Diversity Management as a Base of a Business Model

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Abstract
Purpose: A crucial element of any business is seeking competitive advantage by distinguishing itself from other market players. One way to reach this advantage is to choose conception of human resources based on the diversity principle. The purpose of this paper is to establish the characteristics of a business model based on diversity management.

Design/methodology/approach: The aim of this article was reached by an analysis of literature on human resources management, organisational diversity management and business modelling. The text includes assessments of business models concepts, and conclusions on advantages and disadvantages of a diversity management-based model. The article is theoretical in nature.

Findings: In the article it was emphasized that the main rationale for implementing diversity in market activity is to create a support for creativity, innovativeness and, as a result, better efficiency. So, the company generates profits through greater creativity. Apart from the economic results, social outcomes – such as greater job satisfaction and empathy – may be expected.
1. Introduction

An organisation, as it is known, is perceived as a separate social system, where people use available intellectual and material resources to achieve their goals (Sudoł, 2007, p. 28). Among these resources, human resources play an important role; therefore, special attention should be paid to the management of people in terms of motivation, stimulation of their creativity and innovativeness, and mutual relations (Czermiński, Grzybowski and Ficoń, 1999, p. 14). Human resources provide an area for other management activities as well, such as: time management, culture management, customer relations management, conflict management, stress management, emotion management, and finally diversity management.

Every group is heterogenic, which means that people are different from each other in terms of gender, age, background, or education (Griffin, 1998, p. 706). Naturally, if all members of a group or organisation are exactly the same, there is no diversity, but this is hardly ever the case. The concept of diversity is very complex. First of all, one has to understand, that diversity at workplace means a presence of different types of people, such as people of different races, cultures, age, experience etc. (Merriam-Webster, nd). It also means the opportunity to stand out among the competition (because the company has own approach to HR management) and the possibility of conflicts caused by the diversity, because not everybody is ready to accept the change of culture and mentality (Kidder, Lankau, Chrobot-Mason, Mollica and Friedman, 2004, pp. 77–102). In any case, companies must be ready for the diversity that manifests itself as a result of open borders and business globalisation, but also as a manifestation of people’s consciousness and their right to be ‘self’ (Ewijk, 2011, pp. 680–694). When investigating the source of
diversity, first of all one should point to migration, which was definitely the root of diversity. People have been moving around since the dawn of history, and their main motives were: trade, war, colonisation, or geographic discoveries. Migration is also observed today – people leave their home countries primarily in search of work. At present, over 400 million Europeans can travel without a passport to 26 countries within the Schengen zone (EU, nd). The current law which grants freedom of movement undoubtedly contributes to the creation of diversity as well.

An essential element of any business is seeking competitive advantage by distinguishing itself from other market players. One way to achieve this advantage is to select human resources based on the diversity criterion. The purpose of this paper is to determine the characteristics of a business model based on diversity management. This article is theoretical in nature.

The aim of this article was reached by an analysis of literature on human resources management, organisational diversity management and business modelling. Comparisons of concepts were made, and the advantages and disadvantages of a diversity management-based model were summarised.

2. **Business model – essence, rules of creation**

The term ‘business model’ has been present in the management theory for more than fifty years; it was used for the first time by Bellman, Clark, Malcolm, Craft and Ricciardi (1957) in their paper titled “On the Construction of Multi-Stage, Multi-Person Business Game”. At that time, it did not refer to the way of doing business, but to creating games for training purposes, where the emphasis was placed on creating a business formula. Over the next years, the term occurred occasionally, while in the early 1990s it began to stir broader interest (Figure 1).

A ‘business model’ is generally understood as a type of business from the perspective of a recipient who receives a certain value – which may be defined as B2B, B2C or B2E (Menascé and Virgilio, 2000, p. 221). As presented in Figure 1, at the end of the 20th century, issues related to the creation and operation of business models began to appear in the literature much more often, which was probably due to the growing role of the Internet and its influence on the functioning of market players. The Internet has changed the way businesses operate,
Figure 1. Frequency of appearance of the term ‘business model’ in English literature
and the concept of business model was mostly applied to those businesses which used modern technologies. Despite many publications, it is difficult to precisely define this term. However, it is important to note that most definitions focus on creating values and flows, as shown in the following examples.

(1) A business model is a company’s plan for how it will generate revenues and make a profit. It explains what products or services the business plans to manufacture and market, and how it plans to do so, including what expenses it will incur (Investopedia, nd).

(2) The essence of a business model is in defining the manner by which the enterprise delivers value to customers, entices customers to pay for value and converts those payments to profit. In essence, a business model embodies nothing less than the organisational and financial ‘architecture’ of a business (Teece, 2010, pp. 172–194).

(3) A good business model answers Peter Drucker’s age-old questions, “Who is the customer? And what does the customer value?” It also answers the fundamental questions every manager must ask: How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost? (Ovans, 2015).

It may be said that the business model is understood as the value offered to a group (or groups) of customers, combined with the definition of core resources, processes (actions), as well as external relationships which give the entity a competitive advantage in a given field. As a result, several key elements of each business model may be identified: enterprise position in the supply chain, value (including products) offered to customers, resources/competencies, sources of revenue, costs, partnerships, and competitive strategies (Bis, 2013, p. 56). The business model may be viewed on one hand as a form of market activity while on the other, as a tool which helps the business grow and develop.

Depending on the aspects taken into account when constructing the model, there are several types of model composition. Lecocq and Demil (2010) mention three main elements: resources and competencies, organisational structure, and value proposition offered to customers in the form of products and/or services. In turn, Johnson, Christensen and Kagermann (2008) propose four aspects: customer value proposition,
profit formula, key resources, and key processes. The proposed elements should be understood as follows (Duczkowska-Piasecka, Poniatowska-Jaksch and Duczkowska-Małysz, 2013, p. 142):

(1) proposed customer value:
- defining the target client,
- determining the content of actions to be taken in order to solve client’s problem or to meet their most important need,
- preparing an offer which meets customer needs or solves their problems;

(2) profit formula:
- an income model (possible income as a multiplication of price and quantity),
- cost structure – where and how to locate costs of key resources, direct costs, indirect costs, how to use economies of scale,
- margin model – how to achieve the desired return on each transaction,
- resource turnover rate – how quickly the resources must be used in order to reach the target level of the offer;

(3) key resources, i.e. needed to reach the customer, deliver value to them, and achieve profit:
- staff,
- technology,
- technical equipment,
- data,
- distribution channels,
- partnerships,
- brand;

(4) key processes – along with rules, guidelines, and standards which make an enterprise profitable by delivering value to the customer:
- processes of product development and manufacturing, as well as procurement, marketing, training, investment processes,
- measures and indicators: return on investment, crediting period, delivery periods.

Importantly, all business models mention resources, which naturally include human resources. There seems to be a consensus that human resources are an essential part of every business model. However, a question arises: “How should these resources be shaped?”, and this issue will be discussed in the next part of the paper.
3. Human resources management concepts

Human resources management concepts (or models) provide an analytical framework for identifying important factors that shape human resources. Fombrun, Harvard, Guest and Warwick models are the most popularly mentioned concepts.

The first model of human resources management was the concept developed by Fombrun, Tichy and Devanna (1984), which included four functions and their interrelationships, namely: selection, evaluation, development, and awards. That approach was criticized because it did not take into account any external factors, so new models were developed. One of the best-known concepts is the Harvard model, which assumes that effective human resources management should include stakeholders, interests, situational factors, human resources policies and outcomes, long-term consequences, and feedback. The essence of this concept is the involvement of many stakeholders. Another model was developed in 1997 by David Guest, who stated that when managing human resources, the manager must use certain tools to achieve the desired results. That model assumed that management was based on HR strategy, HR practices, results of resources and behavioural outcomes, performance results and financial consequences. In other words, financial results depended on the effects produced by the staff, which in turn was the result of their commitment and focus on action. What is more, employees’ actions were related to commitment, quality and flexibility, which were all influenced by HR practices. The Harvard model emphasizes that – from the perspective of human resource management – the most important actions are those that affect the organisation vs. employee relationship. Effective management is only possible when the manager is involved in the development of the employee, while the employees themselves are seen as exceptional resources, requiring a different approach from the rest of the organisation’s resources. Additionally, the social and cultural context of management plays an important role (Natale and Fenton, 1997). The already mentioned Wawrick model is an extension of the Harvard model, as it is based on the concept of business strategy, while Harvard model focuses on the situational factors, not strategic ones. What is more, Wawrick model divides important aspects of human resource management into: external (such as culture) and internal (business type or strategy).
Regardless of the model, it is obvious that human resources need to be managed. Both the Harvard and Wawrick models make it clear that the specifics of human resources need to be taken into account and managed in a different way than any other resources.

4. Diversity and human resources

With the globalisation of economic processes and social migration, traditional human resources management is not enough; it seems that it is time for diversity management. Undoubtedly, in the economic sciences, the term ‘diversity’ has been referred to mostly in the sense of ‘biodiversity’. However, more and more often it is discussed in terms of organisations and their workforce, which became the focus of research as early as in the 1960s (Rakowska, 2014, p. 352). Heterogeneity at the enterprise level has not been given a single, universal definition yet, as its meaning depends on cultural, economic or social conditions. According to Jamka, “diversity can encompass every, i.e. visible, innate and acquired employee characteristic which determines similarities and differences between employees” (Jamka, 2011, p. 229). Kossek, Lobel and Brown (2006) define diversity in a slightly broader way: “diversity of the workforce includes a range of factors which differentiate employees, such as age, sex, marital status, social status, disability, sexual orientation, religion, personality, moral values, culture (beliefs, values, perception of the world)”. It should be noted, however, that the assessment of organisation diversity may also be related to its objectives, structure, strategy, culture and resources; what is more, the scope of the concept depends on the mission of an enterprise. From an employee perspective, diversity may be understood as:

- respect for differences in the workplace (except for behaviours that are generally unacceptable);
- a system promoting coexistence and co-operation of different people in the company, with respect for human dignity and labour standards;
- ‘seeing a man in an employee’ – with their wealth of experience;
Based on this employee-focused definition of diversity, a number of elements may be identified, namely: primary identity (gender, age, race, nationality, sexual orientation, ethnicity, [dis]ability); secondary identity (place of residence, level of education, family status, etc.); as well as the organisational identity (length of service in a company, job position, etc.). According to Roberson and Stevens (2006), differences may be observable and unobservable. According to the authors, observable features are those that are covered by anti-discrimination laws in many developed countries (for example: gender, age, race, ethnic origin or physical disability). The non-observable differences constitute the second dimension of diversity, which refers to the sense of identity of persons in relation to other groups of employees. This includes, for example, education, seniority in the organisation, professional experience, as well as life attitudes or lifestyle preferences.

Based on the aforementioned classification, Wziątek-Staśko (2012, pp. 14–25) attempted to create a model of leading diversity determinants in contemporary organisations, and proposed yet another division of diversity aspects: into ‘predictable’ and ‘unpredictable’. According to the author, qualities such as age, sex, language, education, or disability may be easily identified and therefore belong to the ‘predictable’ category. Verifying passions, sexual orientation, religious affiliation or values is not that easy, which makes them ‘unpredictable’.

5. Diversity as a base of business model

Creating an organisational culture based on diversity involves a series of complex actions, which an enterprise should take as a part of a company strategy. The implementation of diversity management may be divided into six stages: creating a diversity project team, developing scenarios for the future, vision and strategy, conducting diversity audits, corporate goals, and implementing diversity management (Kubica, 2014, pp. 200–205). And because this approach covers all of possible aspects of business in a detailed way, this will be the basis for further consideration (Kidder et al. 2004, pp. 77–102; Holladay, Day, Anderson and Welsh-Skiffington, 2010, pp. 1–20).
Diversity project team: Most organisations are monocultural, which poses a risk that the environmental analysis may be conducted in a conservative manner. In order to broaden the perspectives, the management may set up a Diversity Project Team which will consist of people of different cultural backgrounds. The team should have appropriate skills and clearly defined tasks.

Scenarios for the future: Diversity Project Team, together with the company management, key stakeholders and representatives of the various departments, should implement the so-called ‘Scenario-building workshop’. Three different scenarios for what the world will look like in 10–20 years (what its external and internal business shape will be) should be developed, with an emphasis on diversity. Finally, one scenario should be selected as an actionable base for the company. It is good to have this exercise done with external help, such as a moderator.

Vision and strategy: Based on the selected scenario, the vision and mission of the company should be formulated. This stage should engage the company management and key stakeholders. It is important to analyse the company’s strengths and weaknesses, as well as the opportunities and threats from this scenario. Based on the findings, the vision and mission of the company should be developed. The next step is to formulate a strategy which defines how to implement diversity management. When the above elements have been formulated, the company should return to the present situation and determine its status quo. This requires a diversity audit.

Diversity audit: Diversity audit is a tool for assessing company’s current situation. During the audit, one should ask the following questions:

- What is the attitude of the management and other employees towards diversity?
- What is the organisational culture of the company?
- To what extent do the existing structures and processes favour employee involvement in the company activities?

The audit is conducted through interviews with all stakeholder groups and may be accompanied by a standardised questionnaire on attitude to diversity. The audit results should be used by the Diversity Project Team to present a broader audience with main suggestions related to the status quo. They should be the starting point for planning actions for change, i.e. adopting company’s approach to diversity management.
Company goals: Company objectives related to the implementation of diversity management should be determined by Board Members and the Diversity Project Team. They must refer to the developed strategy and guarantee participation of relevant departments and other structural units. They should all be obliged to accept these goals and to set clear criteria for assessing their achievement.

Implementation of diversity management: At this stage, the Diversity Project Team plays a key role, as it oversees, controls and accompanies all activities. The team also functions as a ‘communication centre’. The team may be responsible e.g. for: team building trainings which include diversity in all company’s departments, events, meetings with a large number of employees to provide information on diversity management, leadership development programs for diversity management amongst lower-level management, and change of tools for assessing the performance of managers in order to enhance diversity management and to allow for the evaluation of its performance. Diversity management is a multi-faceted process leading to the creation of a work environment which benefits different aspects of a business.

If we take into account a business model built of 4 elements: proposed customer value, profit formula, key resources, and key processes, it turns out that diverse staff will have an impact on each of these elements. When preparing an offer or solving customer’s problem, appropriate (diverse) staff is the key. This involves sales dynamics and financial results; hence diversity has an impact on profitability. Diverse staff is also important from the perspective of key resources. First of all, employees are resources themselves; secondly, they use the right technologies and equipment, which means they use other resources which will deliver customer value. Diverse employees also serve as executors of all procedures relevant to the business.

6. Benefits of incorporating diversity into a business model

The main reason for implementing diversity in market activity is to create a framework for creativity, innovativeness and, as a result, better efficiency. Apart from the economic results, social
effects – such as greater job satisfaction and empathy – may be expected. Diverse employees can unleash an untapped potential in themselves and others, and thus better meet their own needs and expectations, as well as expectations of the employer. Respect and understanding for others and using diverse talents and skills of the staff helps optimise the work of employees (and thus it benefits the company), while on the other hand it allows for full use of the employee’s potential. Naturally, implementation of diversity may encounter resistance of employees who are not positive about change, so it is important to be aware that diversity management is a long-term process.

As mentioned above, diversity may have a positive impact on the competitiveness of an entity. Having a diverse workforce who are able to adapt to changing environments and respond better to emerging challenges, may build a stronger market position with a competitive advantage. A diverse team of employees is better suited to the needs of diverse clients, as they will understand them better. A homogeneous environment poses a risk of using old patterns and methodologies, which may inhibit creativity. Hence, diversity is important, as it initiates and integrates a variety of ideas, perspectives and employee experience, which may lead to groundbreaking discoveries and increase company’s chances of success. A more open environment attracts better and more creative people who hope to be able to implement their ideas in that environment.

Another consequence of implementing diversity in the company may be meeting the requirements of corporate social responsibility. A diversity-based business entity better complies with the anti-discrimination laws and therefore builds its reputation. It also means building an image of a modern company and understanding the problems of the modern world. What is more, such a reputation creates an image of a good employer which attracts the best employees, while those who are already employed, will not want to leave to work for competition.

It should be borne in mind that diversity management may contribute to lower operating costs, as the recruitment and selection of diverse workforce minimizes the risk of employing the wrong person, thereby shortening the time needed to reach the intended staffing target. Diverse employees also bring a broader market perspective and extensive contacts that may be useful for subsequent recruitment. Apart from the already mentioned effects of the diversity-based business model, one may also add more adaptability.
Naturally, introducing changes in human resources management may be problematic, especially if one of the underestimated groups suddenly becomes a favoured group. Such situations should be avoided, and this should be consistently included in the diversity implementation strategy. However, current employees may have a weaker sense of security and may feel stressed by the prospect of change. It is therefore important for the rules of diversity implementation to be widely known in the organisation (i.e. used and presented in internal communication). Moreover, the implementation of new ideas, such as diversity, depends largely on the leaders of the organisation and their positive attitudes (Karaszewski and Lis, 2014, pp. 53–70). Without this introduction of diversity will be impossible.

It must be added as well that in the pursuit of being ‘trendy’, the organisation may lose sight of the objective it strives to achieve. Rather than utilising diversity management as a tool for improving HR policy, it may become merely a strategy to improve company’s PR, which, in the long term, will bring negative effects.

7. Conclusions

People have been moving around since the dawn of history, and as a consequence, every community is heterogenic, which means that people are different from each other not only in terms of gender or age, but also in terms of background, religion or education. This statement applies not only to countries, but also to smaller communities, such as employees in a company.

As it was mentioned, a business model is a company’s plan for how it will create revenues and make a profit. The plan for business can accommodate a variety of attitudes, including human resources. More specifically, creation of human resources through diversity can be the base of a business model.

The main rationale for implementing diversity in market activity is to create a support for creativity, innovativeness and, as a result, better efficiency. So, the company generates profits through greater creativity. Apart from the economic results, social outcomes – such as better job satisfaction and empathy – may be expected. This means that because of diversity, employees feel good about the company and are more engaged. And finally, a consequence of implementing diversity
in the company may be meeting the requirements of corporate social responsibility. Thanks to this the company will have a better image in the surrounding (market).

Naturally, introducing changes in human resources management may be challenging. And without doubts, if it is not well planned, can cause many difficulties and conflicts. For example, present employees may have a weaker sense of security and may feel stressed by the prospect of revolution, or a part of the workers (often, as some studies show, white men) will be opposed to any change towards diversity (Lauring and Selmer, 2013, pp. 631–646). So, this should be predicted and consistently included in the diversity implementation strategy.

References


