

ACCOUNTANTS FOR BUSINESS

# Towards better diversity management

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Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

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### ABOUT ACCOUNTANTS FOR BUSINESS

ACCA's global programme, *Accountants for Business*, champions the role of finance professionals in all sectors as true value creators in organisations. Through people, process and professionalism, accountants are central to great performance. They shape business strategy through a deep understanding of financial drivers and seek opportunities for long-term success. By focusing on the critical role professional accountants play in economies at all stages of development around the world, and in diverse organisations, ACCA seeks to highlight and enhance the role the accountancy profession plays in supporting a healthy global economy.

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This paper discusses the limitations of current diversity management and at what could be done to help organisations benefit from greater diversity and inclusive cultures.

In particular, it considers the role of the finance function in helping gather relevant financial and non-financial data and developing and implementing diversity strategies, policies and procedures.

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- **Mustafa Özbilgin, Ahu Tatli, Gulce Ipek** and **Muhammad Sameer**, researchers from Brunel University and authors of *The Business Case for Diversity Management* (ACCA and ESRC 2014).
- **Alison Maitland**, business author specialising in leadership, diversity and the changing world of work. [www.alisonmaitland.co.uk](http://www.alisonmaitland.co.uk)
- **Nikki Walker**, diversity and inclusion specialist from More2Gain with experience in finance, strategy and operations as well as diversity and inclusion. [more2gain.co.uk](http://more2gain.co.uk)
- **Sarah Perrin**, freelance business writer.

## Contents

Foreword	4
1. Introduction	6
2. Research finding highlights	7
3. Limitations of current diversity management	9
4. How the finance function can help	11
5. Diversity and the finance function	12
6. How regulation can strengthen the voluntary approach	14
7. Employee involvement, influence and resources are required	15
8. The global value chain approach as next practice	16
9. Recommendations	17

## Foreword



**Alison Maitland**

Business author specialising in leadership, diversity and the changing world of work.

Diversity has risen high onto the agenda of business leaders, driven by growing recognition of the business case for it, and by government measures in many countries to redress the gender imbalance on corporate boards. It is in this global context that ACCA and ESRC present this paper.

The *CEO Challenge 2014*, a report by The Conference Board, found that human capital was the most important concern of business leaders globally and that diversity in leadership was one of the main topics requiring their immediate attention.

‘CEOs across the globe are clearly concerned about diversity’, it reports. ‘No region has it lower than number four on the “hot button” issue list. While CEOs are certainly feeling the pressure when it comes to recruiting more diverse corporate boards, there is particular focus on the issue of gender diversity. Diversity (or lack thereof) affects the corporate brand and makes a difference to both potential consumers and free market talent when considering similar products or similar employers.’

The changing regulatory environment is shaping these concerns. A growing number of countries are legislating for increases in female representation in top decision-making bodies. Some EU governments have strongly opposed regulation and supported business-led initiatives, such as the 30% Club in the UK, to drive progress by voluntary means. According to the EU, however, the most rapid rises in women’s participation have been in countries, such as France and Italy, which have taken or considered legislative action. A proposed European Commission Directive that companies should have an objective of a minimum of 40% of either sex among their non-executive directors by 2020 has been approved by the European Parliament and is being discussed by the European Council.<sup>1</sup>

The rise of regulation has been driven by the slow pace of change and the economic imperative of making the best use of all available talent. Many companies have invested heavily in diversity, with gender at the top of the list, but have yet to see commensurate results. According to a McKinsey report, 63% of 235 companies surveyed had at least 20 different gender diversity initiatives. Despite this, in only 8% of large companies did women account for more than a quarter of top roles.<sup>2</sup>

While some organisations have only recently adopted diversity strategies, others have more than 20 years’ experience of them. Among more experienced companies, there is a clear shift of emphasis in the search for what works. Instead of, or alongside, programmes focusing on categories of employees – women, ethnic minorities, people with disabilities, etc – these organisations are investing in developing leaders and creating inclusive cultures in which everyone feels valued and able to achieve their potential.

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1. *Gender Balance on Corporate Boards: Europe is Cracking the Glass Ceiling*, European Commission, March 2014. <[http://ec.europa.eu/justice/gender-equality/files/documents/140303\\_factsheet\\_wob\\_en.pdf](http://ec.europa.eu/justice/gender-equality/files/documents/140303_factsheet_wob_en.pdf)>.

2. *Women Matter 2012: Making the Breakthrough*, McKinsey, 2012. <[http://www.mckinsey.com/client\\_service/organization/latest\\_thinking/women\\_matter](http://www.mckinsey.com/client_service/organization/latest_thinking/women_matter)>.

Some companies have renamed their strategy 'Inclusion and Diversity', instead of 'Diversity and Inclusion', or dropped the word 'diversity' altogether. Others have renamed such programmes to reflect their emphasis on culture change. As many of these companies operate globally, they attribute increasing importance to managers' and leaders' possession of cross-cultural skills. Rapid advances in communications technology are also encouraging some organisations to pursue innovative work styles as a lever for greater diversity by giving employees freedom over where and when they do their work, enabling a better balance of personal and professional priorities.

The recent emphasis on the need for leaders to drive inclusive change has led organisations to invest in training to awaken executives to the impact of their unconscious biases – biases that everyone has to a greater or lesser degree. Training to recognise unconscious bias is much in vogue.

Regulation, understanding of the business case, and the development of inclusive leaders are parallel steps towards achieving the benefits of richly diverse and inclusive organisations and must work together. Each, on its own, is not very likely to have a sustained impact. It is not enough, for example, for CEOs to talk about the business case in order to drive the behavioural change needed to increase gender balance at senior levels, as shown by recent research by Dr Elisabeth Kelan at King's College London for KPMG. 'Instead', she says, 'CEOs need to be brave, and talk from their hearts as well as their heads'.

# 1. Introduction

Diversity is a familiar term, but what does it actually mean on a practical basis for business, and more specifically for finance functions? The term 'diversity' can relate to innovation, inclusion and access, but a true understanding of diversity can be elusive in relation to changing cultures and behaviours, and having meaningful engagement.

As part of a continued collaboration to encourage independent, high-quality research that informs and shapes business, ACCA and ESRC have run a series of projects to explore the issues surrounding diversity in business.

This paper presents the work of the latest project in this series; *The Business Case for Diversity Management*, a research report commissioned by ACCA and ESRC from Brunel University, alongside excerpts from interviews conducted with diversity and finance leaders for this research. It also draws on the expertise of diversity and inclusion specialist, Nikki Walker from More2Gain, and looks back at some earlier joint work in this area.

The paper looks at the limitations of current diversity management, and at what could be done to help organisations benefit most rapidly from greater diversity and inclusive cultures. In particular, it considers the role of the finance function in helping gather relevant financial and non-financial data and developing and implementing diversity strategies, policies and procedures.

It considers different approaches to constructing the business case in organisations, and motivations behind diversity policy and its relationship with business performance. It also presents practical recommendations for organisations wishing to develop their own business case for diversity management.

Making a robust business case continues to be the first step in organisational commitment to diversity management. It appears that having a diverse workforce alone is insufficient to reap the business benefits of diversity. Studies have produced mixed findings. The conclusion is that it is the effective management of diversity that makes the difference. So it is important to look at the links between diversity management and organisational performance.

## EXPLORING DIVERSITY IN BUSINESS

### ACCA and ESRC project series

#### ■ **Harnessing Diversity for Global Business Performance**

This opinion piece by Alison Maitland, business author specialising in leadership, diversity and the changing world of work, formed the basis of a series of global expert panels exploring how current and future diversity challenges affect business growth.

#### ■ **Driving Business Performance through Diversity**

Summary report from expert panels made up of leaders from business, academia and government, held in London, Shanghai and Delhi between November 2011 and January 2012.

#### ■ **Women in Finance: A Springboard to Corporate Board Positions**

This report explores whether having a financial background or qualification affects the likelihood that senior women will obtain a FTSE 100 board directorship.

#### ■ **The Business Case for Diversity Management**

A research report commissioned by ACCA and ESRC and carried out by Brunel University; it included a literature review and interviews with diversity or finance leaders in significant organisations.

### ACCA and the Commonwealth Business Council

#### ■ **Paving the Way for Opportunities: Women in Leadership Across the Commonwealth**

Representing countries that stretch across varied economic, social, political and cultural domains, this report examines what opportunities exist for women across the Commonwealth, how they are able to navigate to positions of power and how this can be further supported by governments and businesses alike, ensuring sustainable progress for future generations.

[www.accaglobal.com/diversity](http://www.accaglobal.com/diversity)

## 2. Research finding highlights

### THE FINANCE FUNCTION CAN HELP FILL THE DIVERSITY DATA GAP

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The finance function has a central role in enabling companies to use diversity to drive enhanced business performance, according to the latest research from ACCA and the ESRC.

Progress in many companies is hampered by a data gap. Organisations often lack basic information about diversity in their workforce or marketplace. Finance and accounting teams need to become involved in demonstrating how the business impact of workforce diversity can be measured. Better data gathering, and analysis, and promotion of the links between diversity, innovation and performance would be an important step towards more effective diversity strategies.

Nonetheless, companies are cautioned against relying solely on hard measures of profitability and return on investment; the finance function should collect and report on a wide range of both financial and non-financial impacts of diversity. Finance professionals will need to learn how to perform this role. As noted by KPMG in the research process, it will be important to train accountants 'to look beyond narrow concepts of financial accounting'.

Developments such as the International Integrated Reporting Framework could be helpful, providing a structure that will help organisations capture the strategic value generated by diversity in both financial and non-financial dimensions. Human capital is specifically identified as one of the factors that can materially affect the ability of an organisation to create value over time.

### GLOBAL FAIRNESS AS A PROMISING NEXT STEP

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The research identifies the different types of business case that organisations can develop when considering diversity. Some focus on shareholder value, specifically profit and return on investment. Others consider stakeholder value, potentially including the value to employees, customers, wider society and the environment. Regulatory forces also come into play.

Organisations are encouraged to shift their focus to the broad business implications of global trends and to consider how diversity management is expressed in all their operations and their supply chain. In explaining why companies should make better use of diversity among their employees and customers, the research's focus on the global value chain is a more sophisticated argument than one for simple profitability.

This global value chain approach involves seeking to redress disparities of power across a company's operations in different parts of the world. It develops a global vision, which is not limited to a single national context of regulation but which captures the intricate relations of power inherent in global economic, social and political systems.

An environmental example of this approach is Marks and Spencer's 180 commitments known as 'Plan A', which has the stated goal of making it the world's most sustainable major retailer. The company says it is partnering with its customers and suppliers to combat climate change, reduce waste, use sustainable raw materials, trade ethically, and help customers to lead healthier lifestyles.

## REGULATION NEEDS TO GO HAND IN HAND WITH VOLUNTARISM

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The limitations of the voluntary approach to diversity, which predominates in many countries and companies, are also highlighted. Diversity management could be improved by combining voluntary measures with regulatory interventions. This should help to ensure that diversity has the maximum impact on business performance and economic competitiveness.

This is starting to happen in some organisations, which are adopting a range of compulsory measures in addition to voluntarism for building the business case for diversity. Evidence from cross-national studies suggests that regulation can be an effective device for improving the link between workforce diversity and performance and innovation.

## TEN ACTION POINTS FOR SENIOR MANAGEMENT

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The researchers propose ten action points to help organisations develop their business case for diversity management.

- Define what diversity means for you.
- Identify your strategic priorities.
- Know your data sources and needs to leverage diversity towards priorities.
- Take stock of your current data and new data.
- Gather data, build trust, and demonstrate integrity in use of data.
- Develop a business case by linking diversity data with business outcomes.
- Achieve commitment from stakeholders for implementing the policy based on the business case.
- Craft diversity strategies that are informed by the business case.
- Share the responsibility for management of diversity across the organisation.
- Monitor the effectiveness of the business case.



### 3. Limitations of current diversity management

There are a number of challenges hampering effective diversity management. These include:

- pressure on business for short-term results
- lack of data and evidence
- problems gaining support when there is a lack of trust
- a hostile local environment.

The Brunel researchers interviewed diversity or finance leaders in 22 globally significant organisations and found that employers continue to use business case rhetoric as the main constituent of their diversity initiatives. Yet this rhetorical emphasis is undermined by a lack of interest in collecting evidence that would demonstrate the business case in practice.

The interviews indicate growing apathy about diversity, and resistance to the monitoring and measuring necessary to support or create the business case for diversity and its management in many organisations.

The short-term pressures on business create difficulties because it often takes time to demonstrate the impact of good diversity management on performance. As one participant explained: ‘...over a period, something just clicked and it worked, and now it’s fab. But it was quite painful getting there when we live in such a short-term environment, where we’re worried about tomorrow and Friday’s deliverable, not eight months’ time’.

Data is important, but some data collection efforts seen in the study were rather basic and focused on those aspects of diversity on which organisations can more easily report success. For example, there is extensive reporting of the increase in numbers of women in management, although this can be ascribed to the rise in the number of educated and trained women in the labour market rather than necessarily to the concerted efforts of employers.

#### DATA SENSITIVITIES

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There are sensitivities about sharing of data between organisations and within industries, owing to fear of litigation. The data that organisations collect is generally constrained by the number and scope of diversity issues that they prioritise. Most focus on gender, and some collect data on several diversity categories. Ethnic diversity remains understudied owing to difficulties in generating meaningful ethnic categories.

Although counting numbers of people from particular groups is useful in drawing attention to their under-representation in positions of power, such an approach underplays the cultural and social aspects of workforce diversity. A mixture of qualitative and quantitative data should be considered in order for the business case argument to move beyond simple head counts towards a deeper understanding of treatment of differences at work.

One critical aspect of diversity that does not receive enough attention is socio-economic background.

‘If I was going to look at it cynically, I would say that the diversity we’re achieving is good but it still has a strong class bias’, said one interviewee. ‘So you can be any skin colour, any nationality, any sexual orientation, but there’s still a particular type of person who tends to get on in this organisation. And they tend to be quietly confident, articulate, and able to present and influence in a particular way. And that skills set tends to be more predominantly found within Anglo-Saxon middle-class people’.

Another said: ‘In Asia the challenge we have is that we still have a reasonable proportion of people in our Asian offices who are expats. If you are a Chinese person who was born in China, who was educated in China, and has always worked in China, you will find it much more difficult than somebody who is on a two-year secondment from London or, actually, your fellow Chinese national who was born in China but then went and did their university education in the US’.

These points mirror comments made during the ACCA and ESRC Expert Panels in Delhi, Shanghai and London in 2011. At the London roundtable, it was noted that large companies and the professions, such as accountancy and 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.

## CULTURAL CONTEXT IS NOT DESTINY

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It is useful for companies to share good practices in diversity management globally within their operations and with other businesses in order to build the business case. Nonetheless, diversity management practices in the organisations featured in the study were often localised, with little transnational dialogue.

The local context and cultural norms in certain countries were sometimes used as reasons for inaction and complacency. Organisations should take account of the local context when it comes to transferring good practice, the report says, but they should avoid treating this context as destiny.

Organisations can also find it difficult to share good practices on ethnicity between offices in different countries. If an issue is not seen as a priority in a particular location, colleagues in another country can struggle to get their peers to address it. One interviewee explained, for example, that German colleagues did not see a problem in the fact that, although 10% of the German population has Turkish heritage, the German offices had few such employees. The interviewee noted: 'We're quite a long way off that being seen in the same way as in the UK'.

## MERITOCRACY AS A DEFENCE

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Some organisations studied did not produce a business case at all. There were two primary reasons for this response. On the positive side, some had senior leadership support and the resources to run their programmes and did not need to make a business case. The business case was taken for granted.

On the negative side, other organisations met such resistance to the workforce diversity agenda that they found it hard to use business case arguments.

One of the most common defences made in resisting the business case for diversity is that 'the right person' is chosen for the job. One interviewee explained that their organisation does not have a clear strategy or definition and that it is a simple principle that, if you have the right background and you qualify for the job, you get the job. Physical disability or particular sexual orientation is a private matter and is not considered. The problem with this defence is that it is based on the misconception that competence and merit are absolutes and are free of bias.

## AN ISSUE FOR SMES?

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Diversity and diversity management can be relevant for small and medium-sized entities as well as for multinational organisations. As was discussed in the ACCA and ESRC Expert Panels mentioned above, SMEs may need awareness of the diverse tastes of their customers if they are to remain successful. Managing diversity may position them better for taking advantage of new markets and emerging trends. Larger organisations can also improve their own diversity by working with SMEs, tapping into their talent and their innovative approaches.

The researchers sought the opinion of SMEs via the Association of Convenience Stores, finding that store managers saw a mixed workforce as generally beneficial for sales and customer relations. Though formal diversity policies and strategies did not exist, diversity was seen as 'an organic part of the business' that enabled them to provide flexible working arrangements and mirror the local community.

## 4. How the finance function can help

### DEMONSTRATING VALUE

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Diversity professionals frequently come under pressure from the board or senior management to demonstrate the return on investment from diversity. One interviewee explained that senior management recognised that there is a journey towards diversity, but needed to see clear, direct, visible results from their diversity investment, set in the context of their business goals.

One respondent said there was a failure to value diversity as an important asset base in organisations. Most diversity managers tend not to be finance or business people, they tend to be HR people and would not think they need to engage with the finance director and persuade them of the benefits, other than in relation to quite traditional concerns such as reputation.

While there is growing awareness in many organisations of the importance of having a diverse workforce in the accounting and finance function, this has generally not translated into considering the role that the function itself could play in designing, implementing and promoting diversity initiatives in the organisation as a whole. In most companies, those in finance play a minimal role in these activities. Yet finance professionals have the potential to make a positive contribution to the success of diversity initiatives within their organisations.

### NON-FINANCIAL RESULTS

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It is not enough to focus on measuring direct financial gains from diversity, to the exclusion of less tangible benefits such as improved customer service. The KPMG interviewee suggested recognising 'soft' measures such as accountability, as well as hard financial data.

A further example of the need for non-financial measures of the impact of diversity comes from the public sector. As one interviewee explained, public sector organisations need measures that not only show the financial benefits to be gained through diversity, but also improved experiences for the groups they serve, such as students or patients. That said, an improved customer experience can translate to improved league table performance and ultimately increased funding.

### EIGHT ACTION POINTS FOR THE FINANCE FUNCTION

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Finance functions should play a key role in the creation and implementation of effective diversity policies that are based on a sound business case. The finance function could:

- approach HR and diversity colleagues to propose working together to assess diversity in the organisation and its interaction with management strategy
- with HR, identify the most appropriate measures for analysing diversity impacts – financial measures and softer metrics such as employee or customer satisfaction
- assess the quality and extent of current diversity data and whether this needs to be improved
- consider including shareholder value, wider stakeholder value, regulatory costs and the global value chain in the scope of the business case
- consider the financial impact of lost business (perhaps through failure to meet clients' diversity expectations) as well as potential for increased turnover and profit from improved customer understanding through greater organisational diversity
- tailor the business case and its presentation for the audience, whether HR, line managers or C-suite executives
- establish governance around diversity actions, for example, by including diversity KPIs in management reporting packs
- turn the spotlight on themselves: is the finance function – through its standard methodologies or reporting approaches – acting as a blocker to diversity initiatives in the organisation?

## 5. Diversity and the finance function

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Nikki Walker from consultancy More2Gain, a diversity and inclusion (D&I) expert with experience in finance, strategy and operations as well as D&I, argues passionately for the involvement of finance teams in D&I activities to achieve executive and management commitment.

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### FINANCE CAN STRENGTHEN THE BUSINESS CASE

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Nikki Walker from consultancy More2Gain, a diversity and inclusion (D&I) expert with experience in finance, strategy and operations as well as D&I, argues passionately for the involvement of finance teams in D&I activities to achieve executive and management commitment. 'Business people focus on what they think will bring business value', she says. 'Unless you can demonstrate to senior business leaders and to managers that there is value in them doing something different, why would they do it?' Intellectually accepting that greater diversity would be the 'right' or 'fair' thing to do is not enough. 'You have to show them the opportunity or the loss and risk if they don't do it', Walker says.

Finance professionals bring the analytical ability to present a clear business case. Walker offers the example of a major telecommunications company that was analysing the performance of its stores by region, but not by the profile of the store manager. It typically promoted younger, technically expert, mostly male employees, rather than older employees and women. Advised by Walker, the customer satisfaction and spend data was analysed by employee gender and by their age; this analysis showed that the employees gaining the best customer satisfaction scores and taking the highest spend were generally slightly older and often female. 'They were connecting better with the customers, who were often older and female', Walker says. 'This analysis caused the company to step back and think about the need to recruit slightly different people. The technical gurus were still important, but the stores also needed different kinds of people, perhaps older, perhaps different genders and perhaps different ethnicities – in order to be able to connect with their customers and drive more revenue to the bottom line. That's the kind of analysis that makes business leaders understand why they need to invest in D&I. You have to be forensic in the analysis and that's why finance can play an important role – through being able to perform that commercial analysis'.

Identifying the right measures for analysis – whether hard financial metrics or softer measures (such as customer or employee satisfaction) – requires partnership between the finance and HR team. ‘It’s about taking a strategic look to identify the key measures for success’, Walker argues. ‘For some organisations it may be about how many women they are hiring or promoting; for others it may be about whether people in minorities feel included’.

D&I is not only about business opportunity, but also about minimising loss. Walker has seen the first signs of major companies demanding D&I progress among suppliers – or threatening to remove their business. ‘Finance can show the impact of losing a customer on the bottom line’, she explains. ‘That’s what drives change’.

#### **FINANCE CAN ENABLE ACCOUNTABILITY AND GOVERNANCE**

Another important role for finance concerns the accountability and governance attached to D&I initiatives. ‘Without accountability, it’s rare to see progress’, Walker says. ‘HR may not have the necessary skills to put governance procedures in place, but finance does this already’. The organisation could agree two or three key measures – key performance indicators – where progress is desired, and include these in the monthly management pack that reports to the board on business performance. Walker points out that ‘the monthly management pack is usually owned by finance’. Inclusion of D&I measures in the pack would also encourage the integration of D&I management with mainstream business management. ‘It needs to be part of the way the business is run, and finance is integral to that’, Walker says, adding ‘finance can help with mainstreaming it’.

#### **FINANCE NEEDS TO BE PROACTIVE**

Finance teams should not just wait for HR to ask for help in performing commercially focused D&I analysis or creating governance frameworks; the D&I team may not realise what skills finance has to offer and the impact finance could have, for example, on creating a compelling business case. ‘Most diversity leaders are HR professionals and commercial analysis may not fit in their natural skill set’, Walker explains. ‘So finance should be pushing to help with the analysis to put together a proper case for why the organisation should do things differently’.

#### **FINANCE HAS THE POTENTIAL TO BLOCK CHANGE**

Finance also needs to examine its own potential for blocking change in organisations. Human resource can, for example, be measured in terms of physical numbers of employees, whether full or part-time, or in terms of full-time equivalent (FTE) employees. Walker has found that many finance teams insist on using the physical total, rather than FTE because, for example, of its relevance for determining demand for physical assets such as laptops. The refusal to use FTE as well can impede the introduction of policies such as flexible or agile working: increasing part-time flexi-workers would damage productivity measures if based only on physical headcount. ‘Finance can be a real blocker to changes that would be good for many people in an organisation and commercially make sense’, Walker argues.

## 6. How regulation can strengthen the voluntary approach

Across all strands of diversity, progress towards elimination of bias and inequality has been remarkably slow as a result of the dominant voluntary approach, the Brunel report finds. Both the literature review and the data from interviews show that the social, cultural, political and economic context has a crucial influence on the performance outcomes of diversity management and on organisations' approaches to workforce diversity.

One interviewee illustrates the limitations of a voluntary approach in describing why it is difficult to hire people with disabilities. 'It's not that the country doesn't have people with disabilities, it's just very difficult for people with disabilities to get into colleges and universities just because of economic opportunities. And as a result of that, we don't see many people in the workforce with any notable disability.'

Complex issues such as pay discrimination appear to remain unchallenged. Making a gender pay discrimination claim is a cumbersome process, and organisational practices advocate voluntarism in the way that wages are competitively negotiated. One participant described an extreme example of resistance to tackling inequality in pay in the investment banking sector. It was suggested that one of the main reasons equal pay is not addressed is because there is a finite amount of money in the pot, so those who currently earn the most money are the ones who stand to lose the most if pay were more equal.

In the absence of a strong regulatory case, many practitioners find it hard to gain support for diversity interventions. Organisations limit themselves to arguments for diversity as defined and understood by their leaders. Strong leadership is therefore critically important. Yet the leadership in many organisations itself lacks diversity in gender, ethnicity and disability.

One participant explained: '...senior management, they may have 20 nationalities but their thought process comes from only one background. The leadership does not have diversity as an inherent thought process.'

Some companies have started to promote the view that a combination of regulatory and voluntary approaches is necessary to enable diversity to flourish and to challenge wider inequality in society.

A recent high-profile example was Debbie White, UK CEO of Sodexo, a company with a strong reputation for diversity management, who declared her support for quotas for women on boards as a way of 'ensuring everyone takes

responsibility'. The issue of quotas for women on boards has been hotly debated in many jurisdictions around the world in recent years.

White told a 'Women 1st' event that it was important to tackle systemic barriers to female progression. 'There are enough very good women out there to do really good jobs, so not having enough women is not the issue', she said. 'Systemic issues such as the organisational culture, practices and processes that identify and develop talent, the lack of adequate role models and perhaps most importantly our own unconscious biases have got to change if we are to make progress'.<sup>3</sup>

Under a regulatory approach, organisations do not simply take labour market conditions as static but use voluntary, social and economic regulation to shape these conditions to make better use of workforce diversity. Regulation brings back notions of fairness, legitimacy and compliance into business case arguments.

For example, KPMG's advisory work on diversity is designed to help clients to manage and reduce risk. The global head of citizenship, interviewed for the study, said measures such as quotas and other legal processes could be an effective way of promoting diversity.

Supranational and international agencies are also generating guidelines and enforcing compliance in the area of diversity. One interviewee said that the European Commission had played a key role in defining reporting responsibilities for companies, asking them to report on environmental, social and governance issues, and diversity. This kind of reporting made it easier for diversity practitioners to build 'a business model within organisations for managing diversity and other corporate responsibility issues'.

There is, of course, no universally agreed legal approach to the regulation of diversity. Neither is there a globally unified business need that compels organisations to take up diversity policy. Many companies have only a partially global approach to workforce diversity, but guidelines and regulations from international bodies help to overcome the difficulty that much diversity legislation is country-specific.

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3. 'Should the Government Introduce Quotas for Women on Boards? Join the Debate', *Women 1st* [website]. <<http://www.women1st.co.uk/news/45-should-the-government-introduce-quotas-for-women-on-boards-join-the-debate>>.

## 7. Employee involvement, influence and resources are required

Organisations should seek to involve employees at different levels and in every function in the design and implementation of diversity policies. This enables open and informative communication channels instead of the dictation of diversity practices from the top down.

One example comes from Robi Axiata, a telecommunications company in Bangladesh, where there is strong senior management support for diversity and for increased involvement of and communication with employees. For example, the company has a blog where individuals exchange ideas with the CEO.

Organisations and diversity leaders also need to differentiate their approaches to different stakeholders in the business clearly, in order to implement measures successfully. Strong support and involvement may be forthcoming at the top, but they often diminish further down the management ladder. The average manager or partner may only be interested in diversity if their client asks a question about it. Moreover, the HR community is reported in some cases to be the most resistant function to diversity interventions.

Attempts to influence change therefore need to be carefully tailored to each party. The involvement of senior leaders is particularly important. The research notes that diversity champions and diversity role models at senior management levels are effective in promoting the business case for diversity management and widening the support and commitment for diversity across the organisation.

Organisations also need to provide adequate resources, training and empowerment to those leading diversity initiatives, treating diversity as a strategic asset. Even if diversity practitioners have the tools they need, using those tools effectively to achieve change can be a challenge unless those individuals have sufficient influence in their organisation.

## 8. The global value chain approach as next practice

Among diversity specialists, there is often discussion of 'best practices'. Some interviewees were critical of the term on the grounds that such practices were often specific to a company or business setting and could not easily be transferred. The idea of 'next practices' in diversity was more appealing.

One of these next practices is the idea of the 'global value chain'. This does not abandon the pursuit of profitability or return on investment but builds the case for diversity management on a broader and more sophisticated set of reasons, notably the concept of fairness across different countries and operations.

This approach goes hand in hand with diversity management that focuses on how global business, demographics and economic power are shifting. These trends were highlighted during the ACCA and ESRC Expert Panels. For example, panellists noted the shift away from 'Western', and particularly US, cultural dominance – where it is assumed that 'speaking up' at work is a sign of self-confidence and therefore leadership potential – towards a more nuanced approach that applies global diversity policies in a way appropriate to each local market.

### **DIVERSITY MANAGEMENT IN ACTION**

The research gives three examples of participants who are strengthening the business case for diversity management by focusing on future needs.

- One is conducting programmes for business and society leaders on how to cope with the future and has run the same programme in India, Mauritius, Slovenia and Malaysia.
- Another participant is looking at future sources of talent and discussing diversity as the mix of people that the company needs to be successful in the future. The mix is considered in terms of a range of dimensions, including national background, professional skills, gender and age.
- A third points out that some progressive approaches to diversity management, such as flexible working patterns that may be accepted in some countries, can be offered to good effect to attract talent, even where they are not the cultural norm.



## 9. Recommendations

The research shows continuing interest in the business case for diversity, but indicates that many organisations could widen their perspectives to take account of the global value chain as well as basic bottom line impact. An effective business case needs to account for shareholder value, stakeholder value, regulatory context, and the global value chain.

Given the global policy context set out in the foreword to this paper, and the priority that business leaders say they place on having a more diverse workforce and culture, it is clearly important that organisations review their activities to date and refocus their energies on achieving sustainable change.

### RECOMMENDATION 1

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#### **Customise your business case on the basis of a wide range of your stakeholders and the environment**

It appears that having a diverse workforce alone is insufficient to enable an organisation to reap the business benefits of diversity. Studies have produced mixed findings. On one hand, diversity correlates with positive outcomes, such as low employee turnover, higher levels of innovation and creativity, and improved performance. On the other, in some cases it correlates with negative outcomes, such as lower levels of harmony, greater conflict and low morale. The conclusion is that it is the effective management of diversity that leads to successful outcomes. So it is important to look at the links between diversity management and organisational performance.

Therefore, organisations need to engage in more systematic data gathering, monitoring and analysing activities in order to demonstrate the business case for diversity management in their specific situation. This evidence then needs to be used in the design of innovative, dynamic and future-focused diversity management policies and practices.

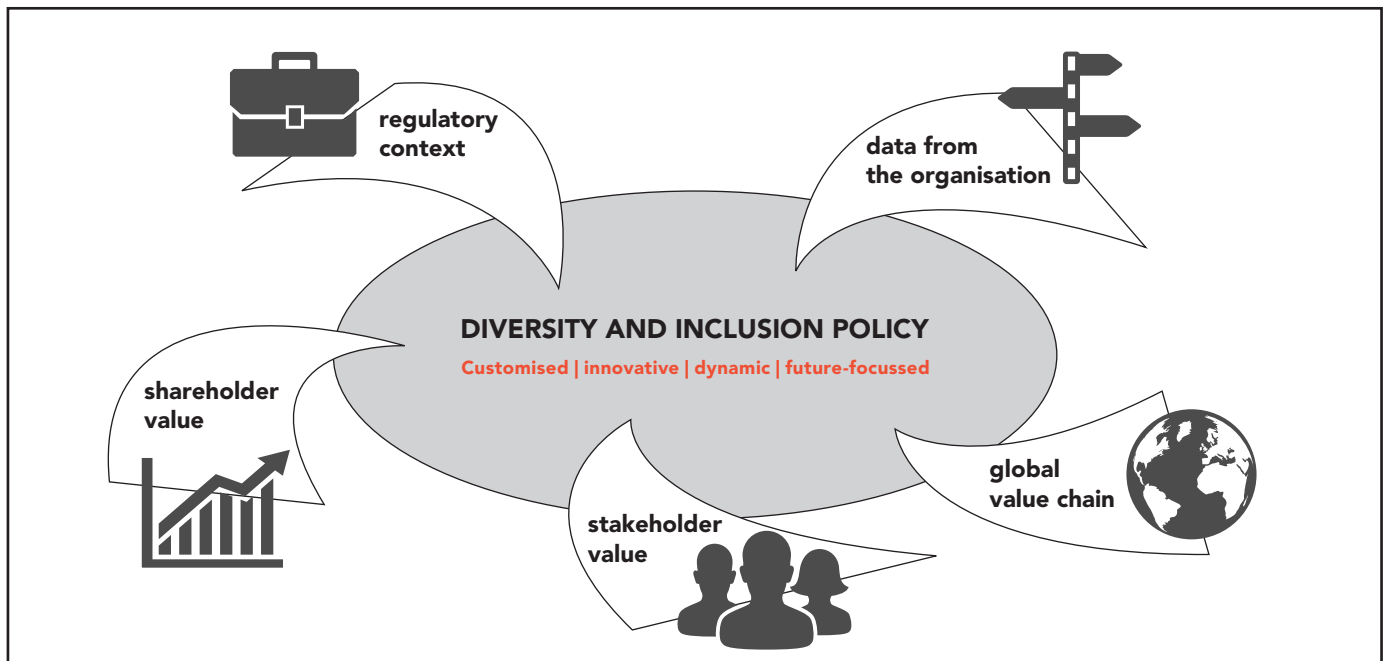
### RECOMMENDATION 2

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#### **Make data central to design**

The 'Ten action points for senior management' (see page 8) provide a framework to help business leaders and their organisations make greater progress towards effective diversity management. By following these steps, companies could embark on a bolder approach to diversity and inclusion and so improve their performance.

### Customise your business case



### RECOMMENDATION 3

#### Give the finance function a central role in the design of a business case

Finance teams, in particular, can play a major role in making the business case for diversity and ensuring that diversity policies are as effective as possible (see 'Eight action points for the finance function' on page 11).

### RECOMMENDATION 4

#### Prepare the business to focus on medium-term and long-term gains to see the greatest benefit

There is no 'quick fix' when building the business case for diversity. Instead, organisations should develop systemic, customised business cases, which engage their stakeholders, to focus on the beneficiaries, business environment and the stage of development of their diversity programme. In so doing, they will move beyond a narrow concept of short-term returns – because the benefits of diversity are often accrued in the medium and long terms – and 'business as usual' will become dynamic and enriched.



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