

Strategic Diversity to Increase Human Capital in Public and Nonprofit Organizations

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Public and nonprofit organizations are facing increasing pressure to diversify both paid staff and volunteers. This pressure comes from the funding community, including prominent foundations and state and federal government, as well as private donors. It also comes from the changing demographics of the American workforce. As of the 2000 census, “minorities” have become the majority population in six of the eight largest metropolitan areas in the United States (SHRM, 2005). The so-called “demographic imperative” means that a growing percentage of the qualified workforce are minorities so it is crucial for organizations in all sectors to develop their capacity to attract, recruit and retain minority employees.

Years of research and practice have shown that it is not sufficient to hire minority workers to achieve integrated, efficient organizations. Many organizations have diversity training programs, but recent studies have questioned their effectiveness. Unfortunately, the failure to successfully integrate diverse workforces has negative implications for organizational performance. This is most publicly expressed in legal actions, such as recent discrimination suits against Coca-Cola, Wal-Mart, Xerox, and many other prominent corporations, some of which have received awards for their diversity efforts.

While these issues are problematic for Fortune 500 companies, they are even more damaging for public and nonprofit organizations already straining under the weight of increased demand for services and decreased funding. Both the public and nonprofit sectors have earned reputations for under-investing in workforce recruitment, training and retention. Now, as the Baby Boomers are beginning to retire, this neglect is manifesting itself in a looming human capital shortage.

This paper will attempt to formulate a means to combat the future workforce shortage in the public and nonprofit sectors by combining current knowledge of diversity management with human capital development. The goals of both of these areas have been to increase worker commitment, productivity, and efficiency to ensure organizational success. It is my hypothesis that the application of both may have a multiplier effect, which will allow organizations to achieve high levels of innovation, integration, and mission advancement.

Business Case for Diversity

The traditional business case for diversity argues that “appropriate management of a diverse workforce is critical for organizations that seek to improve... their competitive advantage (SHRM, 2005).” This argument is derived in part from the “demographic imperative,” which says that demographic changes will inevitably continue to change the composition of the workforce (Ivancevich & Gilbert, 1999). Data on the federal workforce supports this imperative, showing that gender composition moved from 57% male, 43% female in 1990 to 55% male, 45% female in 2000. During the same timeframe, the workforce moved from 73% white, 27% minority to 70% white, 30% minority (Soni, 2004). Therefore, managers have no choice but to work toward integrating diverse employees because they will be an increasing part of the workforce.

However, the argument goes on to suggest that a diverse workforce will help organizations better accomplish their missions (or earn more revenue, in the for-profit sector). This results because when employees from different backgrounds contribute ideas and solutions, teams will have more creativity to devise better products and programs. In addition, diverse employees will attract diverse customers and better serve customers with cultural and language differences. Finally, organizations that have recognized diversity initiatives will have an advantage recruiting the best diverse employees (SHRM, 2005; Matthews, 1998). Data often cited to support this argument include a study showing the stock prices of firms that have settled discrimination lawsuits are negatively impacted, while the stock prices of firms that have received awards for diversity fluctuate randomly (Ivancevich & Gilbert, 1999).

From Human Resources to Human Capital Management

While organizations began emphasizing diversity in hiring, retention, and promotion, the skills required of the workforce have begun to change. The knowledge-based economy demands workers that can function in a team environment, developing collective assets. The function of human resources has moved from simple regulatory compliance to motivating employees to apply their skills and abilities to deliver high levels of performance (Matthewman & Matignon, 2004).

This change in attitude toward employees has been especially dramatic in the public sector. The Government Accountability Office released a report in 2001 disparaging the thinking of the 1980s and '90s which "acted as if people were costs to be cut rather than assets to be valued (Soni, 2004)." Recent shifts in this view have caused the GAO to adopt the term human capital management to contrast with the traditional role of human resource management. Human capital management emphasizes developing people as assets whose value can be enhanced through investment, thus increasing the performance capacity of their organizations. Development of human capital must be aligned to the mission and vision of the organization, and integrated into strategic goals (Soni, 2004).

The human capital approach to management is supported by the growing difficulty of maximizing organizational productivity through physical capital assets. Now, up to thirty-six percent of organizational revenue is derived from intangible assets such as branding, goodwill, and human capital (Matthewman & Matignon, 2004). This fiscal reality requires organizations to recognize the value brought by each employee's capabilities, contributions, potential, and values alignment and to develop these assets through recruitment, retention, and training. Some evidence to support this approach includes a study by British corporations that measured employee morale after the implementation of human capital management strategies. The corporations with the biggest increase in morale also had a statistically significant increase in business metrics such as absenteeism and per-customer profitability (ibid).

Weakness of the Traditional Business Case

Because of the challenges of measuring the effects of human interaction in organizations, it has been taken largely on faith that diversity equals better organizational performance. However, a recent study has shown that diversity only has a positive correlation with improved performance under limited circumstances. A consortium of academics known as the Diversity Research Network conducted a five-year study of four corporations recognized for their diversity efforts. This research showed that racial and gender diversity do not have a positive effect on performance on a consistent basis, or under all conditions (Kochan, et al, 2003).

One possible explanation for diversity not contributing to business performance as expected lies in the weakness of most training that employees receive, if they receive training at all. Proper training is required for diverse teams to work together effectively. Human beings are naturally inclined to interact with people of similar backgrounds, and merely hiring diverse employees is not sufficient for employees to become integrated into an organization (Ivancevich). Despite an onslaught of trainers and products to promote diversity, the number of job discrimination cases filed with the Equal Opportunity Employment Commission reached a seven-year high in 2002 (Hansen).

The Diversity Research Network suggests that current training programs may have served to eliminate some of the negative effects of diversity, but few programs exist that have a positive correlation with increased performance. Studies have shown that traditional training in accepting diversity and valuing difference has little long-term effect on employee attitudes or behavior. It appears to be possible to manage diversity to improve organizational performance by focusing on organizational culture and human resource practices. One way to do this is to focus training efforts on group process skills that help employees communicate and manage constructive conflict (Kochan, et al, 2003).

Increasing Human Capital Through Diversity

In a knowledge economy, the intellectual contributions of each employee become crucial to organizational success. One knowledge task that cuts across all sectors is the need to be innovative. Florida and Lee argue that innovation is a joint product of human capital and diversity (2001). Although their work was conducted on a regional level, their open systems theory seems applicable to organizations as well. They specifically argue three points about human capital and diversity:

“One, innovation is seen to be a function of human capital... Two, openness to diversity seems to enhance an [organization’s] capacity to produce innovation... Three, we view [organizations] as ‘informational entities’ that reduce the costs of idea creation and information sharing and accelerate the flow of information and knowledge (3).”

However, the process of innovation and creativity is not as smooth as this research suggests. In fact, while studies have shown that diversity can increase the good teamwork of innovation and creativity, it can increase the dysfunctions of conflict and turnover (Kochan, et al, 2003). Several researchers have suggestions for ways to overcome, or gainfully employ employee conflict, to increase creativity. Managed correctly, a diverse team of employees will focus energy on beating the competition, not each other (Ivancevich, 1999).

Matthews (1998) has devised a system of diversity management she calls flex-management, which seeks to define the workforce, align the future workforce with organizational goals, and train employees to work toward those goals. She suggests that hiring the right mix of employee skills; giving them clear objectives to work towards; making rewards and consequences clear; and securing the correct resources to do the job are the beginnings of making diversity work. The next step involves leveraging the cultural differences inherent in skill sets, ideas, and modes of creativity. Managers can do this by modifying the corporate culture to balance employee needs and desires with organizational objectives.

Ivancevich and Gilbert (2000) suggest a broad concept of diversity management that goes beyond recruiting based on race and gender. Instead they believe that organizations should commit to recruit, retain, and promote a heterogeneous mix of productive, motivated, and committed workers. They propose that people of different ethnic backgrounds have different attitudes, values, and norms and different ways of collaborating and cooperating. The implications of this research suggest that framing diversity as a means of increasing human and collective capital can lead to a competitive advantage.

Dobbs (1996) identifies top management buy-in, strategic planning, changing organizational culture, and multiple interventions as essential for converting diversity into human capital. Top managers are the champions of all substantial diversity efforts, and facilitate cultures that aim toward maximizing each person's creativity and productivity. Strategic planning is needed to create an environment that improves communications between all employees and utilizes their creativity to increase productivity. Culture change is needed to ensure full organizational commitment to diversity goals, and to address the values and assumptions that guide organizational behavior. Finally, many strategies are needed to implement diversity initiatives including: training management and staff, mentoring, focused recruitment, and performance management. Using the correct mix of strategies increases the likelihood of success in implementing a diversity initiative.

Implications for the Public and Nonprofit Sectors

Depending on mission, target audience and location, public and nonprofit organizations may have even more pressing reasons to diversity than for-profit organizations. Not only is the composition of the workforce changing, but public administrators and nonprofit employees are also serving increasingly diverse communities (Soni, 2004). Also, donors and the public have always held charitable and public organizations to a higher standard than consumers and shareholders expect of corporations. To the public, diversity in public and nonprofit organizations is "the right thing to do," but as research has shown, it is also a demographic and performance imperative.

Current economic and political realities seem to indicate that shrinking budgets and staff cuts will continue for the foreseeable future. The staff that remain will have to work more efficiently to accomplish their organizational missions. Unfortunately, despite the GAO report on the importance of human capital, public sector managers have received little training in diversity competence (Soni, 2004). This has resulted in the underutilization of women and minorities, as well as quality of work-life issues that can lead to costly turnover. To be successful, public and nonprofit agencies must engage in agency-wide strategies to improve the overall climate for diverse staff (Hyde).

Strategic Human Capital Management links human resource strategies with mission, core values, goals, and objectives (Soni, 2004). It may be a tool for increasing organizational effectiveness in this challenging environment. This approach requires organizations to make the function of managing

people a central priority, integrated into the framework of organizational strategy (Soni, 2004). Traditional, hierarchical approaches to management must be replaced by a partnership between management and employees in a process-and-results oriented way of doing business. A properly managed strategic human capital management initiative should result in growing, sustaining and effectively deploying a skilled, knowledgeable, diverse, and high-performing workforce capable of meeting the needs of the organization and its stakeholders (ibid).

This approach seems to demand time and money that already struggling public and nonprofit organizations cannot spare. In the current funding environment, nonprofits especially are hard pressed to fund operating expenses. However, I would argue that the evidence speaks to the need for nonprofit and public organizations to refocus their efforts away from being program-oriented to being human capital-oriented. Too often the not-for-profit sectors have neglected the very people who provide the programs and services that stakeholders rely on. Diversity is going to happen, whether organizations are ready for it or not. The payoff for properly training management and staff to interact in a diverse environment will come to fruition when the multiple perspectives, strengths and creativities of human capital are working to accomplish the missions of the sector.

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