Diversity in outsourcing

By Morten Kamp Andersen (Aspector) & Finn Vestergaard (ISS Denmark A/S)

The global workforce is currently undergoing significant and rapid demographic changes. This is especially true in western countries but is becoming increasingly common in many eastern countries. While the primary changes differ from country to country, most western countries are facing the impact of an aging workforce, immigration and in some countries, women are entering the workforce for the first time in significant numbers.

aspector

ISS White Paper
September 2010

ISS

Table of Contents

Executive Summary

The global workforce is experiencing significant demographic changes, and all organisations must develop and implement a diversity management strategy to attract and retain talent and compete in the global marketplace.

Diversity is a broad term but refers mostly to race, gender, age, handicap, religion and sexual orientation. Diversity management is the strategy that companies adopt to promote the perception and implementation of diversity in the organisation. Essentially, it involves the culture of the organisation. The effort and time required to implement a diversity strategy is frequently underestimated, and therefore many diversity strategies fail and show poor results.

The business case for diversity is strong and is based on research with objective and measurable data and results. The benefits of diversity are primarily a) improved performance, b) cost reduction and c) various 'soft' outcomes such as higher innovation and enhanced job satisfaction. Research generally concludes that companies that create a diverse workplace through best practice diversity management processes significantly outperform on all fronts including – and especially – financial parameters.

Five conclusions relate specifically to diversity in outsourcing: Firstly, a diverse service provider is more likely to match the culture of the client organisation and is more able to include and integrate the new employees successfully during the transition. Secondly, selecting a service provider with a diverse workforce minimises risks related to service delivery due to lower employee turnover, reduces absenteeism and provides better access to talent. Thirdly, selecting a diverse service provider will positively affect the client's CSR accounts. Fourthly, the supervisor is crucial for the successful implementation of diversity management strategies in outsourcing. Finally, diversity management initiatives are often scrapped during the transition period, often erasing all previous benefits.

Introduction

The workforce is currently undergoing significant and rapid demographic changes. This is especially true in western countries but is becoming increasingly common in many eastern countries. While the primary changes differ from country to country, most western countries are facing the impact of an aging workforce, immigration and in some countries, women are entering the workforce for the first time in significant numbers.

At the same time, globalisation has brought a diverse set of customers to companies that previously dealt with a homogeneous customer base. This has led many companies to question whether their workforce is the most appropriate to deal with and understand this diverse set of customers.

Another diversity driver is the need to innovate and maintain a flexible and vibrant culture. It has been recognised that in many companies numerous attempts to adapt to new and changing market environments or change strategy have failed because the workforce composition is too similar, leading to phenomena such as groupthink.

Some companies approach doing business in a particular country by ensuring the workforce reflects the country's population. Companies such as Shell and Proctor & Gamble have adopted the concept of "license to work" when working in other countries. This means that the workforce is local and diverse.
This White Paper will seek to answer two questions: 1) What is diversity and how does it affect an organisation's bottom line? 2) What specific diversity issues relate to outsourcing?

Diversity

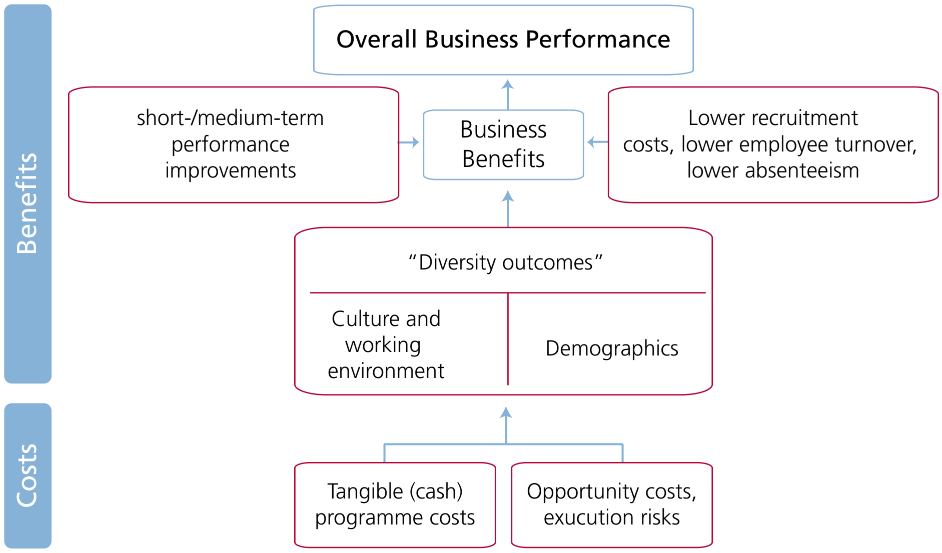
What is diversity?
Diversity generally refers to all the differences among people, such as race, colour, gender, religion, age, sexual orientation, political affiliation, etc. Diversity levels can be measured in terms of two sets of dimensions. The first set covers those we have by nature and that cannot be changed. These dimensions include race, sex, age, where we are born, handicaps, sexual orientation, etc. The second set of dimensions covers those that originate from culture and experiences. These include education, religion, language, personality, values, etc. In practice however, often race, gender and age receive the most attention.

Diversity management is a strategy to promote the perception and implementation of diversity in organisations. Diversity management focuses on managing the differences in a company's workforce, capitalising on the benefits of diversity and minimising workplace challenges. Diversity management is a corporate-wide strategy that often resides with HR, which has the task of devising and implementing policies that promote diversity.

However, diversity management involves much more than 'just' a set of HR policies. At its core, diversity management is about the culture of the organisation and the source of its strategic thinking. Diversity management is therefore an important issue for the top management of any organisation.

Benefits of diversity
The business case for diversity is starting to emerge accompanied by the evidence to support it. The term 'business case' is used to describe the evidence needed to consider investments in tangible and intangible assets.

Figure 1: Business case for diversity management



Source: European Commission (2003), Aspector

Creating and implementing a company-wide diversity policy involves costs. These costs can be divided into direct and indirect costs, hidden and open costs – all of which should be included. Direct costs are often tangible cash costs that include time spent, production of materials, consultant fees, workshops, communication, enforcement and evaluation of policies. The indirect costs are more subtle but equally important and include execution risks and opportunity costs.

The benefits of diversity for an organisation can be divided into three categories;

a. **Improved performance** due to a better talent pool and improved skill base as a result of an enhanced recruitment process.

b. **Cost reduction** from lower recruitment costs, lower employee turnover and fewer absenteeism days.

c. **Various 'soft' outcomes** such as increased learning and innovation, the avoidance of groupthink, higher job satisfaction and a generally better work environment.

Many types of evidence suggest that investment in diversity creates a positive return: testimonials from businesses; case studies; academic research studies; and company surveys. Previously, the evidence to support the business case was based primarily on soft data, but today more and more hard evidence concludes that diversity adds value.

Examples include:

- A study among 700 of the US Fortune 1000 companies showed a high correlation between the number of female top management members and (financial) performance (Krishnan & Park, 2005).
- A US study found that the average annualised return for the 100 companies that rated highest in diversity management was 18.3% compared with 7.9% for the 100 lowest Fortune 1000 companies (Bagshaw, 2005).
- Several studies have documented that in general minority groups have lower absenteeism and lower employee turnover (Morrison, 1996)
- A survey by the Society for Human Resource Management (SHRM) and Fortune magazine reported that diversity brings several benefits to corporate bottom lines. It found that 79% felt diversity improved the culture of the company, 77% believed recruitment improved and 52% claimed that client relations improved as a result of diversity. The survey also identified other benefits such as better competitive advantage (91%), fewer interpersonal conflicts (58%) and, finally, increased productivity (52%)(HRFocus, 2001)

Overall, it can be concluded that companies that create a diverse workplace through best practice diversity management processes significantly outperform in financial and performance terms.

How to implement diversity

Diversity strategies are difficult to implement and once in place often do not deliver the benefits they promise. Why is that the case? One reason is the attitude of the company. Diversity programmes are likely to fail if they are set up because it is perceived to be the right thing to do without reflecting a true commitment to creating a work environment that fosters the best workforce. Many companies also underestimate the time and effort required to implement such a strategy. They see it as 'just another stand-alone project' when in fact it must be integrated into the organisation's strategy and all HR activities. Large companies find implementing diversity strategies especially difficult, as they fail to address the more hard-wired aspects such as management style, hierarchy and culture.

Best practice experience suggests that at least seven steps are crucial when implementing a successful and lasting diversity strategy. These are listed briefly below:

1. **Involvement of the entire top management team**. The senior leadership must be involved and visible throughout. Nice speeches have little impact alone. The CEO and other senior leaders should be visible at workshops, and during training programmes and Q&A sessions on diversity. An important first step in 'showing the way' is to implement diversity at top management level.
2. **The organisational structure** should support the diversity effort. This may include creating a diversity office and appointing a Chief Diversity Officer (CDO). In the US, the number of Fortune 500 companies with a CDO has increased from about 20% in 2005 to about 35% in 2009. If the organisational structure supports the diversity effort, it is more likely to be taken seriously throughout the organisation.
3. **Communicate, communicate and communicate** about the diversity programme and its importance to the company. The communication must be plentiful and include a variety of channels such as newsletters, intranet, seminars, direct memos from the CEO, e-mails, meetings, posters, etc.
4. **Create a formal project plan to support the diversity strategy with clear measurable objectives** that is integrated in the rest of the company's strategic objectives and operations. The plan must be planned well in advance of the initial initiatives. Research shows that if this is not carefully planned in advance using tested and robust processes such as the one outlined above, critical elements will not receive the proper attention or will be omitted altogether. The project plan should take into consideration the length of time taken to cultivate a mindset that acknowledges that diversity is part of the overall strategy. The project should include a performance evaluation programme that functions as an accountability mechanism.

5. **Change all HR initiatives to include diversity.**
   - **Recruitment** is a key HR process that must be correct. Research show that an interviewer will most often offer a job to a person who is similar, unless this natural bias is not overcome through priming and training. A company should consider how it can reach a wider talent pool such as
     - Communicating why you are targeting diverse employees,
     - Encouraging employee referrals,
     - Crewarding greater diversity in recruiting
     - Establishing long-term relationship with minority organisations
     - Advertising in minority magazines
     - Interviewing potential candidates for diversity competency.
   - Pay special attention to **promoting minority employees** and ensure that those who do become managers display diversity competency.
   - **Retention programmes should specifically target minority groups**. For example, mentoring and support programmes should include participants from minority groups. Other policies may include reimbursement of educational costs, financial support for diversity initiatives, etc.
   - **Development** for minorities should include special preparation programmes for minorities in areas such as language, culture and technical training.
6. **Use social networks** to help minorities build support networks and professional connections.
7. **Involve and train line managers** in issues such as willingness and ability to listen, discouraging stereotyping, understanding that their behaviour can mean missed opportunities for performance and discomfort for the people involved.

Diversity in outsourcing

Diversity is an important topic in outsourcing and has been for some years. This has previously been true mainly for service providers who employ a (very) diverse set of employees. FM service providers – particularly in areas such as cleaning services – are largely already diverse, and for many years, IT outsourcing has used talents from many different countries to deliver its services. Today, client organisations are also more diverse, and the topic is therefore now equally relevant for both parties.

This paper identifies five important diversity topics in outsourcing, which will be described in this chapter.

Cultural fit between customers and service providers
Companies are increasingly assessing the cultural fit between their own organisation and potential service providers in outsourcing projects. A survey among the largest IT outsourcing customers in the US showed that this issue ranks just below price in terms of importance when selecting a service provider. Gartner, a leading analyst company, predicts that 30% of all outsourcing contracts will end in failure by 2012 and identifies cultural misfit is a major reason for this. The cultural fit between the company and its service providers is therefore important.

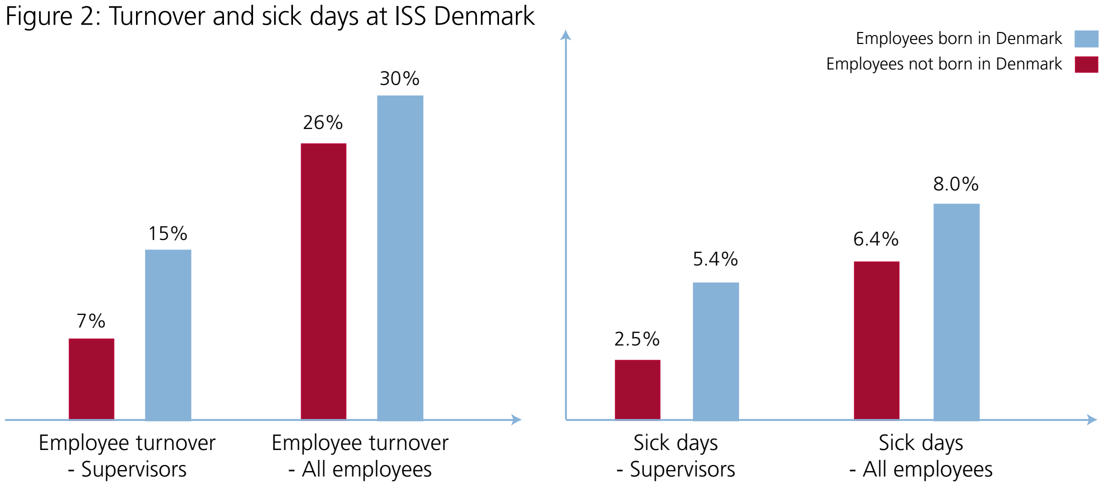
It appeals to common sense that the more the two organisations are culturally aligned, the greater the chance of a successful outsourcing relationship. As culture is deeply rooted within the people in the organisations, the people from the two organisations must be cultural aligned in order to effectively and efficiently work well together. Research shows that in terms of outsourcing, people are more likely to share values, culture and to fit with the other organisation if they match each other on dimensions such as colour, handicap and race. In other words, a diverse service provider is more likely to match the culture of the client organisation than a non-diverse organisation.

Another important dimension of cultural fit relates to the transition of employees. In most FM outsourcing contracts, employees transfer to the service provider. This transition is when an outsourcing contract is at one of its most vulnerable phases. Several studies show a direct correlation between integration satisfaction and the long term success of the contract. The more diverse the service provider, the more able it is to include and integrate new employees successfully.

Stability of contract delivery
Selecting a service provider with a diverse workforce minimises risks related to service delivery and thereby overall contract risk. This is often an overlooked but significant benefit of choosing a service provider with a diverse workforce.

Risks related to delivery are lower for three reasons. Firstly, a diverse workforce has lower employee turnover and lower absenteeism. This means fewer disruptions to day-to-day service and less risk of failure due to lack of coverage when employees are away. This is illustrated in Figure 2 below, which shows employee turnover and the number of sick days for ISS Denmark employees who are sick. Two groups are compared; those born in Denmark and those born outside Denmark. The difference between the two groups is large and statistically significant: employee turnover and number of sick days are lower for employees born outside Denmark. Interestingly, the difference between the two groups is significantly greater at supervisory and managerial level compared with overall employee level. This shows that the benefits of diversity regarding this measure are greater the higher up in the organisation the diversity strategy is implemented.

Figure 2: Turnover and sick days at ISS Denmark



Source: ISS Denmark A/S

The second reason why diversity leads to greater contract stability is better access to talent and shorter time to fill empty positions. One of the most important benefits of diversity is recruitment. It allows a company to tap into a greater pool of talent, recruitment costs are lower, filling available job positions is quicker and the overall level of talent is higher. These advantages are all of great benefit to contract stability, as new positions are more likely to be filled with talented and suitable staff if the service provider employs a diverse workforce.

The third reason why the execution of the contract is better with a diverse outsourcing provider is due to better staff retention during the transition period. It has been well documented that a successful transition leads to a successful contract and, as mentioned above, the more diverse the service provider, the more it can include and integrate the new employees successfully.

Improved Corporate Social Responsibility

Corporate Social Responsibility (CSR) is gaining worldwide acceptance, and today most organisations manage their organisation to some degree according to this concept and philosophy. CSR is broadly defined as voluntary initiatives organisations implement that produce results with respect to ethical values, people, communities and the environment.

CSR involves more than simply acting in a correct manner – it is also about improving the bottom line. The business case for CSR has developed over the last ten years and much evidence has been collected to support it. Despite the intangible nature of CSR, in recent years it has become a hard business metric through initiatives such as the 'Triple Bottom Line', which objectively captures and measures an organisation's wider imprint.

A company's choice of service provider in an outsourcing situation will not only affect the service quality of its FM delivery but also its overall CSR accounts. Although CSR accounts have yet to be standardised within and across countries, many customers still include the outsourced FM employees in their CRS accounts for true transparency even though these employees no longer work for the company. The choice of FM provider may therefore be significant in terms of overall CSR accounts – especially if such services comprise a relatively significant proportion of the overall company.

Contract management issues

Normally, initiatives and knowledge on diversity management reside with the HR or diversity department, which launches, supports, monitors and sometimes implements diversity management initiatives. With outsourcing, the situation is somewhat different. FM employees are employed by the service provider but are often located at a client's site and are therefore out of 'reach' of the HR or diversity department on a day-to-day basis. At the same time, the client has no obligation or option to deal with diversity issues that may arise in the FM department once it has been outsourced.

This means that supervisors are crucial for the successful implementation of diversity management strategies in outsourcing – more so than in other industries. These individuals must deal with inter-departmental conflicts and issues as well as issues that arise with the client. The supervisors must be trained specifically to deal with diversity issues at dedicated diversity courses.

Integration challenges

A separate part of any best practice transition management programme is integration – the art of bringing two separate organisations together . As highlighted above, the more culturally aligned the two organisations, the better the integration programme.

Research shows that a successful transition of employees from the client to the service provider takes about 24 months – 12 months before the official handover and 12 months after. A recurring problem is that often the client does not take an active interest in the outsourced employees in the period up to the official handover, which leaves the employees dissatisfied. The same is true for diversity issues. Diversity management initiatives are often scrapped during the transition period, erasing many or all of the benefits.

Conclusion

Today, significant changes in the demographics of the global workforce make diversity management necessary for every organisation in order to attract and retain talent and to compete in the global marketplace.

Diversity is broadly defined as meaning all differences among people although in practice it often refers primarily to race, gender, age, handicap, religion and sexual orientation. Diversity management is the strategy that companies adopt to promote the perception and implementation of diversity in their organisation. Diversity management is more than 'just' a set of HR policies. At its core, it is about the culture of the organisation and the source of its strategic thinking.

The business case for diversity is strong and is based on research with objective and measurable data and results. Overall, it can be concluded that companies that create a diverse workplace through best practice diversity management processes significantly outperform on all fronts, including financial parameters. Diversity benefits arise from:

a. **Improved performance** due to a better talent pool and improved skill base as a result of a better recruitment process.
b. **Cost reduction** from lower recruitment costs, higher employee retention, lower absenteeism, and fewer complaints and litigation.
c. **Various diversity outcomes** such as increased learning and innovation, the avoidance of groupthink, higher job satisfaction and a generally better work environment.

Diversity strategies are difficult to implement and often fail to deliver the promised results. The main reason is that the effort and time required to implement such a strategy are often underestimated. Successful implementation requires involvement of top management, plentiful communication, the creation of a diversity office, a formal project plan to support the diversity strategy with clear and measurable objectives, reformulation of HR policies and training of middle managers.

Diversity is an important outsourcing issue for both the client and service provider. This paper has identified five issues specifically related to outsourcing that must be considered by both parties.

1. The cultural fit between the service provider and the client is important for the success of the contract. A diverse service provider is more likely to match the culture of the client organisation and is more able to include and integrate the new employees successfully.
2. Selecting a service provider with a diverse workforce minimises risks related to service delivery and thereby overall contract risk. This is because a diverse service provider has lower employee turnover, lower absenteeism, higher retention of staff during transition and better access to talent.
3. Selecting a diverse service provider will positively affect the client's CSR accounts.
4. Supervisors are crucial for the successful implementation of diversity management strategies in outsourcing – more so than in other industries.
5. Diversity management initiatives are often scrapped during the transition period, erasing many or all of the benefits.

References

Andersen, M. & Ankerstjerne, P. (2010). HR issues to be considered when outsourcing services. ISS & Aspector White Paper

Andersen, M. & Ankerstjerne, P. (2010). Successful Transition in Outsourcing. ISS & Aspector White Paper

Bagshaw, M. (2005) Is diversity diversive? A positive training approach. I: Emerald Insight Staff. Managing Diversity. Emerald Group Publishing Limited

Elmuti, D. & Kathawala, K. (2000) The effects of global outsourcing strategies on participants' attitudes and organizational effectiveness. International Journal of Manpower, Vol. 21 No. 2, pp. 112-128.

Emerald Insight Staff (Contributor) (2005) Managing Diversity. Emerald Group Publishing Limited

European Commission (2003).The costs and benefits of diversity. European Commission

Gillert, A. & Chuzischvili, G (2005). Dealing with diversity: a matter of beliefs. I: Emerald Insight Staff. Managing Diversity. Emerald Group Publishing Limited

HR Focus (2001) Link Diversity to Business Goals for Best Result. HR Focus, January 2001

Jefferson, M. P. (2007) Managing Diversity in Corporate America – An Exploratory Analysis. Boulder Incorporated

Jiang B., & Qureshi, A. (2005) Research on outsourcing results: current literature and future opportunities. Management Decision, Vol. 44 No. 1, pp. 44-55

Krishnan, H.A. & Park, D. (2005) A few good women – on top management teams. Journal of Business Research, 58, 12, pp. 1.712 - 1.720

Marquis, J. P., Lim, N. & Scott, L. M. (2007). Managing Diversity in Corporate America: An Exploratory Analysis. Rand Corporation

Morrison, A. (1996) The New Leadership Diversity in America, San Francisco: Jossey-Bass

Tipper, J. (2005). How to increase diversity through your recruitment practices. I: Emerald Insight Staff. Managing Diversity. Emerald Group Publishing Limited

Reichenberg, N. E. (2001) Best Practices in Diversity Management. United Nations

Pollitt, D (2006). Diversity in the Workforce. Emerald Group Publishing Limited

Aspector A/S

Aspector is an HR consultancy company. We offer services within HR strategy, organisational culture, change management and HR value impact analysis. Our aim is to enable our customers to meet strategic goals in a sustainable and profitable way by aligning HR activities with their business strategy.

Aspector is based in Aarhus, Denmark, and helps clients across the world. We combine the hardcore disciplines of strategy and finance with the soft areas of psychology and human relations. This combination provides the best platform for effective HR management. We believe that all organisations have unique employees in unique situations, and our methodology, approach and tools are always tailored to each special context.

For more information on Aspector, please visit http://www.aspector.dk

ISS A/S

The ISS Group is one of the world's leading facility services companies, providing integrated service solutions based on the core business areas of cleaning, catering, property, security and support services. The ISS Group generated revenue of more than EUR 9 billion in 2009 and employs more than 500,000 people in more than 50 countries across Europe, Asia, North America, Latin America and the Pacific region.

Every day, ISS employees create value by working as integrated members of our clients' organisations. A key part of the ISS HR strategy is therefore to develop capable employees in all functions. Team spirit and self-governance are encouraged, as is voluntary participation in additional training and multidisciplinary workflows. Besides developing its employees, ISS ensures compliance with health, safety and environment (HSE) regulations. We demonstrate our social and ethical commitment through the ISS Code of Conduct, through our membership of the UN Global Compact and by honouring the principles stated in the Union Network International (UNI) agreement.

For more information on the ISS Group, visit www.issworld.com