncertainty about the benefits of diversity in practice;
- There is uncertainty about where to draw the line between respecting diversity and ensuring that there is a clear sense of organisational culture and acceptable behaviours;
- There are significant challenges to creating a truly diverse workforce at all levels, meaning that some workforces can look diverse but not necessarily reap the benefits. It also makes it difficult for HR departments to know what policies to recommend.

In response to these challenges, this paper:

- Defines diversity and highlights the economic and demographic factors driving the growing importance of diversity (section 1);
- Analyses the evidence for the impact of diversity upon different areas of organisational performance (section 2);
- Assesses why it is difficult to improve diversity within organisations (section 3);
- Draws conclusions about the existing evidence and the challenges it raises for organisations (section 4);
- Sets out a tool for organisations to self-assess their current diversity strategies (Appendix 1).

An accompanying Work Foundation paper looks at the challenges created by ‘diverse organisational cultures’ within one organisation, the impact this may have upon ways of working in different parts of that organisation, and the implications that diverse organisational cultures has upon managing change.

Defining diversity and how it has changed

The CIPD’s definition of ‘diversity’ is the most succinct: “valuing everyone as individuals – as employees, customers, and clients.”ⁱⁱ This recognises that individuals may differ from one another in terms of gender, ethnicity, race, sexual orientation, religion, physical abilities, age, socio-economic status,

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personality, work style, and educational background.

‘Valuing’ means respecting and allowing individual differences to flourish, rather than repressing or simply tolerating difference. This understanding of the concept reflects the way in which approaches to ‘diversity’ have evolved and developed over the past thirty years as the social and economic context has changed.

When debates first began about the diversity of employees in the 1960s and 1970s there was more of an emphasis upon equal opportunities policies. These sought to ensure equal access for diverse individuals to job opportunities, promotion and development etc., in recognition that some groups were less likely to do well in organisations. The emphasis was on ‘not discriminating’ and on assimilating people into existing workplace cultures, rather than trying to change organisational cultures to benefit from diverse individuals (White 1999).ⁱⁱ

In recent years there has been a shift in emphasis, however, to ‘managing diversity’. It has been recognised that equal opportunities policies have not succeeded in transforming the make-up of workplaces, particularly at senior levels. The Cranfield Female FTSE Index 2005 found that, despite more female directors, there are now fewer female

executive directors than in 2002 and 22 of the FTSE 100 boards remain all-male.

Even in organisations which are more diverse, that diversity is not necessarily being capitalised upon. Although organisations may employ more people who are visibly different, for example female or from a minority ethnic group, the educational and socio-economic background of all employees can remain the same as it has always done (e.g. public school, Oxbridge). Philip Augar argues in *The Death of Gentlemanly Capitalism* that it was the City’s failure to recruit truly diverse people who could challenge each other, despite on the surface recruiting a more diverse workforce, that meant City banks were less resilient in the face of change and more susceptible to takeover from American companies.ⁱⁱⁱ

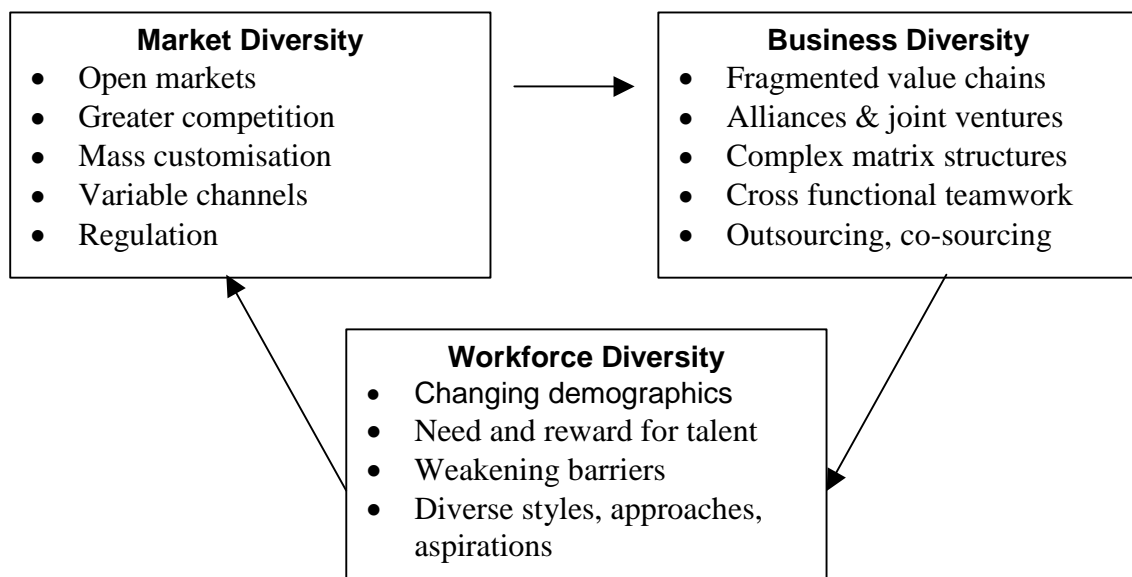
Managing diversity strategies recognise that difference is not a threat to organisations but a potential source of competitive advantage and innovation - if it can be tapped into and managed effectively (Johnson 1999).^{iv} This requires changing organisational processes (e.g. recruitment, promotion, development) and cultures (e.g. perceptions that long hours working is required to succeed, exclusive networks) to enable all individuals to progress and to contribute.

Why does diversity matter?

Diversity has come to matter more and more because of economic and demographic

transformations over the past thirty years, as Figure 1 below illustrates.

Figure 1: Context for Growing Importance of Employee Diversity



Adapted from: Rajan, A. et al (2003) *Harnessing Workforce Diversity to Raise the Bottom Line: CREATE*.

Markets are changing. For the UK to sustain its prosperity and close the productivity gap with other major developed economies, there is a need to become more innovative and move in the direction of a knowledge-based, high skill economy (Coats, 2005). Companies are competing on an international stage, and at the same time need to provide local, customised services for increasingly demanding customers who will switch supplier with the click of a mouse. This means it is vital for organisations to better understand their customer’s requirements in a population that is becoming older and more

ethnically diverse. Customers are also increasingly demanding that services are available outside traditional nine to five hours, requiring businesses to make use of flexible working in order to respond to customer demand.

These changes have required organisations to adapt the way in which they do business – and they are. The Work Foundation’s 2005 Workplace Trends survey found that over a third (36%) of organisations experienced a culture change programme, and over a quarter either appointed a new CEO or

downsized. More and more organisations are flattening hierarchy, operating through alliances and joint ventures, and outsourcing different aspects of their business.

Relationships and networks are critical components of this mode of operation.

Changing markets and changing ways of running organisations have made innovation, knowledge, skills and relationships critical elements of successful businesses. The workforce's skills and experiences are increasingly vital to success in this changing world. And more and more companies are aiming to increase the diversity of workforces

to help them understand new customer segments, promote creativity and cope with increasingly complex business models (Rajan et al, 2003).^y

These economic changes are influenced and reinforced by inexorable social and demographic shifts. The workforce and customer base are changing dramatically. Increasingly businesses will have no choice but to understand and implement effective diversity policies in order to ensure they are recruiting from the widest pool of talent possible. The current workforce is illustrated in Box A below:

Box A: Current Workforce

Female:

- 47% of the workforce is female

Changing Family Structures:

- Of mothers under fives, 52% are in employment and two-thirds of those are part-time
- 10% of all families with dependent children are step-families.

Glass Ceilings:

- Only 18% of MPs are women.
- About 34% of managers and senior officials were women in 2005, meaning that 11% of women were managers and senior officials, compared to 18% of men.
- Only 6% of senior managers are from minority ethnic groups.

Ethnicity:

- Ethnic minorities are 8.7% of population and tend to be younger.
- Generally ethnic minorities have lower economic activity rates than the white population, regardless of educational attainment, although it varies by different ethnic groups and by sex. In 2005 55% of women and 63% of men of non-white or mixed origin were employed, compared to 70% of white women and 82% of white men.
- The biggest employers of those from minority ethnic groups are the distribution, hotels & catering sector and the transport and communication sector, where minority ethnic groups make up 9.6% of the current workforce.

Disability:

- 35% of men and 28% of women who have disabilities are in employment.
- 1.1 million people with a disability do not currently work but would like to do so.

Age:

- Age has a significant impact upon employment, with those aged 30-49 having the highest employment rates.
- Older workers are more likely to work part-time and one in six employees have eldercare responsibilities
- A third of senior managers are aged between 35 and 44.

Working Patterns:

- Only 11 per cent of male employees work part-time, compared with 43 per cent of female employees. Men are more likely to work part-time if they are aged between 16 and 24 or aged 50 plus.
- Only 9% of managers are employed part-time.

Source: Labour Force Survey (Spring 2005)

Combine this snapshot of the current workforce with a look at the future workforce (see Box B below) and it reinforces the need for workplaces to urgently review their workforce planning and policies in relation to diversity. Many sectors such as teaching will face a 'retirement bulge' in the next twenty years; others such as construction are struggling to recruit younger people. The

Employers Skills survey in 2002 found that 16% of all establishments with five or more employees had hard to fill vacancies.^{vi} Organisations will need to ensure that they have diversity policies, flexible working policies and workplace cultures that enable them to access as wide a pool of talent as possible.

Box B: Future Workforce

- By 2010, 45-54 year olds will be the largest age group. In 1992 it was 25-34 year olds.
- Younger people are more likely to be students and there will a bulge of 16-24 year olds in 2010
- 13.2% of women are predicted to work past state pension age in 2010, compared to 10% of men
- The dependency ratio will increase. In 2003 there will be 3.3 workers for every non-worker, but by 2051 there will only be 2.3 workers for every non-worker, making each individual responsible for more dependents.
- Migration is currently the main way of counteracting the ageing population
- Life expectancy will increase to 78.6 for men and 82.5 for women

Source: Labour Force Survey

These economic, social and demographic drivers are bolstered further by legislation setting a baseline with which companies need to comply. Age legislation coming into force in 2006 will be a particularly challenging addition to the recent regulations on disability, religion and sexual orientation, and to long-

standing regulations on sex and race discrimination.

There is no escaping these changes: successful companies will be the ones who recognise them and manage the implications for their customer base and workforce.

Diversity and High Performing Organisations

The impact of diversity on overall performance

Studies carried out in the UK and the US over the past four years demonstrate that more and more organisations are concerned about the diversity of their employees. Across these studies a recurring pattern of findings is emerging:

- Increasing recognition by top-level executives that good diversity management is important for employee engagement and for business success.
- Growing evidence that organisations that operate best practice HR policies around diversity tend to perform better against operational measures of business performance. 80 per cent of employers in a Schneider-Ross survey (2002) saw a direct link between good diversity policies and improved performance^{vii};
- An emphasis upon achieving real change through increasing representative diversity, improving organisational processes, making individuals and the organisation accountable for success, and changing workplace cultures;
- A lack of hard evidence to substantiate the return on investment for diversity^{viii}.

Examples of organisations that have reported a link between diversity practice

and key business performance measures include:

- **Proctor & Gamble** - improved productivity;
- **BT** - cost savings;
- **Crown Prosecution Service** - better service delivery;
- **Cadbury Schweppes** - better marketing.

However, the research is not straightforward. Compelling statistics are in the minority, both because of the difficulties of establishing cause and effect when diversity policies are introduced alongside other organisational policies, and because many organisations have only recently started to evaluate progress. Much of the evidence about the impact of diversity is in qualitative rather than quantitative form.

In order to assess the evidence there is, this section uses as a framework the Company Performance Index (see 2.2 below) that The Work Foundation's research has shown is associated with high performing organisations. The impact of diversity on the five key areas is assessed in order to highlight where there is a business case and where gaps in our knowledge and understanding of the impact of diversity on business performance remain.

What are the critical issues for improving organisational performance?

The framework against which the business case for diversity is assessed is the research conducted by The Work Foundation over the last three years to assess the factors that

most affect company performance. We have found that the most successful firms are those that manage across five clusters of issues that make up the 'Company Performance Index' (CPI – see Box C below):

Box C: Company Performance Index

- Customers and markets;
- Shareholders and governance systems (including finance and investment);
- Stakeholder relationships (suppliers, customers and people, but also community and CSR objectives);
- Human resource practices;
- Creativity and innovation management.

Source: Cracking the Performance Code (2005) The Work Foundation

A survey of 3000 firms was used to test this Index and it found that the CPI clusters, acting on capital and labour, explain 76 per cent of the different in productivity across firms. Other findings include:

- The top third of firms in the CPI out-perform the bottom two-thirds by £1600 per worker per annum;
- The share price performance of the listed firms at the top of the CPI index outperformed those at the bottom by 20 per cent over last year;
- Over 25 per cent of the added value per employee is explained by the way the elements of the CPI plus capital and labour inputs are combined and delivered.

The research also demonstrated that CPI is put into practice through five 'intangible' factors of production: structure; process; leadership; communication; and culture and employee relations. More details can be found on the results of this work, including case studies, in Cracking the Performance Code (2005).

The Cracking the Performance Code research demonstrates the importance of considering organisational performance holistically and managing across all five of the CPI clusters. With this in mind, the impact of diverse employees upon company performance is reviewed by looking at the

areas of the CPI on which diversity has been shown to impact.

Diversity and Customers and Markets

Diversity can have a positive impact on customers and markets through better anticipation of the needs of an increasingly diverse customer base and genuine innovation and creativity around products and services (Barber et al, 1997).^{ix}

At the most visible level, studies suggest that the appearance of staff has a profound effect on the customer's attraction to, and comfort with, a particular environment.

Lloyds TSB witnessed a 30% increase in sales in some branches where staffing was changed to reflect the ethnicity of customers (known as reflective diversity).^x

At a more interactive level, and relating to diversity's impact on the human resources area of the CPI, many leading organisations recognise that the conversations and interactions between customer and employee are one of the most powerful causes of customer engagement and satisfaction. A focus on workforce staffing can help a customer to feel that they are welcome and at home, whether talking to professional services organisations or shopping. It may also enable staff to better reflect how different sections of society expect and desire to be treated. A workforce more reflective of the

customer base has been shown to increase the customer's view of responsiveness, assurance, empathy and satisfaction.

Sainsbury's began to develop plans in 1986 to target older workers and almost 15% are now over 50, with just over 1% aged over 65. The retailer reports that the mixed-age workforce has led to improved customer satisfaction and believes that the workforce is better motivated because it feels more valued.^{xi}

The equally desirable flip side of this is a reduction in the potential for alienating customers through inaccurate understanding or stereotyping of their needs. To quote one commentator in this area:

"Service is a game between two people... to win this game, they [organisations] need employees that can read their customers and interact with them in a nearly flawless manner." (Bell, 1973 in Kandola 1998)^{xii}

Understanding the diversity of the customer base can also improve marketing and product provision. Different cultural practices can be an opportunity for actively marketing different types of products and as a focus for promotions and events. At a basic level within a retail store for example, knowing when religious festivals occur and what products are used in traditional practices will enable appropriate stock management. Such

promotions may attract customers from groups who would not usually use the store and encourage them to see it as part of their community. This approach gives employee diversity a much more central role in the operation and promotes diversity as a value to both staff and customers.

Euromonitor has highlighted the growing influence that demographics are having on product segmentation in the cosmetics market, with new brands being created to appeal to age, gender, race and specific cosmetic requirements. For example, more men's cosmetics, a skin whitening range for the Asian market. Companies that better understand the demands of target markets are more likely to identify the products that will meet them.^{xiii}

At a more corporate level, those who take a lead role within product development, marketing and branding can also benefit from adopting a more diverse and inclusive approach that enables new products to be created or new markets to be targeted.

Nike's women products only generated about 20% of its revenue in 2001, despite the women's sports market being worth nearly \$3million more than men's. They are recruiting from a more diverse group of people with different backgrounds, and have set up a company-wide, grassroots team, Nike Goddess. Staff say that this has

galvanised them and become an opportunity to reenergize the Nike brand.^{xiv}

Diversity and Human Resource Practices

Diversity policies can have direct benefits for human resource practices. In a 2003 assessment of 500 employers across the UK it was found that among the first benefits to emerge from their diversity policies were:

- higher staff motivation;
- higher staff retention;
- reduced recruitment costs;
- improved employer image; and
- improved talent pool (Rajan, 2003).^{xv}

Subsequently these improvements also resulted in other benefits, including higher customer satisfaction and more repeat sales. Judging by these results (and other case studies), it is clear that increasing the effectiveness of diversity policies could help to further improve employee engagement, recruitment and retention practices – as long as managers are also engaged.

Diversity and Employee Engagement

The interdependence between employee engagement and customer satisfaction is well documented. Research shows that there is a strong link between high employee engagement and superior job performance (PSI / LSE 2001)^{xvi} and that satisfied

employees directly affect sales increases, as well as improving customer satisfaction and customer loyalty (i.e. an intention to spend again) (Barber et al, 1999).^{xvii}

Within **B&Q** there is a stated dual focus upon employees and customers called the 'employee – customer profit chain'. There is an active scheme of management objectives and performance management that directly targets the aspects of employee engagement that are within the control of managers and supervisor.^{xviii}

Being treated with respect

Unilever argues that diversity policies can help all staff feel respected and valued, making them deliver better:

“People deliver their best when they feel valued. When their opinions are welcomed, respected, and acted upon; when no-one feels excluded or second best; when their individual needs are respected and when everyone believes their potential can be realised.”^{xix}

Employees are engaged not simply by having a voice, but also by feeling that they are listened to: studies suggest that if consultation of staff appears simply to be a paper exercise, alienation and irritation are the result. Diversity policies can help ensure that all staff feel able to contribute and make their voice heard, particularly through helping

staff feel 'at home' in the organisation (Workforce Management, 2003).^{xx}

One of the issues here is numbers: creating a 'critical mass' of particular groups, such as women or minority ethnic groups, at different levels can help those groups feel more confident about speaking out. This then requires effective and fair processes that ensure these groups can progress. However an inclusive culture is also crucial to help all staff feel at home.

Retention and having an opportunity to get on

Organisational performance is also affected by employee retention; another issue where diversity can be of benefit. Turnover has been shown to be reduced for employees that feel more embedded in the organisation, that is those who have a broad circle of contacts that they would be loath to lose.

Effective training and giving people an opportunity to get on is a necessary part of managing a diverse workforce (Rajan, 2003).^{xxi} Talented individuals who may feel unable to progress in that organisation are the very people who companies would want to keep. Looking at the specific issue of gender, studies have found that women who have the abilities to leave will do so, and that the push and pull factors affecting a woman's decision to stay or leave a company are increasingly gender specific (Moore & Buttner, 1997).^{xxii}

An **investment bank** decided to analyse its working practices with respect to gender. The results were striking: a senior woman was twice as likely to leave as get promoted, and women's chances of getting a vacant post at Director level were 10%, compared to 63% for men. Women were also more likely to be excluded from the all-important information networks. The quantitative findings helped the cultural shift to acknowledging there was a problem and enabled practical steps to be taken to attract and retain all talented individuals.^{xxiii}

Another approach that can be helpful in managing, developing and retaining a diverse workforce is to encourage network groups for different minorities. These can be set up either as more formal groups specifically encouraging networking, or as relatively informal groups that meet for discussions, fundraising and/or social gatherings. Research suggests that these groups are most effective at reducing turnover at managerial level, rather than lower levels, and that they are less effective if they are expected to overtly promote the interests of the group in question rather than to be more informal and mutually supportive (Friedman & Holtom, 2002).^{xxiv}

BT's Women's Executive Network has evolved through a recognition that not only are women a vital source of talent and skills within the organisation, but that they also bring levels of market understanding, energy and ideas that would be lost if assumptions and stereotypes were allowed to influence views about what they can and cannot offer to BT. The strategy aims to fully engage BT women in the business.^{xxv}

Employee loyalty

Diversity policies can impact upon emotional loyalty and commitment by changing employee views of the company culture. This in turn impacts upon profits: employees who are committed to the company have the most direct effect on sales increases and customer loyalty. A study of a large retailer found that a one point increase in employee commitment can lead to a monthly increase of up to £200,000 in sales per store (Barber et al, 1997).^{xxvi} Loyalty can include functional loyalty, i.e. people intending to stay, but also emotional loyalty, or people's feelings towards the organisation. Emotional loyalty has been found to be the most predictive of performance.

Nationwide has introduced a wide range of policies, practices and procedures for flexible working since 1995. Its statisticians tell them that for every 3% increase in employee satisfaction, there is a 1% increase in their members' satisfaction. Since 1996 there has been a 14% increase in employee satisfaction.^{xxvii}

Asda has actively sought to recruit older workers workforce is over 50, providing 'Benidorm' leave (the job is kept open whilst workers head off for sunnier climates in the winter) and unpaid grandparents leave. They attribute their lower turnover, higher customer satisfaction and higher staff satisfaction in part to this focus on older workers.^{xxviii}

Recruitment

As well as directly impacting on organisational performance through levels of motivation and commitment, diversity strategies can help improve recruitment. Organisations need to respond to a changing recruitment pool by recruiting the best, regardless of background. Ensuring vacancies are advertised so all groups are likely to see them, checking selection processes for inadvertent bias, and ensuring that there is not too much emphasis upon a 'word-of-mouth' system can all improve recruitment. Good diversity policies also help attract more diverse individuals in themselves; organisations that have a diverse and

representative workforce find it easier to attract and select the best talent from a wider pool of candidates. Those that have an existing workforce that is visibly very similar need to be more proactive and creative in order to begin to shift this balance. Taking action to improve community reputation can be one way of encouraging diverse individuals to apply.

Littlewoods undertook a concerted effort to target advertising through local community networks in order to convince the local Asian community that retail was an acceptable career. The result was that the new Index store in Oldham received four times the number of applications they would normally expect and a quarter of those recruited were from a minority ethnic group. Turnover has been reduced to 5% and new customers have been generated, saving Littlewoods £124,000 in the first year of operation.^{xxix}

Diversity and Stakeholders

The branding market is now worth over £3 billion a year in the UK alone. Diversity can influence individuals in making a positive choice between one organisation and another to invest in, to buy from or to work for. Even if the impact upon behaviour is short term rather than long term, this makes reputation an important issue for organisations to manage. It is clear from previous research that enhanced brand is one of the biggest

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wins for organisations who have good diversity policies:

“The biggest impact for the majority (71%) is in terms of enhancing their corporate reputation and profile in the wider community. 52% spoke about wins in terms of heightened brand awareness, up from 42% in 2002”.
Race for Opportunity^{xxx}

Interaction with local communities (if it is genuine and helpful), greater diversity of employees, and interesting or ethical policies will all lead to an increase in the number of people aware of the core brand and its purpose.

Halifax’s TV advertisement featuring Howard Brown was awarded a Silver Standard at the British Diversity Awards 2001 for having a visible minority playing a lead role and for sending a strong message of respect and inclusiveness to its audience. Today 7% of front-end staff are from ethnic minority backgrounds.^{xxxii}

If customers identify, and are satisfied, with the values and image of the organisation, this is the most powerful vehicle for converting a set of attitudes and values into behaviour (Benkhoff, 1997).^{xxxii}

Diversity, Creativity and Innovation Management

Sustainable organisations need to constantly realign their strategy to changes within the marketplace, to respond to competitor behaviour, and to take a more proactive role in shaping and impacting the complex environment in which they operate. The importance of taking a diverse, network approach to these challenges is central to the advice of some key writers in this area:

“Key to anticipating and proactively managing change is the willingness by managers to network and understand the viewpoints of those who are least like themselves, but who may be closer to market trends, needs and developments ... Including all those that can input to these processes is critical to achieving this ultimate advantage (Hamel & Valikangas, 2003).^{xxxiii}

Asda embraced new maternity; paternity and adoption leave a full calendar year before they became law. Maternity leave of up to 52 weeks is now available. Adoptive parents are treated equally with 52 weeks leave available. In October 2002 they won the Castle Award in recognition of their commitment to promoting equal pay and opportunities for women.

A core part of resilience and ‘adaptability’ is innovation (The Work Foundation, 2003).^{xxxiv}

Creativity and innovation help organisations to respond and change, and are compelling reasons for having a strong diversity and inclusion strategy. Decision-making, personal creativity and organisational innovation are all affected by having an integrated diversity strategy.

Decision-making

The importance of diversity in teams to decision-making has long been recognised by researchers in this area. For example the presence of different perspectives is said to lessen the likelihood of dangerous ‘groupthink’ and to tend to generate more creative ideas (Janis, 1982).^{xxxv} The power of diverse teams has also been well tested in a wide variety of real organisational contexts (Belbin, 1996)^{xxxvi} and it has been found that diverse groups tend to generate more and better ideas than those that consist of similar team members that are all alike.

Diversity in top management teams has been found to be associated with greater innovation within bank branches.^{xxxvii}

Marks & Spencer had always promoted from within and was dominated by men in the senior roles and boardroom. It was losing sales and profits. Luc Vandeveldé revolutionised the top team. The company now has three main board female directors: a finance director, a chief executive of its financial services business and a non-executive director.^{xxxviii}

It can take a little time for mixed groups to work together effectively, although if well managed after a few weeks they tend to be more effective than groups of very similar individuals. However, diverse teams may offer a greater advantage in some contexts than in others. In one study it was found that diversity was useful in parts of organisations where the business was growing. In contrast, where it was shrinking performance was better for teams with low diversity. This was felt to be because of the difficulties of managing a diverse team when the operation was downsizing and may also relate to the fact that diverse teams may take more time to discuss issues and reach agreement.

Achieving Sustained Benefits

The skills and motivation of managers to genuinely integrate and learn from the differing perspectives offered by a more diverse workforce are crucial to achieving sustained benefits from diversity in terms of real innovation and creativity (Ely & Thomas, 2001).^{xxxix} Without manager engagement, it is

unlikely that policies will achieve their intended effect.

In relation to personal creativity, there is growing evidence that individuals are more creative when they are within a culture that encourages self-esteem, confidence and high levels of personal engagement (this links to the section on Employee Engagement).^{xi}

This requires a focus on processes.

Individuals need to feel valued and respected, that they are being developed and can progress within an organisation, and have the confidence that their ideas will have a chance to influence policy if they are well thought through.

Internal Processes

For organisational innovation it is also the internal processes that matter most: the way that staff are formally consulted and the way that information flows and decisions are made is crucial.

“It is hardly possible to overrate the value...of placing human beings in contact with persons dissimilar to themselves, and with modes of thought and action unlike those with which they are familiar...” (Burt 2000)^{xii}

The way in which information is passed around and decisions are taken all depends on the formal and informal networks within the organisation. Research shows that an ability to bridge diverse stakeholders both

within and outside the organisation is an important predictor of organisational learning, which is “the ability of a firm to recognize the value of new, external information, assimilate it, and apply it to commercial ends” (Cohen and Levinthal, 1990).^{xiii}

Organisations with management and collaborative networks that more often bridge gaps within their surrounding market of technology and practice will learn faster and be more productively creative. But in order to capitalise upon the benefits of diversity, information needs to flow to all staff. Again, managers are often identified as key to helping to connect these potentially disparate elements of the creative process.

Managers with experience of bridging the gaps are more likely to see the gaps in a new situation and work to span these potential holes more quickly (Burt 2000).^{xliii} Social mapping analysis can offer a powerful technique here in order for an organisation to understand whether particular groups may be excluded from information and decision-making. This can help maximise the organisation’s networks of contacts and so increase the diversity of its ‘innovation pool’ (Drewery, 2003).^{xliiv}

Business Case for Diversity

This analysis of existing evidence demonstrates clearly that there is a strong case for the business benefits of diversity.

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The benefits that diversity can offer contribute to four out of five areas of Company Performance Index: market engagement, HR practices, engagement with stakeholders and creativity and innovation. As a consequence, diversity contributes to the fifth area of shareholder value.

The potential benefits can be summarised as:

- Improved employee satisfaction, motivation, engagement and performance;
- Access to a wider talent pool, the ability to attract the best candidates at all levels, and the retention of trained and high performance individuals;
- Reflective diversity making customers feel at home;
- Improved branding for an organisation;
- Innovative approaches to products and to existing and potential customer needs.

Recent studies also suggest that there are other indirect effects upon shareholder value and that 'intangibles' such as brand, reputation and ethical policies affect up to 30% of investors' assessment of the value of an organisation (Low & Kalafut, 2002).^{xiv}

However research into the impact of diversity upon organisational performance is a relatively recent phenomenon and evidence continues to emerge about its effects. Whilst the benefits cited above have been established, many other benefits are difficult

to track because effective diversity strategies are interdependent and mainstreamed into core business strategies – making it hard to identify cause and effect. The positive impact of diversity is so difficult to prove that one of the main arguments of the recent CIPD report on Managing Diversity was about the impact of not managing diversity rather than the positives of managing it: "poor diversity practice leads to reduced performance and increased costs, [so] it follows that the better management of diversity is a business imperative."

Our research suggests that organisations who are currently benefiting most from diversity are those who believe there is a business case and that this is the right thing to do – and are getting on and doing it. This is not to say they don't evaluate their strategies and ensure they link with the business plan and their other HR policies. But they are not constantly re-visiting whether they should have those strategies in the first place; there is always room for improvement but not for retrenchment.

From Good to *Great*^{xlvi} argues that there comes a point where a company needs to ask itself what kind of organisation it wants to be and to be known to be. If an organisation wishes to be innovative and cutting edge, and wishes to be known as an employer of choice, diversity strategies are a key part of getting there.

Managing Diversity

So what does a successful diversity strategy look like? This section reviews the existing strategies that organisations tend to adopt and sets out the barriers and enablers to managing diversity.

Managing Diversity Strategies

Our research suggests that improving diversity strategies tend to have one or more of the following approaches:

- **Inclusive diversity** (representational diversity) is about ensuring your workforce is more representative of the population at different levels through recruitment strategies, and so can be about getting more women on the Board or having those with disabilities comprising 5% of your workforce.
- **Inclusive processes** are about ensuring that the underlying processes within an organisation that govern post-filling, progression, development and visibility enable the organisation to benefit from its diversity (Rajan 2003).^{xlvii}
- **Inclusive culture and climate** is about providing people with a culture where they feel comfortable and respected, regardless of individual differences, talents or personal characteristics.

Each approach can be pursued separately or in combination with others, for example some organisations may focus on processes but be reluctant to undertake a concerted effort to recruit more diverse people into the organisation. Similarly, some organisations may seek to recruit more diverse people and change the culture without reviewing policies. Our research suggests that the most effective diversity strategies combine all three approaches, as they are interdependent.

Representational diversity is important if organisations are to benefit from process diversity – it is about having a pool of talent within the organisation in the first place. However organisations that pursue the first strategy, making customer and workforce demographics more similar, but do not concentrate sufficiently on the second, are unlikely to be entirely successful as the processes will not support retention and development of those staff. This may also push up the costs of investment in the representational approach, as staff may leave in frustration and necessitate further recruitment.

Similarly, focusing on processes or representation without changing the culture can lead to a rhetoric and reality gap – for example, having jobs that are in theory open to job share, but in practice the culture of the organisation frowns upon this approach, so

cutting out a potential pool of applicants. Awareness of the barriers to diversity, and the enablers of greater diversity, can help organisations decide what combination of strategies is right for their organisation.

Barriers to Diversity

Even for those organisations that buy the business case and adopt a range of different approaches, creating a truly diverse organisation at all levels is challenging. Reasons for this include:

Wider Social Issues

- Women still bear the brunt of responsibility for childcare and housework, resulting in difficulty in sustaining linear, full-time career paths through management grades
- Certain groups may not apply to particular sectors because of long-held stereotypes and perceptions of the attractiveness and suitability of these roles for them e.g. challenges encouraging men to apply for service sector jobs in mining communities.

Lack of leadership & role models

- Many organisations lack a senior level champion for Diversity, making it less likely that initiatives are pushed through at a strategic level. This is particularly the case in sectors that have multiple business peaks (e.g. seasonal and festive pressures) and do not readily allow for reflection, longer term planning and attention to what may be seen as ‘softer’ issues.

- A lack of role models and visible representation of the group in management grades can reinforce the current profile by dissuading key groups to apply.
- Existing senior managers working very long hours and perhaps being required to move location regularly often act as a disincentive to women.

Management issues

- There may be an awareness of diversity issues by senior managers but complacency that ‘enough is being done’. Implementation of diversity initiatives can be seen as time consuming, and never quite at the top of the priority list – often seen as an HR, not an operational issue
- Diversity is not often used as a performance measure so is unlikely to be high priority in managers’ personal objectives
- There may not be diagnostics within the organisation (e.g. statistics about organisational profile) and so it can be difficult to know what the current situation is, and therefore what needs to be changed;
- There may be ingrained managerial attitudes about ‘how things have always been done’;
- Lack of capacity / sensitivity in managers to manage a diverse workforce – and lack of willingness to learn;

Organisational Culture

- Policies do not necessarily reflect the day-to-day reality of people's work: many organisations will need to examine their history (have they traditionally recruited from a small talent pool) and challenge current practice;
- Culture can be highly influenced by senior role models who have achieved their own success within a long hours, typically male model of behaviour
- Long hours culture often seen as necessary and unchangeable and flexible working options are limited and seen as career limiting
- Opportunities for under-represented groups are dependent upon them conforming to the current (white male) model of behaviour and career

Recruitment and Development Practices reinforce existing profile

- Some organisations have a tendency to advertise and recruit from limited or more traditional talent pools, reinforced by practices such as word of mouth recruitment. This means there is a limited pool of internal candidates who may have the potential to be promoted and developed;
- Recruitment methods (e.g. assessment centres, completing application forms publicly etc) may subtly disadvantage certain groups if not carefully monitored

and controlled. Recruiters and assessors may also be less comfortable when evaluating those that are different from themselves.

- Career paths are often fixed and linear, and emphasise key roles that require mobility and long hours (more difficult for women to comply);
- Consideration of suitability for promotion may be influenced by the individual's ability or willingness to 'impression manage' (e.g. women may be less likely to 'manage up' than men).

Exclusive Networks

- Relationships between cohorts who started at the same time can encourage exclusive networks, which act as barriers to diversity;
- Old boy network and golf club culture are barriers for women and those from minority ethnic groups trying to move up in retail management

These are all issues that a successful diversity strategy needs to take into account both at the planning and implementation stages.

Enablers of Diversity

Whilst there are a number of barriers to diversity, some clear enablers can also be identified from the research and case studies:

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– Strong Leadership

A leader indicating in words and actions that diversity is a critical priority for the organisation is one of the critical elements of a successful diversity strategy. A senior Champion of Diversity can also help ensure that diversity is 'mainstreamed' rather than sidelined.

– Clear objectives, linked to business strategy, and clear accountabilities

Linking diversity to business strategy is vital, otherwise it can be disregarded in the stampede to meet targets. Focusing on diversity for other reasons, e.g. as a legal requirement, can cause resentment and may mean that the policies fail to get accepted when they are rolled out. Linking diversity to business strategy also helps to focus objectives and make them more strategic.

Clear accountabilities and responsibilities for delivery of diversity projects are also very important. Those policies that have been most successfully rolled out have combined a strong sense of expertise, drive and support from (often dedicated) HR practitioners whilst pushing ownership and accountability to line and other operational managers.

– Investment in Managers

All the research and case studies highlight that management style and adaptability are the key elements of successful diversity practices. Integrating a more diverse

workforce requires best practice, whereas mediocre management practice may suffice for a less diverse team. Managers are the ones implementing the policies and frequently emerge as the main obstacle to achieving employee engagement and diversity because they are relied on for so much else as well as this. Managers need to know how diversity policies will change the way they work, to be trained where appropriate, have access to advice and support, and to be rewarded for prioritising diversity issues, rather than it being seen as yet another thing they need to do with no recognition of their efforts.

There is also a need to ensure that the drive to recruit more diverse staff includes staff at a management level. One of the challenges that organisations face is that recruitment to lower level jobs often results in greater diversity than it does for managerial positions. This can lead to an unbalanced workforce where a relatively similar managerial group supervises a much more diverse workforce – and so can reduce retention. Problems can include an unfamiliarity with the issues, less engaged lower level workers, underrepresented groups feeling less valued, new applicants being put off, and a failure to integrate the benefits of diversity into management decision-making. Having programmes to ensure that managers are trained and that diverse managers are recruited can help to manage this.

“Halifax runs the Leicester Fair Employment initiative that encourages black and Asian people to apply for work through a placement scheme. Cariocca is an initiative that provides a 12 month work experience for members of the ethnic community based in the North West who operate in management positions. The Wai Yin Initiative recruits from within the Chinese community within Manchester and is developing into a national placement service.”^{xlviii}

– Review of culture and processes

Processes may stand in the way of recruiting, retaining and developing a more diverse workforce. A review of processes asking the question ‘is this looking for one type of person?’, ‘could I progress here if I could not work long hours / was not from a certain university’ is vital if investments in recruiting a more diverse workforce are to pay off.

Policy and process has to be backed up by an equivalent shift in culture to create the required shifts in behaviour and action at all levels within the organisation. This means proving that culture has changed, not just saying it. For example, saying that long hours are unimportant is undermined if the only people who get promoted are those who flamboyantly work late. Starting to ask people not to work late sends a powerful message, particularly if senior managers ‘walk the talk’ and set an example.

Organisations such as the Met Police have found that an inclusive culture and climate ensuring people feel comfortable and respected, regardless of individual differences, talents or personal characteristics, is important for the success of diversity policies.^{xlix}

– Communication & Evaluation

Diversity is a difficult and sometimes controversial issue. Some feel excluded, others that they do not want ‘special treatment’, others that this is an ‘extra’ they do not need. It is vital that at the start of any changes in diversity policy, organisations communicate what they are trying to achieve, what difference it will make and how it will affect day to day working life. It is also critical that evaluation against objectives is carried out and then communicated. ‘Quick wins’ should be celebrated, and changes made should also be communicated so that staff see their experience and comments is having an impact on the strategy.

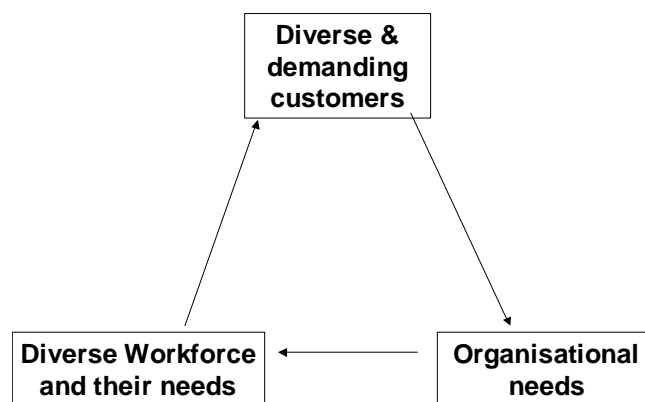
Evaluation also has an impact beyond the walls of the organisation in which it is carried out. As discussed above, there is not enough evidence at present about the impact that diversity strategies have upon business performance. The more evaluation carried out about the impact of diversity strategies on organisations, the more will be known both about the business case for diversity and about best practice.

Taking a Strategic Approach

It is clear from a discussions of the barriers to and enablers of greater employee diversity that the strategic approach taken, and the links made between business strategy,

organisational need and employee need are vital. It is striking a careful balance between these three that make it most likely that benefits will be gained from greater employee diversity.

Figure 2: Maintaining a Balance



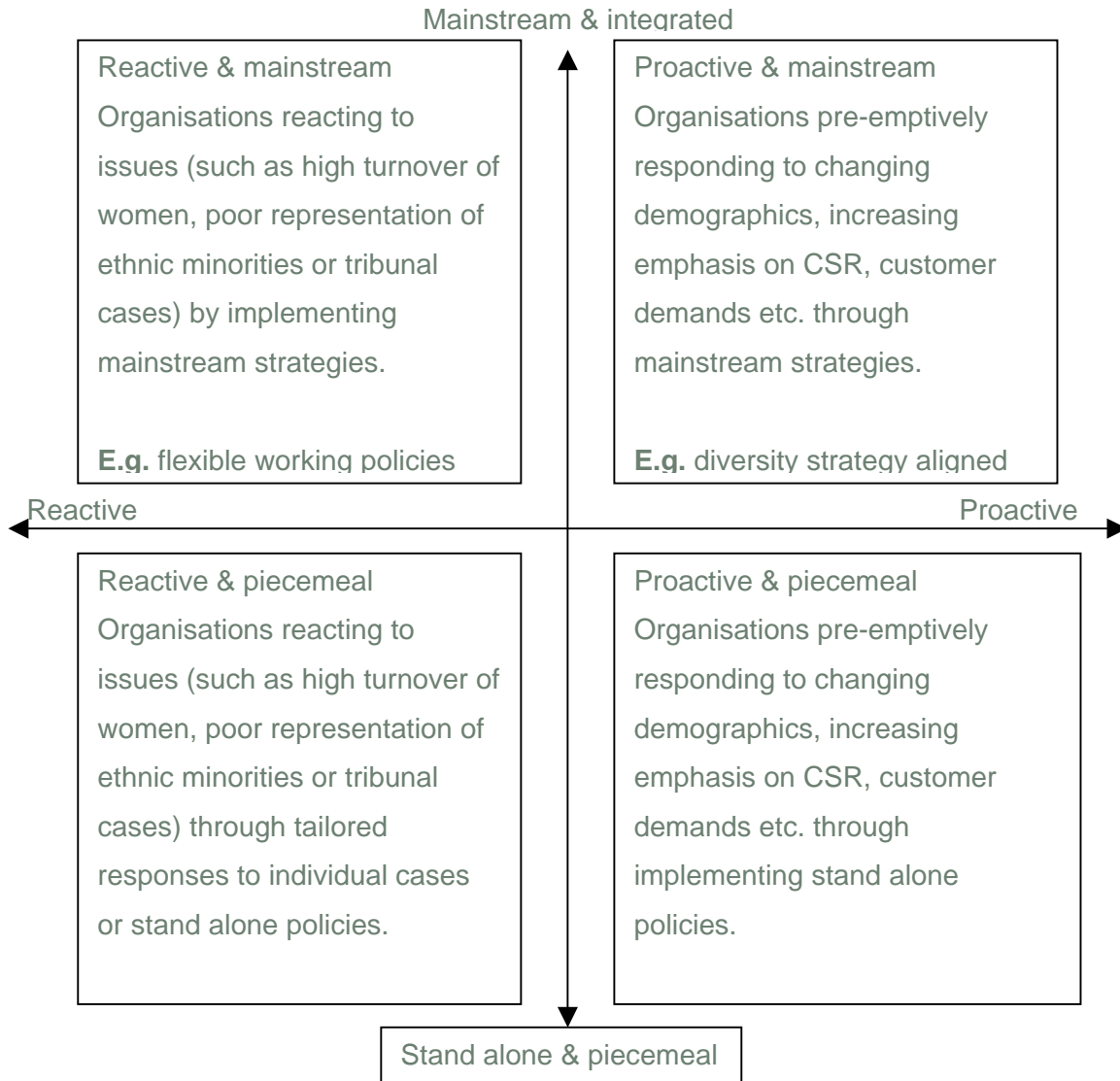
Managing this balance requires 'mainstreaming' diversity strategies, linking them to overall business objectives in recognition that organisations operate in a pluralist world and need to operate accordingly.

Yet many organisations do not mainstream diversity strategies and so tend mainly to respond to the need of one group of customers or one group of employees, rather than taking a more holistic approach. A number of organisations fear the consequences of an approach that emphasises 'managing diversity' – actively seeking to benefit from diversity – rather than simply 'valuing diversity', requiring more

rhetoric than action. It is seen as an approach requiring too great a departure from traditional methods of management – command and control, long hours working, doing things the way we always have. And other organisations tend to react to the organisational need to comply with legislation, rather than take a more proactive approach and consider the needs of customers, the organisation and employees.

Figure 3 shows the impact that different strategic approaches have upon diversity management:

Figure 3: Approaches to Diversity



These are typologies but may be helpful for organisations seeking to assess where they are now:

– Reactive and Stand Alone
Organisations that have not addressed diversity issues before, do not regard diversity as changing the nature of their customer base or their business, and may simply be ‘running to catch up’ with legislation and tribunal cases are likely to have reactive

and stand alone diversity policies. In practice this means that whilst they may be complying with legislation, they do not capitalise upon the benefits of diversity. Academic research such as that by Ozbilgin (2002) suggests that ideological and cultural mechanisms of support are likely to be more effective than legal approaches to equality.¹ It is also much more likely that these organisations will fail to change the wider behaviours in their organisation that would make the stand alone

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policies more effective – e.g. failing to tackle a long hours culture that makes flexible working unattractive.

– Reactive and Mainstream

Organisations who have reactive and mainstream policies are also reacting to external or internal issues, but are doing so in a strategic way that is implemented and mainstreamed across the business tend to quickly realise the business benefits of doing so. They often become increasingly proactive to recruit the most talented from a diverse recruitment pool and to better respond to customer demands. Yet they may face particular cultural challenges as the business case for change may not be apparent across the organisation, meaning that diversity will be better managed in some areas than others.

– Proactive and Stand Alone

Many organisations that are committed to diversity may, in practice, have proactive and stand alone policies. Whilst they are progressive and responding to issues before they become immediate priorities, policies may be localised and not co-ordinated across the business. Diversity policies may also tend to be labelled as ‘extras’, rather than conceived and implemented in line with the overall business strategy and workforce planning.

– Proactive and mainstream

Proactive and mainstream policies within an organisation enable organisations to align business strategy, workforce planning and diversity. This does not mean that diversity strategies are not monitored and evaluated in order to ensure success criteria are being achieved – but instead helps staff and managers across the business to understand and work for the business benefits of diversity.

Each approach has its own challenges, although proactive and mainstream approaches to diversity are much more likely to achieve objectives, as this is an approach that balances the needs of employees, the organisation and of customers.

This report concludes with a summary of the key lessons from this review of the challenges raised by diversity, and with a checklist of questions that should enable organisations to assess where they are now on diversity issues and what the next steps might be.

Conclusion

Diversity is a critical issue for organisations. It cannot be dismissed as a 'single issue' to be treated by the careful management of 'quotas' and ad hoc training courses: this is to overlook The Work Foundation's research and consultancy experience, which finds that organisations operate as interconnected systems. Instead, diversity is a key enabler of business strategy and lies at the heart of an organisation's choices about the future.

In this sense an organisation's view of diversity may reflect wider cultural choices and constraints. Organisations who do not see the strategic advantages associated with a diverse workforce, it could be argued, may not recognise the particular needs of their increasingly diverse customer base. Organisations who do not recognise the differing needs of their increasingly diverse workforce may still be developing 'unitarist' assumptions and behaviours in their leadership population – valuing only one way of working, having only one 'right' way that people can behave if they are to be successful. In these organisations the bond of trust between leaders and followers, and leaders and customers, is likely to progressively weaken. The tension that these disconnects create are in turn likely to inhibit organisational performance.

For the quality of work is both a moral and a performance issue, as argued in The Work

Foundation's seminal report 'Agenda for Work'. This constructs and defines the concept of 'Good Work', linking human dignity, health, and development with organisational performance. Pointing to the proven links between quality of working life and performance, it champions the human right and need, for all employees to experience a good quality of working life. And diversity is an integral part of the 'system' that produces the quality of life that employees actually experience. It also informs the organisation's employees of both its moral code and its performance assumptions, information that they will then use to assess their organisation and will in turn impact on performance and commitment.

The challenge for organisations is moving from 'unitarist' assumptions – that everyone and everything can be managed in the same way – to a recognition that organisations operate in a pluralist environment and need to design products and manage staff accordingly. This is not to underestimate the significance of this shift to understanding the central importance of diversity to future business strategy. Recognising the importance of diversity impacts profoundly on a wide range of issues, from business, change management and HR strategies and processes, to leadership models and development. It also requires action, not just rhetoric – ensuring that diversity is both valued and managed. Many well intentioned

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initiatives fail because aspiration is not grounded by careful management and by alignment of processes and culture, all linked to organisational vision and strategy.

This is not to say there is 'one right way' for managing diversity. In keeping with our systems view of organisation, our research and experience suggests that each organisation needs to define its own goals and objectives for focusing on diversity,

developing an intervention plan based on their own unique context.

Many organisations are beginning to harness the moral and performance power of diversity, many are not. If pluralism and diversity are the future, those who adopt a 'proactive and mainstream' approach might well be the 'winners', those who take a more unitarist stance may end up addressing customers and employees who no longer exist.

Appendix 1: Diversity Strategy – How proactive and mainstreamed is yours?

The abbreviated organisational assessment below builds on our research and enables organisations to assess to what extent they are implementing a systemic diversity strategy.

Abbreviated Organisational Assessment

Please rate the degree to which the organisation is implementing the elements of a systemic diversity strategy by giving yourself a score of 1 – 5 for each question, where 0 is Not at all and 5 is Always.

Recruitment

1. We have a process for recruiting and promoting people based on competence, minimising or eliminating negative stereotyping of a person's diversity.
2. We make a concerted effort to include a variety of candidates in recruitment decisions.

Performance Management

3. We have a performance management process which includes diversity as a dimension on which people receive feedback on their behaviour.

Compensation

4. We regularly conduct reviews of compensation to ensure equal treatment across race and gender for equivalent jobs.

Benefits

5. We provide a flexible benefits package which caters for the needs of a wide range of employees

Communication

6. We reinforce diversity as an integral part of the organisation by regularly weaving it in to organisational communications, such as presentations, newsletters, bulletin boards and team briefings.

Managed Opportunities

7. We provide people with the opportunity to educate each other and to celebrate their diversity through a range of formal and informal events and social gatherings.

Learning and Development

8. All employees are required to participate in diversity workshops in which a senior manager takes an active role as 'sponsor'

Leadership

9. We have defined and implemented a 'pluralist' leadership model that positively enables 'performance through diversity'.

Customers

10. We understand the diversity in our customer base and have matched this with our internal diversity.

Score Interpretation:

0- 10 Diversity is not important for your organisation (This report may not be of interest to you)

11- 20 You are likely to be adopting a 'reactive & piecemeal' approach (You might like to talk to us about the business benefits of diversity)

21- 30 You are likely to be adopting a 'proactive & piecemeal' approach (You are probably aware of the business benefits but do call us about re-thinking your diversity strategy)

31- 40 You are likely to be adopting a 'reactive & mainstream' approach (You are definitely aware of the business benefits but may have been too busy to configure a more proactive approach- do call us)

41- 50 You are likely to be adopting a 'proactive & mainstream' approach (You probably do not need our help as you are fully aware of the business benefits and have worked out an integrated and thoughtful strategy to achieve these)

This is abstracted from a comprehensive set of diagnostic questions developed by The Work Foundation through this research project. These are the basis of an organisational diversity strategy 'audit' administered by The Work Foundation.

The research has highlighted a range of quick wins, relevant to different sectors, that we would be happy to discuss with organisations.

The Work Foundation can also offer a challenging Diversity Strategy Development Workshop to the senior management teams of interested organisations based upon the findings of this research project.

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