



Harnessing diversity for global business performance

THE ACCA/ESRC ROUND TABLES 2011/12

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 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. ESRC's total budget for 2010/11 is £218 million. At any one time it ESRC supports over 4,000 researchers and postgraduate students in academic institutions and independent research institutes.

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.

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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Foreword

THE ACCA/ESRC EXPERT PANELS

The ACCA/ESRC expert panels form a prestigious, international network of experts engaging in informed, forward-thinking, challenging debate about harnessing diversity in business.

Three round table meetings for these expert panels are being held:

- Delhi (November 2011)
- Shanghai (December 2011)
- London (January 2012).

The aim of the round tables is to encourage lively discussion about how to harness the 'constructive conflict' that diversity can generate in order to improve business performance and address economic, social and environmental challenges ahead.

Each round table will consider ways in which organisations can harness diversity to innovate, taking into consideration current challenges and opportunities posed by difference.

Each Experts Panel will be asked to consider a number of general points:

- What opportunities does diversity present for business organisations and the wider economy and what will be the main trends over the next five years?
- What will organisations need to do to harness diversity now and in the future?
- How do approaches differ between countries/regions and can we learn from each other?
- What are the ways that collaboration and partnership can be developed and sustained to help organisations take advantage of these opportunities and meet these challenges?

DIVERSITY

Diversity, as its definition befits, means different things in different parts of the world. For global business, it is also an evolving concept.

While still grappling with more traditional diversity issues such as gender, ethnicity and age, companies in the developed world are increasingly focused on the need for cross-cultural skills and knowledge as economic power shifts towards rising economies in the East and South.

The global banking crisis, and its aftermath, has also highlighted the importance of diversity of thought, especially in business leadership. There has been much debate about how diverse viewpoints, and a willingness to ask difficult questions, might have avoided the ‘groupthink’ in boardrooms that contributed to the near-collapse of the financial system.

Given this range of interpretations, ACCA and ESRC have chosen to define diversity very broadly – encompassing what an Ernst & Young report describes as ‘the whole human experience – age, culture, education, personality, skills and life experiences.’¹

Modern diversity is understood here, not as an ethical or moral imperative, but as one that can drive innovation directly through the positive management of different perspectives.

Agility, innovation and growth emerge from strategies that embrace difference. These strategies harness difference not only in people – through gender, culture, generation, or skill-set diversity – but also in ways of doing business – governance, relationships, operations, structures.

Delivering these strategies requires leaders to adopt a broad and open attitude that encourages and accommodates a range of perspectives, fresh thinking and autonomy. Adopting this inclusive perspective fosters greater creativity and innovation, and positively affects strategic human resource management.

For many years, organisations have paid lip service to diversity as a ‘nice-to-have’, based on fairness and doing the right thing. There is now a body of research that demonstrates a link between a healthy clash of ideas and increased creativity in teams. For example, research by the German Federal Employment Agency found that higher levels of cultural diversity correlated with higher levels of innovation and R&D.²

Diversity is easy to talk about, but harder to put into practice, as a global study by Ernst & Young and the Economist Intelligence Unit demonstrates. It found that 54 per cent of businesses expect to obtain more than half their revenues from global markets within the next three years. Yet nearly half of those businesses operating in 25 plus countries said they had no more than a couple of foreign nationals on their boards.³

With this paper, ACCA introduces the round tables with some short examples of how diversity, or the lack of it, affects five pillars of sustainable business growth:

- new talent,
- new markets,
- innovation,
- effective organisational structures, and
- leadership capability.

1. *The New Global Mindset: Driving Innovation Through Diverse Perspectives*, Ernst & Young, 2010.

² Ibid.

³ Ibid.

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by Alison Maitland

New talent

There is strong competition for talent between Western businesses and home-grown corporations in rising economies such as India and China. A Fortune magazine study of best global companies 'for nurturing leaders' listed ICICI Bank, Hindustan Unilever and China Mobile Communications in the top 10.⁴

Talent challenges exist on both sides. High-potential employees in emerging markets are often lured by the travel and development opportunities offered by multinationals, forcing local rivals to improve their employee offering to attract and retain them.

On the other hand, Western multinationals risk losing talent if they do not understand norms and expectations in emerging markets. For example, Community Business, a non-profit organisation based in Hong Kong, says that multinationals need to take cultural issues in Asia more seriously, consult local staff, uncover unconscious bias and understand sub-cultures if they are to retain talented local leaders.⁵

'The performance of Asian staff is viewed to a large extent through a 'Western lens' and there are ways that multinational companies operate – whether consciously or not – that may be inherently biased against Asian staff. Communication styles that rely on outspokenness and directness are examples of this,' it says.

In *Winning the War for Talent in Emerging Markets*, by Sylvia Ann Hewlett and Ripa Rashid, a Shanghai-based partner of a US consulting firm is quoted as saying of Chinese women: 'There's a high level of humility, self-deprecation, of apologies... I tell female staff 'Speak up!' But it's a struggle to get them to behave that way, because it's so counter to everything they've been taught.'⁶ Encouraging constructive conflict depends on drawing out the strengths of a diverse group of people, rather than trying to force them into the same mould as the dominant culture.

Another factor in attracting diverse new talent is the rapid advance of communications technology, which enables people to work in innovative ways and particularly appeals to the digital generation. Companies gain creative energy, discretionary effort and loyalty from employees by encouraging work autonomy. Google, for example, gives its engineers the option to spend 20 per cent of their time working on their own projects, which has led to some of its biggest innovations.⁷

Consider this...

1. Can there be a global business consensus on the value of diversity, or is it right that regional views differ about what matters?
2. Is it as important in small businesses as it is in large ones? Or even more important?
3. How do talent management practices need to evolve to accommodate and embrace cultural differences?

4. 'Top Companies for Leaders', *Fortune Magazine*, 2009. <http://money.cnn.com/2009/11/19/news/companies/top_leadership_companies.fortune/index.htm>.

5. 'Bringing Out the Best in Asian Talent', *Community Business*, 2011. <<http://www.communitybusiness.org>>.

6. *Winning the War for Talent in Emerging Markets: Why Women are the Solution*, Harvard Business Review Press, 2011: 130–1.

7. See this and other examples in Alison Maitland and Peter Thomson, *Future Work*, Palgrave Macmillan, 2011.

New markets

This is closely linked to new talent. Companies that fail to retain and develop diverse talent may fail to understand the dynamics of diverse markets. Over 80 per cent of the world's population will live in emerging market economies by 2030, according to the International Monetary Fund.⁸ The emergence of aspiring middle classes in China, the Middle East and other regions opens up exciting opportunities for business.

In parallel with this, consumer growth, companies from the rising economies are rapidly expanding overseas. In 2010, they accounted for a third of the world's \$2.4 trillion worth of mergers and acquisitions, The Economist pointed out.⁹

But there are potential pitfalls in entering new markets without local understanding. Some Western brands like Mattel, Home Depot and Best Buy have struggled to crack the Chinese market, as the Financial Times reported, with products that have not matched local demand.¹⁰

Conversely, organisations such as Bright Food, a Shanghai conglomerate expanding outside China, seek to keep existing management when buying foreign companies to counter 'insufficient knowledge of international markets'.¹¹

Consider this...

1. How can companies, whether from advanced or emerging economies, best harness diversity of talent as they expand their operations into new countries?
2. Will emerging market consumers continue to follow Western fashions as their incomes grow, or will the tables turn, with Western consumers following powerful brands and fashions created in the BRIC countries?
3. What lessons can be learned from organisations in growing economies that are successfully expanding into new markets?

8. *Where Next for the Global Economy: A View of the World In 2030*, ACCA, 2011.

9. 'The New Special Relationship', *The Economist*, 10 September 2011.

10. 'Barbie Shuts Up Shop in Shanghai', *Financial Times*, 7 March 2011.

11. 'Bright Food Agrees Deal for Manassen', *Financial Times*, 18 August 2011.

Innovation

'If we're always comfortable, there is no innovation,' says Haila Wang, CEO of France Telecom R&D in Beijing.¹² The link between innovation and diversity is well established. But there is a gap between acknowledging the importance of diversity and actually realising its benefits.

In an international survey of ACCA members, 82 per cent of respondents agreed or strongly agreed that a mix of skills, experiences and backgrounds was useful in their team or department. However, only 48 per cent agreed or strongly agreed that they currently had this diversity in their team or department.

One solution, proposed by Farrokh Langdana, professor of finance and economics at Rutgers University in New Jersey, is to use personality tests to achieve a creative mix of entrepreneurial types and people who are practical, budget-conscious, and able to meet tight deadlines. 'Pairing visionaries with pragmatists will ensure that we don't just have 25 superb ideas that never see the light of day,' he says.¹³

Another is for companies to harness technology to source new ideas. Procter & Gamble uses open innovation, inviting submissions from universities, government laboratories, companies and individuals to its Connect+Develop website. It bought the technology for an antimicrobial product from an unknown company that had submitted an unsolicited proposal through the website.¹⁴ Pitney Bowes has an internal social network, IdeaNet, which invites employees worldwide to devise solutions to business challenges.¹⁵

In designing new facilities, or refurbishing old ones, companies such as BT in London or Macquarie in Sydney are creating spaces to maximise openness and collaboration between all employees.¹⁶

Consider this...

1. In what ways is a diversity of opinions and perspectives best managed to achieve tangible innovation?
2. What strategies and structures do organisations need in order to nurture and manage open, constructive interchange of ideas and approaches from diverse viewpoints?
3. What organisational cultures best encourage innovation? How are these best achieved?

12. Ernst & Young, op. cit.

13. Ernst & Young, op. cit.

14. Ernst & Young, op. cit.

15. Ernst & Young, op. cit.

16. Maitland and Thomson, op. cit.

Effective business structures

New models of business, based on networks of affiliates, are challenging established organisations. The internet has already democratised and diversified the business world, enabling anyone to set up a virtual enterprise at very low cost and make money.

Large companies do not have a strong track record of fostering maverick innovators who challenge established ways of doing things. New business structures may have an advantage here, not only in being nimbler and operating at lower cost, but also in drawing in a wider range of perspectives, talents and backgrounds. As more people work and communicate virtually, the damaging impact of unconscious bias may be reduced, at least in terms of visible differences such as ethnicity or gender.

The Smart car is one example of innovation drawing on diversity, being made from components from all over the world, brought together under a loose joint venture arrangement.¹⁷

Companies also need to look at how they nurture their supply chain, as this is another area where diverse talent and innovation can flourish. 'Minority-owned businesses are often innovative, flexible and resourceful' says Professor Monder Ram, director of the Centre for Research in Ethnic Minority Entrepreneurship at the UK's De Montfort University, who has been funded by ESRC to support ethnic minority business networks. 'From a broader economic development perspective, they also tend to employ other minorities and are located within inner-cities.'

One example, to be modeled by other big companies, is that of A.F. Blakemore, a UK food business whose senior employees mentor members of the 12/8 Group, an innovative network of growth-oriented African-Caribbean enterprises in Birmingham. Some of these have grown to be suppliers to Blakemore, and the mentors have gained important skills and promotion.

Eureka Forbes, an Indian consumer appliances company, pioneered direct selling as a business model in India in the early 1980s. Recently it has introduced a business model involving village communities to install and operate water filtration units specifically for emergency use. The plants save women and girls many hours a day collecting water, freeing them to participate in educational activities.¹⁸ A pilot project has been driven through a cross-sector partnership model, with the community water plant now owned by a village self-help group, which also supervises its operation, generating income by charging the potable water to the community. The partnership is now aiming to provide the purification units to 20 more villages.

Consider this...

1. Do emerging business models need new rules to ensure that diverse viewpoints are heard?
2. How can established companies and new networked models manage the disorder that can arise out of diverse approaches and viewpoints?
3. How far does diversity go in organisations? There is much talk about boardroom diversity, for example, but what about the further reaches of the supply chain?

17. ACCA, op. cit.

18. 'Community Fulfillment', *Eureka Forbes* [website], <<http://www.eurekaforbes.com/aboutUs/community-fulfillment.aspx>>, accessed 14 October 2011.

Leadership

Critical to the success of the other four pillars is whether the organisation has the right leadership capability. Harnessing the positive benefits of diversity often involves changing attitudes and culture, not least of the leadership itself. Behaviour tends to take much longer to change than technology, facilities, and even corporate structures.

One of the key findings of the Ernst & Young study with the Economist Intelligence Unit was that most companies fall short on the diversity of thought and culture needed to handle global business. Can any single individual truly develop a 'global mindset'? Probably not, since we are all conditioned by background, culture and beliefs. Having experience of being an 'outsider' is helpful in developing a commitment to diversity – and to an extent this can be taught through leadership programmes.

An alternative is to rethink current leadership models based on the CEO at the pinnacle of the hierarchy, and to consider the concept of shared leadership, which may be more acceptable in some cultures. A company may have one leader who understands advanced markets, for example, and another who is expert in emerging markets. But there are as yet few high-profile cases of co-CEOs.

The board also plays a crucial role. Typically, board members are older, experienced executives reaching the end of their careers. But savvy companies are seeing the benefits of bringing in younger, technologically minded entrepreneurs as directors to help the business navigate the new world.

Consider this...

1. What skills do leaders – from board chairs to heads of teams – need in order to create an environment that encourages constructive challenge and positive conflict?

2. Vineet Nayar, CEO of India's HCL Technologies, argues for a reversal of the typical organisational pyramid in his book *Employees First, Customers Second*. Are current leadership models unsuited to tomorrow's business, and what might replace them?

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