Thriving in a diverse business world

KPMG LLP (UK)
Foreword

by Ruth Anderson, Vice-Chairman, KPMG LLP
This report is based on conversations with 53 business leaders, from FTSE 100 and similar-sized organisations, about the ways in which the business world is changing. Conducted before the current financial crisis, but arguably even more relevant now, the research showed that diversity is seen as a key driver of change, or as an indicator that change is happening. It is clear to me from reading the report that diversity matters to business leaders, but what is also clear is that how they think about diversity is different to what I had expected.

KPMG commissioned this research to be conducted by Roffey Park Institute on our behalf in order to understand better how diversity informs the commercial decision-making of our clients and other business leaders. I had anticipated that this would mean considering how diversity is factored into, say, sales, procurement, markets or operating models like out-sourcing, as well as human resources.

In fact this report shows that the kind of diversity that business leaders are most interested in is diversity of thinking, and that the dominant interpretation of diversity in the workplace (as being about differences related to gender, ethnicity, disability etc.) is secondary to the primary concern of many business leaders. This is not to say that business leaders fail to appreciate the significance of workplace diversity. Instead this is about business leaders saying that diversity in the workforce is not an end in itself; rather it is a means to achieving better quality thinking.

This finding may shed some light on why conversations between business leaders and diversity practitioners within their organisations can sometimes feel misaligned. Perhaps this report will help to realign their discussions.

So I welcome the findings which challenge existing assumptions about what we mean by diversity in business. Dr David Lines from Roffey Park, who interviewed the participants, reported that the interviewees gave their views openly and candidly, voicing their contradictions, scepticism and concerns as well as their certainties and convictions. In highlighting this range of views I hope that the report will pave the way for more realistic and open conversations about how to progress diversity in its widest sense in business in the future.
My own view, however, is that if business leaders want better quality thinking in their organisations, particularly at senior levels, then they alone can make it happen. Equally, given the speed of change, no business leader can afford to wait for better quality thinking to develop over time and permeate to the top. There is an urgency which does not allow for a gentle process of change.

I would like to acknowledge with thanks the work of David Lines and Peter Hamill from Roffey Park. They worked with us to define the scope of research at the outset and their regular progress reports were clear and incisive.

Finally, I would like to thank the interviewees for the time and effort they committed to this research. It was a lot to ask of extremely busy senior business men and women that they devote significant time to the interview process in order to get to the heart of their perspectives. I hope they find the report interesting and useful.

Ruth Anderson
December 2008
Executive summary
Even before the financial shockwaves of October 2008 it was clear the business world has changed and is becoming ever more diverse. This research seeks to understand how senior business leaders in organisations perceive diversity from their commercial perspectives. Diversity is often considered within a Human Resources frame of reference, so the intention was to look beyond this frame and understand how it relates to the concerns and priorities of business leaders.

This report has significance because of the seniority and business focus of the people who took part in the research. These are the views of 53 chief executives, chief financial officers and chairmen (or equivalent positions) from mainly FTSE 100 and similar-sized organisations, discussing this subject and how it relates to their commercial reality, in the period from November 2007 to July 2008.

Their perspectives on today’s business world highlight vividly the breadth and scale of the changes and differences affecting them and their organisations – different markets, products and customers, changing ownership structures and financing, different operating models in different geographies, and all of these affected by the pace of technological change.

As business leaders, they described how two of the main forces acting upon them and their leadership teams are globalisation and ever-increasing pressures on their decision-making, and how the impact of both of these is accelerated by the power of technology.

Although this research set out specifically to explore diversity beyond the ‘people agenda’, the top concern was people-centred; given the range of factors which combine to make a successful business, and the speed of response needed to address them, how can business leaders ensure that their executive teams have the different perspectives, approaches and understandings that are vital for success?
A different model is needed for developing diversity in organisations – one which inverts and challenges existing approaches.

They described how diversity of thinking is imperative, and shared their concerns that the existing models for developing diversity in their organisations do not seem to be working at the senior levels. The key finding of this research is that a different model is needed – one which inverts and challenges the existing approaches.

One existing approach starts with hiring a diverse workforce in order to bring about the diversity of thinking needed to deliver innovation, creativity and business benefits.

This research puts forward the argument for a different starting point. It suggests that an organisation which welcomes difference and is genuinely open to different perspectives and thinking will attract greater diversity in the workforce which will be able to contribute fully, including at senior management levels. This can only be achieved by business leaders actively supporting diversity of thinking on their boards, in their senior management teams and throughout their organisations.

This is the foundation for thriving in a diverse business world.
Introduction
How much does diversity really matter to businesses? Under what circumstances and how do business leaders take diversity into account in their commercial decision-making? There are nice words in the annual reports of companies, but is diversity important when making commercial decisions, or is it a subject that is on the agenda solely when the Human Resources department have something to say on the subject?

Business leaders work in an increasingly diverse business world but there is little published research to show how this affects business decisions and the strategies they adopt for working in this environment. KPMG commissioned Roffey Park Institute to conduct this research to investigate the impact of diversity on business beyond the Human Resources arena.

To find out what business leaders think, KPMG made introductions to over fifty senior business men and women whose views were sought in one-to-one interviews lasting for more than an hour. This report sets out the findings.
Perspectives
on a diverse business world
The aim of this research has been to develop an understanding of how business leaders experience and understand diversity and difference from the perspective of their commercial realities. Rather than taking diversity as the starting point, the 53 business leaders interviewed (“the research participants”) were asked for their perspectives on how the business world has changed.

Although businesses are operating within a changing and diverse environment, some of the research participants said that the nature and principles of business remain the same. They were divided on whether the degree of change that companies are subjected to is more extensive than in the early 19th century or even the early 20th century. During these times there was enormous social and economic upheaval that formed the foundations for the way in which business and society are operating today. However, the speed at which business leaders are expected to respond to changes has certainly increased.

The research participants described the changes that each noticed as important at the time when the one-to-one research interviews were conducted which was from November 2007 to July 2008.

The research participants spoke about diversity as being about differences and how these manifest themselves inside their organisations and externally in the business world. The range of diversity that they identified as being pertinent to directing a global business is summarised in the following categories. These have emerged over time and have become more prominent within the past five years.

**Geographies**

According to some of the research participants, the predominant driver of increasing diversity is the geographical expansion of markets and supply chains across the globe. This expansion has brought corporations into contact with a wider range of employees, variations in culture and a significant diversity of language. This has intensified the impact of cultural differences within the company, at the international, national and local level of operation. This raises an interesting question about which country’s beliefs, values and cultural norms will take precedence during the combination and coming together of diverse and disparate cultures within the global company.
Geopolitical risk surfaced during these conversations as an important aspect for international and global companies. Dealing with risks that can be hidden from view, and may occur in less familiar areas of the world, is adding increasing complexity to risk management. The research participants emphasised the importance of analysis of government stability in countries where they operate, as well as understanding cultural and political trends.

**Business ownership, financing and investment**

Patterns of business ownership have shifted from a Western focus to one where overseas companies and investors are increasingly buying into businesses across the world. This has been supported and funded by the increasing influence of sovereign wealth funds and private equity. This shift of economic power from Western to Asian and Middle Eastern economies has surfaced a new area of diversity that, according to those interviewed, has not yet not been fully thought through but which will have significant implications over the coming years.

As business leaders look for more cost effective methods of financing their businesses, so they have entered into more and more complex financing arrangements. The research participants reported that the deals with best terms are often complex, so that understanding the intricacies and structuring of financial packages has become an important skill and knowledge set for business leaders. They need to understand enough so that they can discuss the details with financial experts and be able to make considered and confident decisions. The imperative for this is all too obvious in the current banking crisis.

**Stakeholders**

The research participants spoke about an increasing diversity of stakeholders making demands on the business. The interviewees divided stakeholders into two main groups, those with ‘hard’ claims and those with ‘soft’ claims. The ‘hard’ claims focused on the financial aspects of the business and were made by the shareholders, investors, city analysts and hedge fund managers. ‘Soft’ claims were often made by those who were lobbying the business leaders on issues that were considered significant to the organisation, but which had less of a known impact on profitability and revenue generation.
There is a growing awareness of the diversity of stakeholders and the issues they represent.

They talked about the importance of doing ‘good business’, which they defined as making the right decision for the profitability and viability of the business. At times there is a tension between doing ‘good business’ and doing the ‘right thing’, and they reported that doing ‘good business’ predominates. However, the synthesis between doing ‘good business’ and doing the ‘right thing’ is important for them to find. This becomes all the more important because good stakeholder management is linked to the reputation of the business. There is also a growing awareness of the diversity of stakeholders and the issues they represent. Attitude has shifted at corporations from “how can we work around these issues?” to one where these issues may flag new opportunities to do ‘good business’.

The corporate brand is now impacted by the social responsibility and diversity of the company across the world. Many of the research participants reported that talented potential employees are researching the companies they are considering applying to and are using criteria that include social responsibility and attitudes towards women as central to their decision-making. It is important to employees that their organisation is seen to be working responsibly. However, this raises a question “what does ‘working responsibly’ mean?” Some research participants say that ‘working responsibly’ belongs in the central operations and decision-making processes of the organisation, rather than simply in their community activities.

Business strategies and models

The research participants spoke about technology providing more diversity in the business strategies and models which were available to them and their competitors. The internet has allowed, for the last ten years or so, the disintermediation of business models, with manufacturers cultivating direct links with their consumers, rather than selling through traditional outlets. The full effects of this process, and the implications for business strategies and models, are still playing out within organisations. Some businesses are developing a mix of strategies to reach the consumer, through traditional routes to market at the same time as experimenting with selling directly to consumers via the internet.

Some participants also mentioned the threat of commoditisation, where price becomes the only factor distinguishing products and services.
Legal, ethical, cultural and moral frameworks

Research participants described how ways of doing business in different countries and variations in their legal systems have generated a range of complex business environments. The implication is that business leaders need to work hard to understand, negotiate and navigate their way through these environments. They describe some environments as ones where the legal system requires step-by-step adherence to the rules. Others they describe as more lax regarding issues such as payments to local officials, and in these situations the guiding principles and ethical frameworks of the company are a necessary foundation for making business decisions.

Another facet of this rests in how different cultures interpret and manage intellectual property and this has implications for where business leaders are comfortable carrying out research and development.

Yet another difference, and a source of tension, can arise between the values and beliefs of the global company versus the local customs and traditions of the country in which the global company is operating. An example of this is how career advancement in certain countries may depend on age and length of service rather than on ‘objective’ measures of capability and performance. A result of this may be conflict and disagreement within the company as to how careers are managed and what criteria apply to career progression.

Products and services

Two forces are driving the diversity of products and services. The first relates to an increasing segmentation and diversification of customer groups; the second relates to increasing and more diverse expectations of consumers.
Increasing segmentation and diversification of specific customer groups
The research participants stated that it is now easier to market to smaller and specific groups of consumers, e.g., all of the fly fishermen in Scotland or scuba divers who dive in the Seychelles, as these people can be grouped and targeted effectively through the internet. The difficulty arises when the business wants to market across the world to large groups of consumers who may be less well defined.

Increasing and diverse expectations of consumer groups
A theme that was identified across the interviews concerned the increasing expectations of consumers. Increasing expectations appear partially to arise from a more assertive stance from consumers to the ‘authority’ of the company. Alongside this factor is the availability of information about products and services via the internet. In a competitive marketplace consumers are now expecting a greater influence and say regarding the services and products which they buy.

In addition, if they do not receive what they expect, then the consumer has access to an increasing number of competitors who can offer alternatives. Vigilant consumers, who are browsing a global marketplace, may sideline the company that is unable to meet these expectations.

Increasing awareness of the product lifecycle and the demands of ethical and sustainable production has also become, according to our research participants, an important and substantial theme. Consumers are increasingly concerned with the process and manner in which their goods and services are being sourced.

In addition to these two forces, in business-to-business relationships the customer is now seen as a driving force in ‘innovation partnerships’ that can be used to develop new products and services in a faster research and development cycle. This relationship between the customer and the supplier company increases the need for relationship managers, who develop multiple points of entry into the customer’s organisation and are in tune with the requirements of the end consumer. Indeed some of the research participants suggested that key innovations for the future will be at the point of interaction with the consumer or customer, rather than in the product itself.
People inside the organisation

Diversity in organisations is very often taken to mean diversity in the workforce. Reference can often be found to ethnicity, gender, sexual orientation, disability (or differing levels of ability), age, religion and different national cultures. The research participants would also add to this list educational and technical backgrounds and work history.

Research participants see diversity in the workforce as important in the context of a global talent pool. They described how at entry level there has been a focus on developing a pluralist group of individuals and government regulations and guidelines have encouraged most business leaders to champion recruitment policies and practices that support diversity in the workforce.

In addition, increased mobility of people around the world has developed to the point where companies can draw on a wider and more disparate pool of talent to complement those they recruit at entry level. This has allowed them to search for candidates with very specific skills and knowledge, for example those related to a particular country or territory.

Several participants referred to the ‘US model’ of diversity in terms of people. The US model has been reported as training people to be more conscious of their prejudices so that discrimination is reduced. Research participants felt that the efficacy of these processes, for reducing prejudice and discrimination in the work place, needs to be evaluated carefully. Corporate interventions that work in the US may not translate to other countries and cultures.

For some of the research participants the use of metrics around different groups in the workforce seems to have produced a tick-box culture, where as long as the numbers seem right, then the business is doing well. Other participants described how they used the metrics as one means of describing ‘good business’ and saw the various regulations as guidelines for good practice, rather than rules that needed to be followed slavishly.
Look for opportunities embedded within the issues of diversity in its widest meaning and how these could lead to an increase in different services and products within emerging markets.

Opportunities within the diverse business world
As the world becomes more integrated and business explores the global market, then there are opportunities that arise in this increasingly diverse business world. The research participants were positive about the diverse business world. They talked about looking for the opportunities embedded within the issues of diversity in its widest meaning and how these could lead to an increase in different services and products that can be positioned within emerging markets.
Responding
to a diverse business world:
Responding to a diverse business world:

The previous section sets out the research participants’ perspectives on diversity. This section identifies the forces that bring diversity onto their agendas and why they see diversity as ‘business critical’.

This section also looks at their current responses to this diverse business world and explores what business leaders say they will need to do to remain competitive.

Finally it explores what responses the research participants say are currently not working.

**Forces driving the need for greater diversity within businesses**

The research participants identified two forces which have a significant impact on them. These are firstly globalisation and secondly increasing pressures on their decision-making. Technology then accelerates the impact of both of these forces.

**Globalisation**

Doing business globally has existed since the early days of business, when even then there was a drive towards low cost labour, resources and new markets.

Today’s global businesses have moved from having trading relationships with companies in other countries, to setting up operations in the other country (either manufacturing, sales, or both) run by expatriate managers, to enterprises in important markets, with significant local intellectual capital.

This process has led to a rise in the economic status and, therefore, power of these countries. As a country acquires more economic power, local intellectual capital becomes more important. One model sees local managers leaving the business with significant knowledge of the business and its customer contacts, to set up or join a rival local company, as they cannot see a way to the top of the ‘Western’ businesses.
Responding to a diverse business world:

This has also led to a change in the nature of businesses in the ‘developed world’. With the significant decline in manufacturing industries, these economies have moved to the service sector. This is based on having bright, creative, well-educated people who can develop intellectual capital through ideas, innovations and unique services to business.

However, many of the research participants said that the UK education system is not producing the work force they need and that locally educated employees in countries like China and India are as good as, and often more motivated than, UK graduates. They are seeing significant local well-educated graduate talent coming through into the workforce and there was some pessimism expressed about the future of the UK economy.

The combination of local employees holding significant knowledge of the business and increasingly well-educated graduates is leading to distributed intellectual capital. Countries like China and India are not simply production facilities or potential markets, they are the places where significant intellectual capital is held, which will be essential for the future success of the business. There is also significant wealth in those countries.

This has led to a process that many in the ‘West’ or ‘developed world’ had not expected – that of ‘Western’ companies being acquired by organisations in these emerging economies. One research participant said that this was probably one of the most significant changes which would shape the coming years, and that most people were not expecting it, and were not prepared for it.

This is also producing a significant shift in what the leadership looks like within companies. The research participants suspect that there will be a shift from ‘white Anglo-Saxon male’ business leaders towards a more diverse leadership team drawn from a multi-cultural workforce.
Increasing pressures mean that business leaders have less time to think for themselves and so need people in the leadership team who bring different perspectives to the table.

**Increasing pressures on decision-making**

The research participants said that they are experiencing increasing pressures on decision-making from a number of sources, as described below. The increasing pressures mean that business leaders have less time to think for themselves and so they need people in the leadership team and in the organisation who bring different perspectives to the table.

Research participants repeatedly talked of the core principles of running a business and in doing so described the relationship between a ‘business owner’ and a ‘business manager’ running the business on the owner’s behalf. For most companies, business ownership is complex, with many shareholders and fund managers (representing their shareholders) together acting as the ‘business owner’.

They put this relationship between business owner and business manager centre stage and say that it exists for wealth creation. The business manager, otherwise known as the Chief Executive Officer (“CEO”), needs to deliver a return on investment year-on-year for the business owner, or the latter may demand a change in business manager or remove their investment.

This creates a pressure on executive decision-making for a continuing, above-average, return on investment, in order to keep and attract shareholders. For this reason, a number of the research participants felt that private equity may provide a better form of business owner, as it increases stability, and reduces uncertainty, of ownership compared to shareholders in a publicly traded company where there is significant short-term pressure on executive decision-making.

The short tenure of a CEO was mentioned by a number of participants. Research indicates that the average CEO tenure in the FTSE 100 rose from 3.7 to 4.9 years in the five years to 2007, whilst CEO tenure in the FTSE 250 increased from 4.9 to 5.1 years over the same period (Manchester Square Partners, 2008). It is clear that this relatively short length of tenure is an additional source of pressure. Added to this, the same research report shows that only 8% of FTSE 100 CEOs and 18% of FTSE 250 CEOs took on another CEO role.
Responding to a diverse business world:

Business leaders are now expected to provide an immediate response. The media, the business itself, its clients and other stakeholders all expect immediacy of response. A key theme from many of the research participants was that time to think has been reduced. This reduction in thinking time is reducing the capacity of business leaders to foresee changes and to understand the potential impacts of their responses. There was a cautious recognition amongst research participants that the unintended consequences of previous decisions were creating some of the problems and issues which they now face.

Managing the complexity of a globally integrated enterprise was seen as putting more pressure on executives than managing businesses in separate geographies, service lines or functions. Research participants also expressed the view that there is a greater need for executive boards to work together as a team rather than as individuals running separate divisions within a global company.

The research participants described how, with increasingly sophisticated and complex financial instruments being used, there is more and more of a need for the CEO to be a financial expert in his or her own right.

Unpredictable events can arise which can have an immediate impact on an organisation’s brand; for example activity by bloggers can rush things onto the business leader’s agenda which would not otherwise have been there, and can take up disproportionate amounts of time, reducing time to think about and deal with longer-term strategic trends.

Finally participants have reported that it is very difficult once one company goes down a particular path, for competitors not to follow. It may produce long-term impacts that they do not like, but if another company has gone down that route, and is producing greater profitability and returns for shareholders, then the pressure to follow is immense.

The participants indicated that all of these pressures reduce the amount of time to think and time for making decisions. Almost inevitably this can lead to short-term thinking and possibly to decisions that produce problems in the longer-term.
Responding to a diverse business world:

Staying up to date and informed as an executive team is crucial.

The pressure to make decisions means that the ability of the board and executive team to debate an issue thoroughly is key to the company’s success.

Technology and interconnectedness

Technology and the interconnectedness that it facilitates has been a key theme in many of the interviews.

Research participants described this as:

- Having multiple forms of access, anytime, anywhere.
- Needing to multi-task between different forms of access and make decisions in real time.
- The constant media news cycle (internet, mobile phone updates, 24-hour news channels) and immediacy of required response.
- Integrated working across time zones.
- The ability for pressure to be put on the company by activists and other stakeholders through the internet and e-mail communications.

This interconnectedness accelerates the effects of increasing pressures on decision-making and of globalisation.

What does this mean for business leaders?

Research participants talked of the need to stay well informed. One participant spoke of changing the entire focus of his executive team after the credit crunch. He felt that his team was too internally focused and needed to be more aware of changes in the world. Other participants spoke of the processes by which they stay up-to-date and aware of what is taking place in the world. This theme of staying up-to-date and informed as an executive team is seen as crucial by most.

Allied to this theme, many of our research participants spoke about how it was essential to have good debate at board level. The pressure to make decisions meant that the ability of the board and executive team to debate an issue thoroughly was seen as very important to the company’s success. However participants also thought that their ability to have an effective, wide-ranging debate was limited by the lack of people with different perspectives on their boards. Many participants saw lack of diversity at board level as a weakness precisely because it reduces the quality of debate and limits the ability to think differently.
There is a need to develop a greater level of intercultural sensitivity and awareness.

The geographical shift in power also emerges as one of the key themes of this report. Many participants see a future in which many corporate headquarters will be re-located to Asia. They also see that the boards and executive teams of ‘Western’ businesses will have to change. This may happen through:

- The business being bought, or partly owned, by Asian businesses or sovereign wealth funds.
- The increased need to hold onto local talent in ‘emerging’ markets, encouraging them to reach the top of the organisation.
- The fact that, due to population size and increasing wealth, these will become some of the most important markets for many businesses.

The development of a truly multi-cultural top team is a theme which emerges from this research. It may be that only certain cultures will be represented at leadership level, but what is clear is that the leadership will be different. This will lead to a need to develop a greater level of intercultural sensitivity and awareness. It is no longer enough for an expatriate manager in India to understand Indian culture; this is about a team of people from a number of different cultures working together productively across cultural boundaries.

Research participants saw this as challenging, but inevitable. They believe it will be essential for there to be people from different cultures and backgrounds contributing to the thinking within the business in order to be able to manage effectively in a business world where there are multiple differences.
How business leaders respond to these changes

The research participants described three types of changes which they need to be able to respond to: those that are fairly predictable over time (such as demographic changes); those which were completely unnoticed and came on the agenda by surprise (such as the terrorist attacks of 11th September 2001); and those which were foreseen in some measure, but no-one could accurately predict when they would happen or their full impact (such as the sub-prime crisis and the subsequent financial crisis).

When these changes come onto their agenda they describe how they are mediated through:

- The pressures acting on the business leader, which are described above.

- The cultural lens through which they see the changes – participants expressed awareness that they, their executive teams and their boards are in the main ‘white, Anglo-Saxon men.’ This produces a particular lens through which changes are viewed and business decisions are made. Participants suggested that this lens does not give them a width of view of the world which is needed in a globally integrated organisation; also that a wider view of the world will see different changes, perhaps some of which are currently unnoticed. This wider view of the world might also see more of the potential impacts of their current responses to these changes.

- Their personal judgements about the changes; for example some participants thought that climate change is of critical importance whilst others were as yet unconvinced.

The participants recognised that their reading of, and reactions to, the changes produce responses that directly contribute to creating new changes and developments with which they (or their successor) will have to deal.
The need for thinking differently

In talking about change, the pressures on decision-making and globalisation, the research participants said that the capacity to think differently is critical for business success. The primary route to different thinking is, they said, through diversity in the workforce.

Diversity and the workplace

Most of the research participants expressed a dislike for the stereotypical Human Resources-led diversity agenda, which they characterised as having metrics and tick-boxes.

Although some saw government legislation as good, some suggested that the government appears to be more concerned with measuring than with trying to make improvements. Whilst no one was able to suggest an alternative to metrics, there was a consensus that they discourage thinking beyond the metrics to the deeper underlying issues of dealing with diversity and difference.

They described a process of trying to recruit a diverse workforce to bring different thinking into the organisation. However, boardrooms and senior executive teams today are not very diverse and the commonly expressed view was “we’ll not get there overnight.” Some research participants stressed the need to look at the process of graduate and entry-level recruitment to meet this need over time.

However, the fact that it will take time may mean that this strategy will not respond quickly enough to the business imperatives that the research participants identified.

They also said that the organisation seems to be structured in such a way as to militate against achieving diversity because the diverse workforce recruited at the entry level does not survive or thrive in the organisation. Their hope was that, by recruiting more and more diversity into the organisation, the culture would change over time, allowing diversity to thrive. However, they acknowledged that this strategy did not appear to be working – diversity does not seem to be able to rise very far in the organisation, or penetrate the organisation’s values and mores.
Responding to a diverse business world:

Promotability of talented recruits is often based on the model of people who were successful in the past.

What makes a recruit a talented recruit?
Participants were asked to define a ‘talented recruit’. The themes that emerged were someone:

- With the appropriate qualifications.
- Who is able to adapt personal and interpersonal skills to the needs of the organisation.
- Who is highly motivated.
- With the potential to rise through the organisation.
- Who is willing to learn and develop.
- With a diversity of experience – described as the grounding for ‘promotability’.

These criteria demonstrate the tension that can arise when recruiting someone who does not fit the mould of the majority. Business leaders want recruits with diversity of experience and who will think differently, and yet they also want them to be able to adapt to the organisation. At the point of recruiting them, they want to be able to see them in senior positions within, say, five years, but the criteria often used for judging ‘promotability’ is based on people who have been successful in the past.

If business keeps recruiting at graduate, or indeed any, level based on the evidence of what has made individuals successful in the past, the outcome will be to create an organisation that looks like the organisation of today.

Women in business
Mid way through the interview process it became apparent that participants most often referred to multi-cultural diversity above other forms of diversity. Current thinking would say that women in business, particularly at management level, is a ‘big issue’ – after all women make up 50 percent of the world’s population – so participants were asked why the need for women, particularly at senior levels, in the workplace was not raised as often as the need for multi-cultural diversity.
Responding to a diverse business world:

Research participants said that women’s representation at senior levels seems to have stalled. They indicated that in some sectors, for example banking, there are a higher number of British Asians, but these are still mainly men. The reason some gave for women not rising to senior positions was that they often take career breaks for children at an important stage of their careers.

However, most male research participants expressed a sense of not understanding fully why women did not attain leadership roles and acknowledged that there must be something going on underneath the surface of the organisation. One business leader said that business was like a house built by elephants (men) for elephants, that was now attempting to house elephants and giraffes. He suggested that the fundamental nature of the house (i.e. business) may need to change.

Some business leaders said that their clients now require more women on their account teams. However, the clients also worked with the account team in such a way as to make it extremely difficult for team members to work flexibly. They felt that the clients would need to be more flexible in their style of working to achieve the gender balance they expected in the account teams.

Some female research participants were reluctant to address the issue. Male and female research participants were strongly against any form of positive discrimination which they felt would prevent a real appreciation of diversity within organisations.

Globalisation has brought multi-cultural issues to the forefront of the participants’ minds and when they talked about the need for different thinking within their organisations they saw, as a top priority, this coming from a multi-cultural workforce. Even though different thinking can be achieved by introducing other forms of diversity into the workforce – gender, social background, different experience – these were not seen as critical to success as multi-cultural diversity.
Responding to a diverse business world:

**Diversity and complexity**

The research participants often talked about ‘diversity’ and ‘complexity’ in the same breath and the view was also expressed that diversity leads to complexity, although the reverse did not necessarily apply. From the interviews a picture emerged of how organisational behaviour may inhibit diversity, despite the best of intentions. This is explained below.

A number of participants mentioned that when there has been an increase in difference or diversity, such as women coming into the workplace in greater numbers after the Second World War, it has led to the creation of social rules for the way in which people behave and interact.

These social rules are created initially to provide an acknowledged and accepted modus operandi – in any new situation it is easier and simpler for organisations when there are rules governing behaviour, rather than trying to deal with each individual’s needs and wants. This initially reduces the complexity, but over time the social rules themselves become more complex, which leads to a form of social control. In the example of men and women in the workplace, men learn to behave in a certain way towards women in the workplace and women learn a way to be in the workplace. However, social control creates limitations – not all women want to be that way in the workplace and if they do not fit within the social rules, they either leave or fail to become senior executives. So social rules in the workplace, which initially were created to simplify, came to reduce diversity. Another set of social rules which participants referred to along similar lines were the rules of ‘political correctness’. These were also seen to have been introduced to enable greater diversity but ultimately have operated as a form of social control in the workplace.

However a number of the research participants commented that the metrics used in organisations to monitor and improve the situation may prevent a deeper consideration of the underlying issues of diversity.
The process of creating ever more layers of social rules in order to regulate for diversity is flawed. These rules attempt to bring simplicity, but do so by removing much of the detail and texture from the reality of organisational life.

The interviews suggest that the process of creating ever more layers of social rules in order to regulate for diversity is flawed. These rules attempt to bring simplicity, but do so by a means of removing much of the detail and texture from the reality of organisational life; with time it can be seen that they are an over-simplification; then more rules are added to try to correct the problems. There is a need for a different type of simplicity, envisaged by Oliver Wendell Holmes Jr. (1841-1935):

“I wouldn’t give a fig for the simplicity on this side of complexity; I would give my right arm for the simplicity on the far side of complexity.”

This research suggests that what is needed is a deeper approach of engaging in a conscious process of creating social rules; of understanding the rules that are already there and choosing those to keep and those to remove, rather than continually adding new sets of rules. This has implications for much of current practice in diversity, and the efficacy of that practice.

Diversity and innovation

Research participants said that thinking differently contributes to innovation and although innovation is not a new need in business, it has acquired increased importance. There is huge pressure to innovate in order to capture today’s very diverse markets and to be able to tailor goods and services to ever-more demanding consumers.

The research participants also highlighted that the time before any innovation will be copied has decreased significantly, so there is limited time to make money from innovative products and services before a competitor catches up. So not only is innovation increasingly important, the speed of innovative developments is faster and faster.
If different thinking is needed, how do organisations foster it?

The traditional pathway

The research participants described a traditional pathway to developing diversity of thinking within the organisation.

This starts with recruiting a diverse workforce. The view is that this will, of itself, produce diversity of thinking and ‘positive conflict’, which is defined as working through disagreement and conflict in a collaborative way, sparking creativity, innovation and good decision-making. The result will be to produce business benefits through stronger management and newly created products and services.

However, this leaves out the potential for ‘negative conflict’, which is generally destructive, as often those people with the more unusual ideas withdraw into their shells, or leave, and the depth and breadth of input to the issue is reduced. Participants felt ‘negative conflict’ was a real possibility if they simply recruit people with different ideas. Experience suggests that the diversity so recruited is often not able to survive and thrive within the organisation. It appears that the organisation is in some way acting to reduce diversity, despite the acknowledged need for different views, perspectives and contributions within the business. So the traditional pathway is unlikely to produce thinking differently.

Thinking differently

Instead this research suggests a different starting point which is to develop the capacity of the people throughout the organisation, including the board, to think differently and engage in ‘positive conflict’.

This will create an environment where thinking differently is encouraged and ‘positive conflict’ will spark creativity and innovation.

This will lead to two things:

- Tangible business benefits such as new products and services.
- A diverse workforce and management group, because the diversity that is recruited will feel able to stay and contribute fully.
Recommendations
The leaders who took part in this research are very well aware of the changing and increasingly diverse business world they operate in.

However, to be successful in today’s global business environment, where the pressures to make fast and sound judgements and decisions are enormous, they need people who contribute different views and perspectives, often born out of their different cultures, backgrounds, experiences and styles. Making the shift to an organisational culture which genuinely welcomes and encourages different thinking is not easy. Often it will take time but many business leaders are pressured into focussing on the immediate issues at hand. So how can they ensure that the different thinking they need and recruit is not stifled and rejected precisely because it is different?

This is complex – it is much easier to create metrics to measure diversity in the workforce or the supply chain than it is to address the culture and social rules in an organisation that at times prevent different thinking from thriving. It will involve a number of aspects:

• Addressing the leadership style of the executive team and senior management group. The leadership sets the tone for the social rules in an organisation. As leaders their actions are visible and others will follow their example. So, to develop a culture of thinking differently and more widely, leaders need to be conscious of how their leadership style creates openness to different views and perspectives, or closes down diversity of thinking.

• Leaders can broaden their perspectives by spending time investigating perspectives which are not mainstream, and exploring what wisdom, understanding and knowledge may be contained in alternative points of view.

• Increasing the amount of difference in the organisation will increase the amount of conflict, so leaders need to be able to deal effectively with conflict, reducing ‘negative conflict’, and fostering ‘positive conflict’.

• Developing a greater awareness of the culture of the organisation and in particular understanding its cultural norms and social rules. Some of these social rules will limit the abilities of those who think differently and prevent them from thriving in the organisation. It is important to see and change limiting social rules, rather than adding regulation and more rules to compensate for them.
Alignment, conformity and agreement within organisations were essential for the development of companies and to bring them to the place they are in today. For businesses to be competitive in the future they need men and women who think differently, are encouraged to express their views and who feel at home in the organisation. They also need business leaders who actively seek different views and contributions to the discussions around the board room table. This enables a wide-ranging debate which may uncover hidden risks and unexpected opportunities but will also give the leadership team greater confidence in the quality of their decision-making.

This is the challenge of thriving in a diverse business world.
Appendices
Appendix A

Research method – an appreciative approach

Every senior business leader knows the ‘right’ answers to the questions which are asked regularly on the subject of diversity. So a research method was chosen that involved in depth interviews with a guarantee of confidentiality and anonymity for research participants, in order that they would feel comfortable openly discussing the issues.

The aim was to find out what business leaders think about working in a diverse business world. As a result Grounded Theory (Glaser & Strauss, 1999; Locke, 2000) was chosen as a methodology, as this provided a rigorous qualitative process that was used to develop the findings from analysis of the transcripts.

The interviews began using broad open questions, which were followed by questions that explored the themes that research participants mentioned. This method was used, rather than pre-set questions as in a survey method, in order to allow business leaders to shape the agenda of the interview. The opening question evolved throughout the research as the understanding of the field changed. This methodology is designed to ensure the ideas were explored along with theories each of the business leaders have about working in a diverse business world, and its impact on their decision-making. Therefore, the information gained from the research participants was focused on, rather than seeking to prove or disprove existing ideas or theories.

An appreciative approach meant that rather than asking whether organisations are taking diversity seriously in commercial decision-making, it was assumed that they were, and questions were then framed around how they were doing this. This changed the nature of the conversation from one where the check was whether business actually takes diversity seriously, to one where the question was about how business leaders take account of, and adapt to, a diverse business world.

The research question evolved to “How are senior business leaders conducting business in a more diverse business world?” This question was then taken to 53 CEOs, CFOs and chairmen (or equivalent positions) to understand their perspectives.
To answer this question, the research participants’ perspectives on the following areas had to be understood:

- Is it a more diverse business world?
- How has the business world changed and become more diverse in their experience?
- How do they notice and take account of this diverse business world?
- How are they responding to this more diverse business world?
- What are the long-term implications of this more diverse business world and what is the response of business to that world?

From the questions research participants were asked, a picture was developed of a diverse business world. This world and participants’ responses are described in this report.

The audio files were transcribed and subsequent analysis of these provided the main themes and ideas that have been developed in this report. Access to the raw interview data and the audio files remains with the research team and will remain confidential. No one other than the research team has any access to the information provided during the interviews, including people who work in Roffey Park Institute and KPMG. All of the raw information will be destroyed after the publication of this research report.
Appendix B

Selected research on diversity

Top Team Diversity, Internationalization and the Mediating Effect of International Alliances
Authors: Ho-Uk Lee houklee@yonsei.ac.kr
         Jong-Hun Park johnpark@ewha.ac.kr

The Paradox of Diversity Management, Creativity and Innovation
Authors: Bassett-Jones, Nigel1
Source: Creativity & Innovation Management; Jun2005, Vol. 14 Issue 2, p169-175, 7p

Managing workforce diversity at ibm: a global hr topic that has arrived
Authors: Childs Jr., J. T.1 tedchils@us.ibm.com

Language Diversity in International Management Teams
Authors: Henderson, Jane Kassis1 jkassis@escp-eap.net

What Gets Measured Gets Done
Authors: Giovannini, Maureen1 mgiovannini@jhoward.com
Source: Journal for Quality & Participation; Winter2004, Vol. 27 Issue 4, p21-27, 7p, 1 chart

Women At the Top
Authors: Collins, Jan K.
Source: Business & Economic Review; Jul-Sep2004, Vol. 50 Issue 4, p20-21, 2p
Comparing Approaches to Diversity Management in UK and US Retail
Authors: Foster, Carley1
Source: European Retail Digest; Summer 2004 Issue 42, p24-26, 3p

Supplier diversity initiatives and the diversification of ethnic minority businesses in the UK
Authors: Ram, Monder1 mram@dmu.ac.uk
Smallbone, David2

Technology and Tolerance
Authors: Florida, Richard
Gates, Gary
Source: Brookings Review; Winter 2002, Vol. 20 Issue 1, p32, 5p, 1 graph, 1c

Transforming Human Resources in the New Economy: Developing the Next Generation of Global HR Managers At Deutsche Bank Ag
Authors: Svoboda, Michael1 Schröder, Silke2

Women Directors on Top UK Boards
Authors: Singh, Val1 v.singh@cranfield.ac.uk
Vinnicombe, Susan
Johnson, Phyl

Diversity Issues and Public Relations
Authors: Hon, Linda Childers1 Lhon@jou.ufl.edu
Brunner, Brigitta2
Workplace Diversity and Group Relations: An Overview
Authors: Christian, Julie1 J.N.Christian@bham.ac.uk
         Porter, Lyman W.2
         Moffitt, Graham1
Source: Group Processes & Intergroup Relations; Oct 2006, Vol. 9
        Issue 4, p459-466, 8p

The Effect Of Diversity On Turnover: A Large Case Study
Authors: Leonard, Jonathan1
         Levine, David1
Source: Industrial & Labor Relations Review; Jul 2006, Vol. 59 Issue 4,
p547-572, 26p

Dealing With The New Diversity
Authors: Maccoby, Michael
Source: Research Technology Management; May/Jun 2006, Vol. 49
        Issue 3, p58-60, 3p

Location-level Links Between Diversity And Innovative Climate Depend
On National Power Distance
Authors: Van Der Vegt, Gerben S.1 g.van.der.vegt@bdk.rug.nl
         Van De Vliert, Evert1
         Xu Huang2
Source: Academy of Management Journal; Dec 2005, Vol. 48 Issue 6,
p1171-1182, 12p

Diverse decision making
Source: Industrial Engineer: IE; Jan 2005, Vol. 37 Issue 1,
p13-13, 1/4p

Can diversity be a strategy?
Authors: Sudhoff, Mollie Newsome1,2
         Griffin, Lucy H.3,4
Source: ABA Banking Journal; Dec 2004, Vol. 96 Issue 12, p59-61, 3p
Leveraging Diversity To Improve Business Performance: Research Findings And Recommendations For Organizations
Authors: Jayne, Michele E. A.
Dipboye, Robert L.

Harnessing Diversity and Collective Action in the Top Management Team
Authors: Jarzabkowski, Paula
Searle, Rosalind H.

Cultural Diversity In Management, Firm Performance, And The Moderating Role Of Entrepreneurial Orientation Dimensions
Authors: Richard, Orlando C.1
Barnett, Tim2 tbarnett@cobilan.msstate.edu
Dwyer, Sean3
Chadwick, Ken4

Employers raising the bottom line through diversity
Source: Management Services; Mar2004, Vol. 48 Issue 3, p6-6, 1/2p

Gender influences in decision-making processes in top management teams
Authors: Kienke, Karin1
Source: Management Decision; 2003, Vol. 41 Issue 10, p1024-1034, 11p

Best Practices in Managing Diversity
Authors: Layne, Peggy
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Diversity and Technology: The Impact of Diversity on the Role of Civil and Environmental Engineers in Bridging the Digital Divide
Authors: Moo-Young, Horace Odi, Henry
Source: Leadership & Management in Engineering; Oct2002, Vol. 2 Issue 4, p34, 4p

Contributions of Multiculturalism to the Competitive Advantage of an Organisation
Authors: Raatikainen, Pasi1
Source: Singapore Management Review; 2002 1st Half, Vol. 24 Issue 1, p81, 8p

Making Use Of Difference: Diversity, Debate, And Decision
Comprehensiveness In Top Management Teams
Authors: Simons, Tony1 Pelled, Lisa Hope2 Smith, Ken A.3
Source: Academy of Management Journal; Dec99, Vol. 42 Issue 6, p662-673, 12p, 3 charts

Driving Corporate Culture for Business Success
Source: Management Services; Oct99, Vol. 43 Issue 10, p3-3, 1/2p

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Complex Social Organisation: Multiple organizing modes, structural incongruence, and mechanisms of integration

Mullins J
The six trillion dollar men. New Scientist

Pascale, R
Managing on the Edge

Shapiro G & Allison M
Reframing Diversity: Board executives and senior diversity professionals working together for strategic impact
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