Optimal managerial approach and fertile environment for innovation creation, in case of diversified workforce

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Abstract: Global migrations contributed to the diversification of the workforce. The Inevitable demographic change, within workforce, is possibly a new opportunity for organizations. The aim of this article is to examine the necessary prerequisites for creating an environment which will support and initiate creativity among a diversified workforce. We will do a literature review, which is concerning the prerequisites that are necessary for creating such an environment. Our article will address this issue from the point of a suitable management approach and appropriate team construction. Suitable management approach will be studied by calculating the correlations between country's Power Distance, Uncertainty Avoidance and Innovation Index. The aim of this empirical research will be to examine whether certain cultural dimensions are related to innovation creation, and whether certain managerial approaches empowers creativity or suppress it. We will try to find an optimal managerial style, which will be efficient in managing diversified teams.

Keywords: *innovations, cultural dimensions, diversity, optimal management.*

Introduction

Managing diversity in a heterogeneous society will be one of the main challenges for today's organizations. Xenophobia is often presented within societies. Xenophobic organizations perceive diversity as a threat, rather than an opportunity. Managers possess fear of the unknown and of the possibility of being unable to integrate employees who come from different cultural backgrounds. *Individuals, classes, nations, have been extremely unlike one another…Europe is, in my judgment, wholly indebted to this plurality of paths for its progressive and many-sided development* (Mill, 1991). Incorporating diversity into the organization can generate creativity (Hamdani and Buckley, 2011).

Diversified teams seems to do better when it comes to costs reductions, enhanced marketing efforts (Taylor Cox, 1994), and it is also likely that ethnic diversity can contribute towards innovation by increasing the levels of creativity leading to better performance of companies (Tang and Naumann, 2016, Hunt,Layton and Prince, 2015, Shin *et al.*, 2012).

Robinson and Dechant (1997) interviewed the human resource manager at 15 Fortune 100 companies, and his research revealed the reasons as to why managers engage in managing diversity:

- ➢ Better utilization of talent
- ➢ Increased marketplace understanding
- ➢ Enhanced breadth of understanding in leadership positions
- ➢ Enhanced creativity
- ➢ Increased quality of team problem-solving

Previous research revealed that there are number of cases where diversity cause divisions (Brief *et al.*, 2005); low efficiency and results (Jackson,Joshi and Erhardt, 2003);

interpersonal conflicts (Jackson,Joshi and Erhardt, 2003). On the contrary, the aim of this paper will be to provide the prerequisites necessary for creation of environment which will be fertile for creativity. We will conduct a literature review, concerning the efficient method of management and team construction.

Globalization and Diversity

The pressures being placed on organizations to promote and implement diversity are constantly on the rise. In order to initiate creativity many firms recruit people with specialized expertise and creative potentials, beyond national borders, to develop unique and novel products (Hinds,Liu and Lyon, 2011).

This distinction was made by Taylor H Cox and Blake (1991): inevitability of diversity issues and value in diversity issues. The inevitability of diversity issues is seen through a case where firms must face the diversity, caused by demographic changes. Including organizations in the cases where diversity is compulsory. Demographic changes are constantly occurring. Organizations will face an increase of ethnic groups, with the expansion of globalization. Pan and Pfeil (2006) count 87 distinct "peoples of Europe", of which 33 peoples form the majority population in at least one sovereign state, while the remaining 54 constitute ethnic minorities. The total number of national minority populations in Europe is estimated to be 105 million people, or 14% of 770 million Europeans. As of the population estimates of United States on the July 1, 2016, African Americans are the largest racial minority, amounting to 13.3% of the population while Hispanic and Latino Americans amount to 17.8% (U.S. Census Bureau, 01.06.2016)

Following the environmental and demographic changes, they are supported by the new institutional theory. Scott (1995) indicates that the organization must conform to the rules and belief systems, prevailing in the environment (DiMaggio and Powell, 2000). Institutional theory also examines the different ways on which certain organizational structures are formed, including forms, rules, policies and etc. Additionally, they state that marketing, creativity, problem-solving, and system flexibility argument, derived from what we call the "value-in-diversity hypothesis" which believes that diversity brings net-added value to organization processes (Van Dijk,Van Engen and Van Knippenberg, 2012). Values are not *constant*, and they may change as the environment and as people themselves change. Diversification of values may be perceived not only between minority and majority members of certain organization, yet they may differ within members of the same ethnic group.

Gallagher-Louisy (2015) provides seven key areas to focus on, in order to improve the overall inclusivity of the diversified Canadian workforce: (1) supporting our companies; (2) information flow between diversity-related NGO's; (3) education of employers; (4) centralized online library with practice information; (5) exclusive research on diversity and inclusion; (6) legislative support for employers; (7) providing consultancy about diversity and inclusion. Adler and Gundersen (2007) described three steps in which we may create cultural synergy (1) describing the situation; (2) interpreting the cultures; (3) increasing cultural creativity; (4) creating cultural synergy.
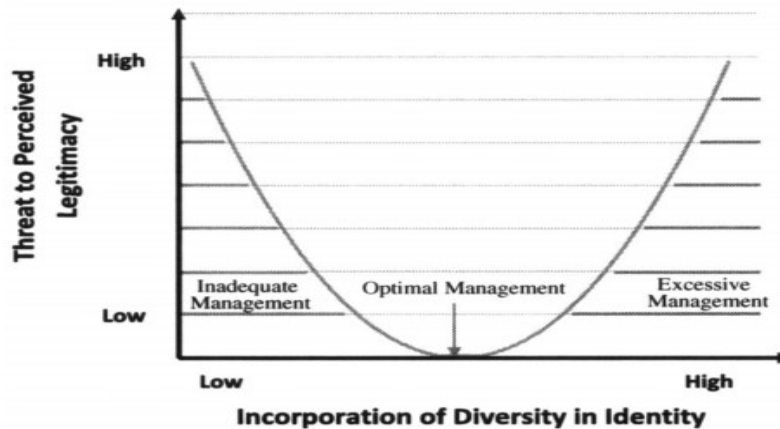
Managerial approach on managing diversity

The effects of diversity on companies may vary. The number of prerequisites needs to be fulfilled in order for the diversity to positively affect creativity. The relation between a manager and their subordinates is of high importance. Managers with highly autocratic and persuasive styles may negatively affect new ideas. The types of managers which are likely to permit and emphasize diversity as a virtue rather than a flaw, will presumably allow new ideas to arise. Almost every study (96%) found that culture has had a significant impact on managerial styles and organizational success(Adler and Gundersen, 2007). For this reason,

intragroup conflicts may occur, especially when the group is highly diversified. Good management of intergroup relations may avoid what Alesina and Ferrara (2005) explained, the cases where diversity could result in the individuals giving preference to or transacting exclusively with members of their own group, or even penalizing members who carry out acts outside group norms (e.g. innovate). Besides the managerial style, manager's cultural background, stereotypes and prejudgments additionally affect judgment and decision-making. It is obligatory for managers to recognize cultural differentiation and to access it without cultural biases.

Miller and Katz (2002) called the disadvantages in handling the diversity program as *diversity in a box,* which suggests that fear of diversity. The main approach to multiculturalism is to be open minded. Numerous people, which are by certain societies criteria or self-declaration placed as members of certain minority groups, are often being marginalized. If effects of diversity are going to be present, organization's formal and informal rules need to be in accordance with diversity. Thus, by minimizing captious criticism and accepting without prejudice the ideas and suggestions from all members regardless of power and status, conditions conducive to creativity are induced (Stein, 1953). For team to be creative, it is necessary for team members to share and integrate diverse knowledge and skills (Bodla *et al.*, 2016, Hu and Randel, 2014).

Figure 1: Diversity identity management and threat to internal legitimacy (Source: Cole and Salimath, 2013)

Power distance, Uncertainty avoidance and optimal management
Hofstede's cultural dimensions helped us to understand societies better. It is evident that societies are having certain "ideal" type of manager, or at least there are certain pattern of manager's behaviour. Power distance index (PDI) helped us to determine the distance between a manager and their subordinates. Countries which score low on PDI, participate actively in decision making of their superior managers. In the cases of high PDI, it is seen as impolite to intervene and give your own thoughts about a superior's decision. Geert Hofstede (2003) stated that the choice of informal versus formal empowerment is affected by the country's level of uncertainty avoidance. Thus, both PDI and UAI should be taken into account, as they are representing different forms of dividing power. Countries with a high power distance often do not empower its employees in providing feedback about decisions made by higher ranking managers. In small-power distance organizations, managers are often in discussion with subordinates and it is seen as commendable behaviour. The ideal boss is seen as a democrat, which is seen as resourceful and approachable.

Within a diversified workforce, we may find employees coming from high and low PDI cultures. Highly distanced managers, may lose the opportunity to generate profits, and not

benefit from diapason of thoughts, experiences and different perception that diversified teams may have. In his research, Van de Vliert (2009) called the high PDI cultures as opposing survival cultures, and low PDI cultures as self-expression cultures. Guided by these thoughts, we will attempt to examine the correlation between PDI, UAI and Global Innovation Index (GII) of 40 countries.

Data and methodology

We analyse three independent datasets concerning culture and innovation on a sample of 40 countries. Taking into consideration the existence of vast number of cultures, there was a need of determining certain cultural dimensions, which could be used for differentiating cultures worldwide. Cultural dimensions can affect social phenomena differently. Similar studies concerning the relationship between certain cultural dimensions and innovation were carried out before. Our question is rather simple: is there relationship between two cultural dimensions "PDI and UAI" and innovation as social progress. In order to see whether such relationship exist, we will test it for the presence of a general correlation.

Three original datasets are used from following studies:

1) GLOBE,
2) Hofstede,
3) Global Innovation Index.

We use the Power Distance Index and Uncertainty Avoidance Index as independent variables. The original data concerning the two indexes is gathered from two sources (1) Global Leadership and Organizational Behaviour Effectiveness (GLOBE); (2) Hofstede's research. For the dependent variable, original data are used as well, from Global Innovation Index (GII), which is co-published by Cornell University, INSEAD, and the World Intellectual Property Organization (WIPO agency of the United Nations).

Variables

Hofstede's studies were constructed using the results from 170,000 surveys, conducted in 72 countries with 88,000 employees. Geert H. Hofstede,Hofstede and Minkov (2010) states that (dimensions) …help not only in understanding differences in thinking, feeling, and behaving by the leaders and those led but also in appreciating theories produced or adopted in these countries to explain or prescribe thoughts, feelings or behaviour. In countries which score high on UAI list, organizations are filled with formal rules and policies. While in countries that score low on UAI "ambiguity and chaos are sometimes praised as conditions for creativity" (Geert H. Hofstede,Hofstede and Minkov, 2010).

The second study is GLOBE, which was partially based on Hofstede's ideas. This study was conducted in 62 societies, and the results were gathered from 17,300 middle managers from 961 organizations. Since the results from Hofstede's and GLOBE's research do not completely match, we will use data from both of them, in order to generate complete image. The correlation of the two independent variables, PDI and UAI, will be measured with GII index as the dependent variable. Number of countries which is covered by our comparison is forty (N=40).

Results

Based on Hofstede's data and GII, a Pearson correlation was run, in order to determinate whether there is relationship between GII and PDI, UAI. The results showed a moderate downhill relationship between PDI and GII ($r = -0.62035$, N=40, $p < .0001$). On the contrary, the relationship between GII and UAI is weak ($r = -0.40610$, N=40, $p = 0.0126$). These results showed us that PDI and UAI as cultural dimensions, may have influence on an innovation index.

Table 1: Correlation between GII and PDI, UAI.

Person Correlation Coefficients, N=40
Prob> |r| under H0: Rho=0

Global_ innovation_ index	Hofstede_ Power_ Distance	Hofstede_ Uncertainty_
	-0.62035	Avoidance
	<.0001	-0.40610
		0.0126

In Table 2, we see that the correlation results are different. Data from GLOBE study was concerning the *practices* and *values* category for each of the dimensions. These categories were related to the de facto and ideal state, since respondents often gave answers which were not related to practices. Data we gathered from GLOBE and Hofstede are different, as we may observe, PDIs are -0.39053 and -0.62035 respectively. PD (Practices) showed weak negative correlation($r = -0.39053$, N=40, $p = 0.0127$), contrary to UA (practices) which had a strong positive relationship ($r = 0.70867$, N=40, $p <.0001$).
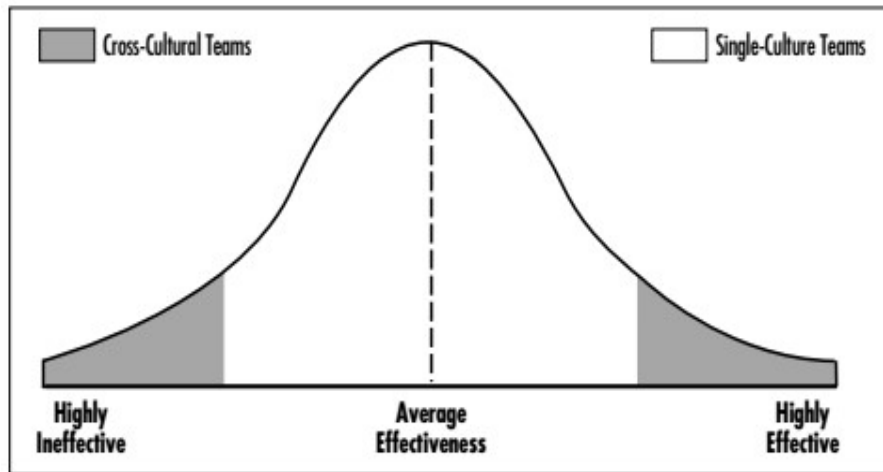
Table 1: Correlation between GII and PDI, UAI.

Person Correlation Coefficients, N=40
Prob> |r| under H0: Rho=0

Global_ innovation_ index	UA_ Practices	PD_ Practices
	0.70867	-0.39053
	<.0001	0.0127

There are major anomalies between data from GLOBE and Hofstede (Venaik and Brewer, 2010). As seen above, the UAI has a symmetrically different result in our correlation study. Still, it is inevitable that there is correlation between PDI and GII. These results have showed us that when it comes to the managerial approach, high distance will not empower creativity. Organizations with high PDI may not manage diversified teams well, since they won't allow the suggestions and flow of new ideas. In these situations, diversified teams may generate costs, rather than profit. Optimal management, as described previously, must be presented when diversified teams are being managed. Smith,Peterson and Schwartz (2002) conducted research with a thousand department managers in forty-seven countries on how they handled each of eight specific work "events". He computed a verticality index, and receiving a high score on vertically index (high PDI) meant that employees have *reliance on one's superior and on formal rules, not on one's own experience and not on one's subordinates*. Highly diversified teams in such highly scored vertical index, will be highly ineffective in the sense of their contribution towards creativity. Kovach (1976) observations showed that teams with cross-cultural effectiveness may be highly (in) effective. The reason for this lies in *proper management* (Figure 2).

Figure 2. Team effectiveness (Source: Kovach, 1976)

Team construct

Homogeneity and heterogeneity

Deep-level diversity refers to heterogeneity among team members' psychological characteristics such as attitudes, personality, beliefs, and values (Harrison *et al.*, 2002). Homogenous groups are having monolithic perspectives, this perspective is presented due to identical way of thinking. If the cross-national team members effectively cross-fertilize their ideas and knowledge, they will promote team creativity (Shin and Zhou, 2007). Thus, we may not state that homogeneity exists, even in teams made of members coming from the same culture. When members of other cultures are presented, than the heterogeneity is even deeper. In this situation, the diversification is higher, and synergy (when well managed) may be more effective. Multicultural teams create better ideas (Lattimer, 1998), generate alternatives more easily (Adler and Gundersen, 2007) and implement alternative solutions to problems (Joshi and Roh, 2009).

Group thinking behaviour may have contra productive aspects, whereas in culturally heterogeneous groups, they are less likely to occur. Culturally heterogeneous groups are less likely to engage g in: self-censoring; sharing an illusion of unanimity; directly pressuring from other members; the emergence of self-appointed mindguards (Janis, 1971).

Heterogeneity inside groups may cause diversified perspectives and divergent viewpoints. Guilford (1959) believed that pillar of creative process is *divergent intellectual production* or *generation of a variety of mental responses.* Moss Kanter (1983) called it *kaleidoscope thinking.* For creating a kaleidoscope thinking, it is necessary to talk with people who have a variety of perspectives, and that may create a new reality. When dyad members were similar to each other in their ability to produce ideas, heterogeneity in social attributes led dyads to produce solutions to various social problems that were judged higher in originality and practicality than the ideas produced by homogenous dyads.

Members (in) consistency

Even though heterogeneous groups may be effective, constant presence of the same members may be less productive than groups where members are inconstant. In permanent and monotonous environment, there is little initiative for innovation. Change of membership can cause infusion of new ideas, perspectives, and creativity (Choi and Thompson, 2005, Levine and Choi, 2004).

The effects of diversity can be felt in full ecstasy, when continuum accessibility is presented. First, Mackintosh was designed in isolation. Steve Jobs wanted to protect his team from

interruptions and evaluation. In multiple number of cases, companies isolate their teams, so they may work *in peace.* Research by Sutton and Kelley (1997) explained how Innovation, Design, Engineering and Organization (IDEO) company overcame this obstacle. Backstage visits of IDEO's designers were overcome with accustomation of doing creative work around outsiders, which made them *desensitized.* Second was *audience effect* which occur by assessing clients' current product and recommending improvements.

Conclusion

The aim of this article was not to presume which managerial type is ideal, neither to diminish certain types of managerial approaches. But rather to examine the correlation between flow of ideas, "out of box thinking" and distinction which exists between managers and subordinates. As elaborated, diversity may have different effects on an organization. The ways in which diversity is approached and facilitated may be seen by the end results, ultimately caused by diversity. The right way of facilitating diversity, with no cultural bias, can have synergizing effects on the number of organization's aspects. The creation of the fertile environment for diversity may lead to cultural pluralism, where culture is freely exposed. Managerial types, and their cultural bias may have significant effects on creating such environment. Our research of PDI, UAI and GII showed the correlation between these variables.

We may find multiple benefits of workforce diversity. In companies where diversity is effectively managed, results of diversity are often presented through cost reduction, creativity increase, number of languages spoken and different approach to problem solving. Members of different cultures may often have a variety of experiences and different perspectives. As it is presented, their value-in-diversity is added to organizational processes. Bilingual employees may have mental flexibility and different perspectives, and they are more likely to openly express it. Our decisions are a product of our values. That is why in homogenous teams, with same values system, we will have monolithic perspectives. Group thinking will not contribute to creativity, and it may appear even in consistent heterogeneous teams. Thus, similar dyads won't be able to have kaleidoscope thinking.

Due to geopolitical events, the world is facing huge migrations. Governments which are facing this problem are trying to implement their diversity policies. Stakeholders often see opportunity to benefit from a diversified workforce. This results in large pressure on organization, to diversify their workforce. With ongoing process of globalization, it is inevitable that organizations will face this challenge. Negative effects may be caused by diversity, in situation where it is not properly managed.

…we neither ignore nor minimize cultural diversity, but rather view it as a resource in designing and developing organizational systems (Adler, 1980).

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