

WOMAN CAPITAL

The value of different perspectives

By Martha Maznevski and Karsten Jonsen

Published: March 23 2006 16:40 | Last updated: March 23 2006 16:40

We use different strategies to control uncertainty. We hedge our supplies, fix our interest rates, lock customers into long-term service agreements, and hire people we know from schools and universities. We create complex organisational structures and engage in intricate budgeting and quarterly financial reporting exercises.

As uncertainty increases, however, many of these strategies become less viable. We spend so much time managing systems to control uncertainty that the systems themselves begin to collapse under their own weight. When faced with high levels of uncertainty, it is time to stop trying to control everything and to start learning how to adapt. We define adaptability as the capacity for internal change in response to external conditions. According to Ashby's Law of Requisite Variety, an organisation can adapt if its internal variety matches the variety of its environment. This simply means that a flexible system with many options is better able to cope with change.

Workforce diversity provides a renewable source of internal diversity. The more uncertainty an organisation faces, the more diversity can help it adapt to changing circumstances. But to work, diversity must be managed well and that requires certain skills and a different approach to management. This is an approach whereby diversity is accepted, acknowledged and appreciated in a working environment where people feel "safe" and encouraged to express different views.

Face uncertainty with workforce diversity

To help deal with uncertainty, an organisation needs access to diverse perspectives and assumptions about how to manage and do business. Should we focus on short-term results or medium- to long-term ones? Is it better to build stronger relationships with customers and suppliers or outsource parts of our operations to offshore companies? Should we lead by supporting people or directing them? A range of opinions on questions like these triggers the type of dialogue that leads to adaptability.

People of different nationalities, for example, often have different assumptions about the root causes of problems and they will also have different ideas of how to solve them. For example, in a multinational quality assurance team for a global chemicals manufacturer, a team of German engineers preferred to look at the whole industrial system to determine the cause of a problem, while another team of Americans looked at more immediate causes.

In the past, the teams worked separately and often in conflict with each other. But when the company recently faced serious competition in multiple markets, it knew it had to create better overall approaches to quality assurance and so it brought them together. After a difficult start, the groups learnt to understand and appreciate their different perspectives. For a new series of manufacturing facilities, they built the most effective and efficient quality assurance systems for the largest scope of situations in the company. Leveraging cultural diversity helped the company find more comprehensive and efficient ways to adapt to uncertainty.

Diversity provides adaptive capacity in two ways. First, it gives access to a broader scope of perspectives to help understand and clarify uncertainty. In a complex and ever- changing world, it is hard enough to find the right information and even tougher to understand what it all means. When most people in an organisation see things the same way, it may seem to run smoothly but there is a greater chance of missing and misinterpreting information. People with different backgrounds and training tend to be linked to different networks within and outside the organisation.

WOMAN CAPITAL

Diversity also means that employees hear different things and can test ideas and actions in a variety of ways. They also bring different filters to information – they see the same thing differently and together can build a more complete picture, whether looking at labour market issues or consumer purchases.

Second, diversity helps companies by combining perspectives in innovative ways. Diverse teams are simply more creative and innovative. In a team where members are similar, the group often arrives at a solution quickly and alignment is strong. By contrast, in a diverse team the process is more difficult, but team members end up questioning prevailing assumptions. Seemingly contradictory perspectives are compared with each other then combined, developing new approaches that are more comprehensive and thoroughly tested. This leads to better decisions.

In a number of companies, we have seen diverse teams produce results far beyond expectations. A diverse team from a manufacturing company had a target of cutting \$800m from its annual cost base, and instead found creative ways to cut \$1.6bn and invest the savings in research for a new product stream. A global account team with diverse membership increased the performance of its accounts by 85 per cent in one year, compared with an average of 30 per cent for the less diverse teams.

Diversity helps just as much at lower levels in the organisation. A multicultural back office team at a bank increased its efficiency four-fold and secured the bank's position against competitors in a brand new market. In all of these cases, the teams and workforces were able to use the different perspectives effectively to adapt to changing situations in innovative ways.

Increase diversity without chaos

Increasing diversity, however, does not automatically mean you achieve the benefit of different perspectives – just because the top management team photograph shows people who look different from each other does not mean they bring different views with them. Instead, companies must consciously create an atmosphere in which people actively exploit the different ideas they bring to the organisation. At the same time, diversity brings its own barriers to easy alignment and smooth processes. Thus, to benefit from diversity requires rethinking assumptions about management.

We compare managing diversity to laser light and white light. You align people with a laser and then let diversity shine with the white light. A laser is a beam of light in which all the photons are moving in the same direction, at the same speed and wavelength. It accomplishes a specific purpose.

A company's laser is the answer to the question: what do we not want different perspectives on? There should be a very clear definition of what performance means in the company, separating it from what people often assume it means. The laser could include the company values and direction, and often allows organisations to look beyond the typical "pool of similarity" and tap into a broader potential workforce.

At the other extreme, white light is about creating a range of ideas and perspectives and asking: what should we have diversity on? The toughest part to answering this question is separating real performance criteria from assumed ones. Many multinational companies, for example, have a policy that everyone who is to be considered for a senior management position must have both line and international experience. This is a good example of a laser: it identifies an important set of experiential criteria that are related to the judgment needed to run the company. In most companies, however, there is an unwritten corollary to this policy that potential senior managers must have this experience before they turn 40 – after that time, they are considered "too old".

The problem is that this reduces the kind of white light diversity that helps companies adapt. For example, many women in dual-career families and men from cultures outside North America and western Europe focus on their family in their late 20s and 30s, rather than a globally mobile career.

WOMAN CAPITAL

Does this make them unprepared to take on international experience afterwards? Not necessarily – by building a stable family and learning to juggle this with a career, they are often more prepared to manage the stress of an expatriate life and adapt to changes than those who do so earlier in their careers. In other words, with the unwritten rule, companies unwittingly exclude the different gender, age and cultural perspectives needed in senior management to adapt to uncertainty.

Use diversity to embrace uncertainty

Embracing diversity to adapt to uncertainty may seem counterintuitive. In fact, the most frequent response to differences is to downplay them: “Our differences are minor and unimportant, let’s focus on the areas we have in common.” But this lowest common denominator approach leads to mediocre performance in a stable environment, not high performance in an uncertain world.

Differences provide the ingredients for creativity and innovation. When they are aligned around some simple principles in a laser-like way, differences provide the spectrum for adapting to uncertainty. This requires an investment in dialogue and deep questioning of management assumptions. For companies that make this investment, embracing diversity can transform uncertainty into a competitive advantage.

AUTHOR INFORMATION

Martha Maznevski is professor of organisational behaviour and international management at IMD.

Karsten Jonsen is research associate at IMD.