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Driving Business Performance Through Diversity

A summary of the ACCA and ESRC Expert Panels held in Delhi, Shanghai and London

November 2011 to January 2012

ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 147,000 members and 424,000 students throughout their careers, providing services through a network of 83 offices and centres. Our global infrastructure means that exams and support are delivered – and reputation and influence developed – at a local level, directly benefiting stakeholders wherever they are based, or plan to move to, in pursuit of new career opportunities.

ABOUT THE ESRC

The Economic and Social Research Council (ESRC) is the UK's largest organisation for funding research on economic and social issues. It supports independent, high-quality research which has an impact on business, the public sector and the third sector. The ESRC's total budget for 2010/11 is £218 million. At any one time it supports over 4,000 researchers and postgraduate students in academic institutions and independent research institutes.

The ESRC's research makes a difference: it shapes public policies and makes businesses, voluntary bodies and other organisations more effective as well as shaping wider society.

FOREWORD

Three Expert Panels were convened as round table discussions by ACCA and the Economic and Social Research Council (ESRC) in Delhi, Shanghai and London at the end of 2011 and the beginning of 2012 to discuss how diversity could be more effectively harnessed for business performance and innovation around the world.

This is a summary of the discussions, highlighting the key issues identified by Panel members and outlining what they saw as the main priorities for the future.

Our partnership on this project was established because we both consider diversity to be worthy of further exploration. We agree that diversity is an important issue for businesses and the accountancy profession, as well as the wider economy and society. Diversity means different things to different people, but we wanted to explore the link between diversity practices, business performance, and academic research.

Defining diversity

We deliberately chose to define diversity as broadly as possible for the purpose of these discussions, describing it as 'not just an ethical or moral imperative, but one that can drive business performance and innovation through the positive management of different perspectives'.

While the results from the round tables are purely qualitative, we believe the views presented by the panellists reveal consistent thinking across the three cities where the round tables were held – that diversity needs strong leadership, and that the right tone at the top of an organisation can harness the strengths of diversity for business growth and innovation.

The round tables

We wanted the Expert Panels to investigate what organisations could do better in order to harness the opportunities that diversity offers. We also wanted to find out what differences in approach there might be between countries and regions, and how best to share information about effective practices through partnership and collaboration.

To set the scene, we published an opinion piece by Alison Maitland, who is also the author of this summary, called Harnessing Diversity for Global Business Performance. The opinion piece looked at five pillars of sustainable business growth – those of new talent, new markets, innovation, effective organisational structures, and leadership capability – and their links to diversity.

As the discussions revealed, leadership and talent resonated the most with our panellists, both in terms of facilitating diversity and realising the associated business benefits. Panellists believed that if an organisation gets its leadership right, and nurtures its diverse talent, then this will be reflected in business performance.

Looking ahead

Our Panels suggested that a priority for the future is to capture and communicate more evidence on the business case for diversity. Presented in an accessible way to different business sectors, this evidence would be a valuable tool for those seeking to further diversity and inclusion in their own companies. It was also agreed that networks of the sort that ACCA and ESRC had set up through the Panels were a valuable means of identifying and exchanging examples of good practice in diversity management across business and academia.

We hope you enjoy reading the outcomes of these round tables and that they will fuel a debate about diversity in your own organisation.

Professor Paul Boyle
Chief Executive, ESRC

Helen Brand
Chief Executive, ACCA

SUMMARY OF THE ROUND TABLE DISCUSSIONS – BY ALISON MAITLAND

Section 1: Introduction

At the round tables, panellists were asked to discuss three specific questions.

- Which of the five pillars of sustainable business growth, described in the opinion piece, resonate most with you in considering how best to harness diversity?
- What will be the main global and regional trends affecting diversity over the next five years?
- What kind of collaboration and research (with ACCA/ESRC or others) would help organisations seize the opportunities and address the challenges of diversity?

Views on diversity differ

There was broad agreement across all three panels that diversity matters to business. Nonetheless, we encountered different interpretations of exactly what diversity is, and therefore why it matters and what should be done about it. Such differences are a reality with which global businesses must grapple across their operations.

Some of our panellists in Delhi viewed diversity as a sine qua non that would distinguish successful from unsuccessful businesses. 'Diversity is not about innovation, diversity is about survival. It's not a luxury. It's essential staple thinking', said one panellist. Another added: 'Growth will come only when you accept [diversity], and it has to be the starting point'.

Others, however, suggested that companies would not embrace diversity automatically but only if they had a good business reason. One Shanghai panellist said: 'It's no good pushing diversity as a word without having the substance behind it that says: "This is the burning platform, this is why we need to do it"'. A London participant said businesses were most likely to focus on diversity when they came under pressure from customers or from legislation, such as that imposing diversity reporting requirements on companies bidding for government contracts.

These views appear to reflect hard experience and the relative lack of progress in increasing diversity, despite a plethora of programmes and initiatives by many Western companies[1]. A London panellist pointed out that some international businesses paid lip service to diversity but in practice acted against it, for example by requiring that the chairman should be a national of the headquarters country rather than the best candidate available.

Other panellists pointed to regional differences in the acceptance of diversity: 'India has more diversity in one country than in the whole continent of Europe', a Delhi panellist argued:

Indian managers are very comfortable with diversity, and that explains why they are successful CEOs in global companies because for them different language is no barrier to communication, different food habits, different religions, different gods, different dress style, it doesn't bother them.

Weighing the costs and benefits

As noted above, the 'business case' for diversity was a significant focus of discussion in all three panels. In Shanghai, there was a push for putting a monetary value on the business impact of having more diverse teams. By contrast, a panellist in London warned of the risk that dwelling too heavily on the business case, when it may be hard to measure direct cause and effect, becomes an excuse for doing nothing about diversity.

The Shanghai panel discussed the potential short-term cost of increasing diversity in companies and teams. It could, for example, lead to greater confrontation, wasted time and even the loss of talented people if diverse teams were not managed well. This had to be weighed against the longer-term benefits of diversity.

One Shanghai panellist turned the question around, however, asking: What is the cost of *not* having diversity? This discussion led to an interesting debate about the kind of training needed to manage diverse teams, which is covered in more detail in Section 3.

[1] A new study by McKinsey, called Women Matter: Making the Breakthrough, finds that 'many of the companies we spoke to expressed frustration that their efforts do not always gain traction'. www.mckinsey.com/womenmatter

How far do diversity initiatives go?

Does diversity in business affect everyone, or does it relate only to large organisations, or to 'high-potential talent'? This question arises from two topics brought up during the round tables.

The first was how far diversity reaches within organisations and their supply chains, a subject discussed in London. When companies talk about promoting diversity, are they chiefly concerned about the upper ranks of the organisation, for example creating more gender balance in predominantly white male executive ranks? What about those people at the bottom of the pile, such as migrant office cleaners or seasonal agricultural workers, who may face exploitation and human rights abuses? Do corporate diversity policies take account of them, and if not, why not?

On the question of smaller businesses, a London panellist argued that tapping into SMEs was an important, but neglected, mechanism for achieving greater diversity:

SMEs are a source of new talent, they are a source of innovation, they create new business structures and they are leaders in particular market segments. And if we don't include them in this debate we're missing a significant trick.

In Delhi, panellists disagreed about whether diversity mattered as much to small businesses as to large ones, particularly in responding to growing diversity in consumer tastes. The example given was the 'chai wallah', who provides tea to office workers; one panellist commented:

He's got a business where he's got eight people working for him. Does he really need diversity in his business if all he's doing is providing the same kind of tea to 400 offices? Even if our chai wallah wanted to expand his business, he's never going to become a national chain of chai wallahs or an international chain. So is it so relevant for someone like him?

Nonetheless, another panellist said that even small businesses needed to understand more diverse tastes:

The chai wallah has to stay in touch with his market and the chai and coffee environment is changing a lot. The first time I came to India you couldn't find a cappuccino for love nor money … and now everyone's drinking it.

Can smaller businesses improve their market understanding by employing a diverse workforce that more closely represents the changing customer base? (See 'New Markets' in Section 3).

Section 2: Trends affecting diversity

The discussions on trends likely to affect diversity over the next five years produced many ideas and concerns, which fall roughly under the headings of economics, politics, age and attitudes, and technology.

Economics

- There is a shift of economic power away from the West to countries in the East and South: 'If you look at the growth rate in 2012, the emerging and developing market will grow at over 6% but the Western economy will grow at most 2%, maybe much lower than that, according to the IMF', said a Shanghai panellist. 'This trend will continue at least to 10 years in my view'.
- The financial and economic crisis in the West has diminished the attraction of Western multinationals for young Chinese and Indians, and these multinationals are now struggling to recruit diverse talent in these economies. 'A lot of Chinese companies are expanding, becoming very profitable, becoming very strong … so the people looking for international exposure now can get international exposure working for a Chinese company.' (See also Spotlight on China section below.)
- Consumption patterns are changing. 'If I look around the streets of Beijing or Shanghai … I would say 80% of the [sports] cars are driven by a lady aged between 20 and 30, whereas typically in England all the Porsches are driven by people in their 50s.' China's high savings rate, typically quoted as 40% of national income, is expected to fall. International companies that want to benefit from this massive market will require a deep understanding of China's diverse regions and cultures.

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- The economic crisis in Europe has led to retrenchment. Some companies in the region have taken their eye off diversity as they focus on survival. In these tough times, London panellists questioned whether the business case for diversity was enough, and whether legislation, such as quotas, would be more effective in enforcing it. It could be argued that both revenue growth and legislation are part of the broad 'business case', the first acting as a carrot and the second as a stick.

Politics

- Two particular trends were mentioned, which could have positive or negative impacts on diversity, depending on how they evolve. One is the continuing push for democracy and freedom in countries with autocratic regimes; the other is the mass migration sparked by the emergence of a two-speed, or even three-speed, Europe. While some economies stand to benefit from this, there is a danger of rising prejudice against people from 'failed states', such as Greece. Many western European Union states have already witnessed a backlash against workers from eastern European countries such as Poland. This concern ties in with the question, in Section 1, about whether diversity programmes or initiatives in companies reach down as far as migrants in their supply chains.

Age and attitudes

- The ageing of the population in China, Japan and many Western countries raises difficult questions about how the workforce continues to support the growing ranks of elderly. Meanwhile, a younger generation is entering the labour force with different expectations from those of their parents and grandparents. Some panellists asked how companies could do a better job of harnessing young people's energy and enthusiasm. 'The local management need to…show trust, [saying] "Okay, you're young people, you probably have your own habit of working, probably you're more efficient during nights…I probably will postpone some morning meetings until afternoons so that we can accommodate that". I think Generation Y will really appreciate that.'
- India and China will be where companies look for rising talent in the next few years, but the big population increases will be in the Middle East and Africa over the next 10 years. Meanwhile, increasing religious expression raises questions about how employers should respond: for example, should they provide spaces such as prayer rooms, or should they keep religion out of work?

- There is a shift away from Western, and particularly US, cultural dominance – where it is assumed, for example, that 'speaking up' at work is a sign of self-confidence and leadership potential – towards a more nuanced approach that applies global diversity policies in a way appropriate to each local market.

Technology

- Panellists discussed the impact of technological advances on work and on education and what these meant for diversity. Some panellists were concerned that e-learning and videoconferencing risked the loss of the 'human touch' and important nuances in communication, but others saw technology as a way to engage younger people. A London participant referred to growing demand for technology from the middle classes in rising economies and said that companies would need a more diverse workforce to meet these markets' demand for innovative products.

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Section 3: Leadership and talent are crucial

We asked the panellists which of the five pillars – new talent, new markets, innovation, effective organisational structures, and leadership capability –stood out for them as most important in how it would affect, or be affected by, diversity.

The two that attracted the most interest and discussion in all three cities were talent and leadership.

'If you get your recruitment pipeline correctly balanced and you get your leadership diversity correct, then your understanding of markets, your ability to innovate and your structures will follow', said a London panellist.

Panellists stressed that having the right leadership is paramount.

If the leaders are not behind the whole diversity agenda then really nothing happens. When the leader is behind the agenda it's quite incredible how much we've been able to move things.

A Delhi panellist said:

I have seen situations where the CEO has got five nationalities working together on a project but he's not willing to listen to them. He himself is unable, unwilling to embrace diversity, so having people of diverse cultures is not going to be relevant. The CEO must be the starting point.

> *"If you get your recruitment pipeline correctly balanced and you get your leadership diversity correct, then your understanding of markets, your ability to innovate and your structures will follow"*

New talent is needed to drive innovation, growth and the cycle of new ideas, said a London panellist:

but I'm conscious of the fact that we need leadership to actually nurture the new talent that's coming in, to actually provide the environment in which that new talent can reach its potential.

So leaders have to set the right tone in the organisation.

You can go out and recruit the top talent, you can try and get as many diverse people amongst that top talent team as possible, but if you then bring them into an organisation that has a culture that fundamentally doesn't support diverse talent then within a few years you're going to lose them all and you're back to square one and it's been a huge expense and you've achieved nothing. So I think that organisations absolutely have to focus on what sort of cultures they want to create in order to effect the change that they're looking for.

Business leaders must be open to national cultural differences.

The CEO of the organisation must have a mindset that can accept new business realities today and the grave need to change business models and business practices. They [also] need a 'heartset' that accepts diversity, comprehends diversity and can manage diversity. The CEOs in the West or East who do not have these strengths find the going tough.

One panellist said the idea of shared leadership, with a local CEO and a non-local CEO operating together, would create 'huge benefit' for both leaders and organisations.

Managing cultural differences is a difficult but essential skill for leaders. To encourage diversity of thought and expression, CEOs have to empower their employees. This represents a big shift in national cultures where employees are used simply to obeying the boss. A panellist in Shanghai explained that 'in terms of managing people, it's really a leadership mindset change to set in place the culture of being "first amongst equals"'.

A company's values show in the respect that leaders and managers have for employees from other cultures or working in other timezones. A simple example is whether leaders arrange teleconferences at times to suit the headquarters country or vary them so that people in other time zones do not always have to work at unsocial hours.

The issue arose of how to teach 'cultural intelligence'. One London panellist suggested 'instilling in children through the education system that cultural intelligence is something that's very valuable in terms of an asset to use in the workplace'.

Panellists said there was also a need to train managers in cultural intelligence and good diversity management, for example by arranging for them to go on cross-border assignments, especially if all their experience was based on working in one culture.

Team profiling was another suggested way of understanding and managing diversity better. 'In your team you need some people who are shapers, some who are executors, some who are the challengers', said a panellist in Shanghai. Getting the balance right can be difficult. If most of the team are collaborators and you bring in a challenger who is too aggressive and confrontational, the rest of the team may end up alienated.

International mobility, while important for leadership development, poses challenges for diversity. Increasing numbers of people do not want to relocate or cannot do so for personal reasons, for example because they are in a dual-career couple. One solution is to develop more local leaders to run country and regional operations, but this does not necessarily achieve the goal of having a leadership cadre with cross-cultural experience.

New markets

Panellists also gave examples of how understanding diversity could drive business expansion into **new markets** and products. A panellist in India talked about how Chinese food had been adapted for the Indian market.

It's interesting that what you get in India is not at all really Chinese food, but it has been innovated to such an extent that it is so popular. In rural India you'll have people eating noodles.

Another highlighted the business benefits of having a diverse workforce to serve diverse markets: 'We hired a new woman lawyer handling "woman" cases, particularly matrimonial or other matters. We were successful because women will not communicate to another person [about] some personal matters'.

Indians had a lesson for other cultures in their ability to speak English.

One of the reasons why the Indians did much better than Chinese about 20 years back was that Indians could speak English, so they were all over, they were in America, they were in UK, and then the Chinese decided they must learn how to speak better English.

Innovation

Panellists touched on the importance of diversity to innovation in different contexts. One example from Delhi was a cross-sector project between 20 rising leaders in India and 20 in the UK to bring down the cost of heart surgery to $1000. It was argued that the collaboration between people from different backgrounds and sectors (including investment bankers and rural Indians) had produced a potentially 'breakthrough' solution – and it was noted that everyone had come to the project with their minds open.

A London panellist pointed to the potential of new social media to empower a wider range of people than in the past and thus encourage diverse viewpoints.

What we've seen with social media is that there's been a rise in communities, so perhaps special interest groups that went under the radar and didn't have a voice at all, they're all going to have their voice via social media, and that represents a very diverse group of individuals. So I think organisations now have the ability to tap into those different communities … and it's knowing and understanding and getting to know those different communities and how they may impact more products and services in business.

The rapid advance of technology, however, made it harder for companies to plan their workforce and for individuals to plan their careers, panellists pointed out. A Delhi panellist said that the ten most 'in demand' jobs last year did not exist even eight years ago. Teaching and training, as well as investment, needed to be directed at developing skills such as adaptability and openness to the unfamiliar. It could be argued that people with experience and understanding of diverse viewpoints and backgrounds will be more adept in handling this fast-changing world of work.

Looking ahead

We asked panellists what kind of collaboration would further the business benefits of diversity, and whether there were topics or areas that they would like to see researched. We received a helpful range of ideas, from more research to measure the business case for diversity through to investigating the value to business and society of "cultural intelligence".

There was agreement that a summary of the best research studies on the business case, presented in an accessible way, would be a useful tool for those seeking to further diversity and inclusion in

their companies, especially if this could be specific to the relevant sector or country. More evidence on the value of effective management of diverse teams was identified as something that would be particularly helpful.

It was also agreed that networks of the sort that ACCA/ESRC had set up through the Panels were of real value, potentially serving as a means of identifying and exchanging examples of good practice in diversity management. In this way, business would be working in partnership with researchers to define the areas of most immediate, practical use to the business world.

SPOTLIGHT ON INDIA

Key points raised in Delhi

- Diversity versus hierarchy: panellists asked how diversity and innovation could be encouraged in a culture where people are highly respectful of hierarchy. (In the London panel, there was brief discussion of alternative business models such as employee ownership, which can give workers a greater voice, potentially enabling more diverse perspectives to be heard in the business.)
- There is a different work ethic in advanced economies – which raises questions about which culture prevails in cross-border acquisitions and mergers. In India, it was said that people 'slog late nights' to meet deadlines. 'When we acquire subsidiaries internationally we send the finance chief from India because there has to be somebody to control over there.'

SPOTLIGHT ON CHINA

Key points raised in Shanghai

- There is a war for talent in China, which is hampering multinationals' efforts in this rising economy to draw on diverse talent for their future leaders. 'Six years ago a lot of the top graduates wanted to go into multinational companies, but today they want to join state-owned enterprises or Chinese companies. Multinationals have fallen away, that's an area where they need to pick up their pace.' (See also Section 2).
- As China shifts from low-value manufacturing to higher-value manufacturing and services, managers need to upgrade their soft skills, for example, how to engage and empower employees.
- A big challenge for Chinese companies is how to handle overseas expansion and acquisitions. Should they simply transplant a Chinese model – for example, building special development zones such as Shenzhen in Africa – or find new models suited to the local market? This has an impact on how they are viewed in the world: as neo-colonialists or global citizens. A panellist pointed out that Chinese and African communication styles are very different. 'China has to be respectful when it expands abroad and I think [for] China as an economy and as a potential world power that is going to be fundamentally important to [its] success.'

SPOTLIGHT ON THE UK

Key points raised in London

- The economic downturn is posing challenges for diversity: if jobs are being cut, how can companies encourage an influx of new and diverse talent? Tough economic times also bring increased hostility towards 'scapegoats' such as migrant workers, especially in workplaces or parts of the country where they outnumber locals. (See also 'Politics' in Section 2).
- Large companies and the professions, such as accountancy or public relations, tend to draw from the same narrow pool of white middle-class people with similar educational backgrounds. They also have similar structures with many women in lower ranks but men dominating at the top.
- A big challenge for companies is how to get better at retaining female and ethnic minority talent. 'We had one of our summer interns who said that they were actually going to a different organisation because the organisation they were going to…was more ethnically diverse.' Organisational structures can get in the way, for example when the HR function has sole responsibility for finding diverse talent, instead of involving female and ethnic minority employees in identifying such talent.
- The UK should make more of its highly diverse population. 'There's a job to be done to…showcase how we can leverage the diversity that we have within the UK to other parts of the world.'

About the author

Alison Maitland is a business author, speaker and conference moderator, specialising in leadership, diversity, and the changing world of work. A former long-serving Financial Times journalist, Alison is co-author of the new book Future Work (Palgrave Macmillan 2011) and of the prize-winning Why Women Mean Business (Wiley 2008 and 2009).

She is a Senior Fellow in Human Capital at The Conference Board, and directs the Board's Europe-based Council for Diversity in Business. She is also a senior visiting fellow at Cass Business School in the City of London.

Alison contributes regular articles and columns to the Financial Times, The Conference Board Review and other media. She has also written reports for Britain's Equality and Human Rights Commission on reforming parental leave, managing new ways of working, and the employment of older workers. Based in the UK, she speaks frequently at international conferences and internal corporate events in many countries.

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