

## **Improving Business Performance By Releasing Human Potential**

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### **ABSTRACT**

Modern management methods focus attention on the critical role Human Resources (HR) play in the competitive success of companies. Maximizing this contribution through the development of people has become an important corporate goal. However, selecting when to make HR investments, and which to make (in leadership and employee training, management systems, accountability metrics, etc.) is difficult to do.

In this paper we present a System Dynamics approach to evaluate the interplay between human potential, HR investments, and business performance. We first develop a generalizable framework describing the impact of HR investments and human potential on business performance. Then, working with a specific business within Hewlett-Packard Company, we use this framework to develop quantitative models that allow us to evaluate the performance impact of HR investments on portions of the business, and to maximize the performance impact on the entire business.

### **INTRODUCTION**

Workforce diversity (Choudhury, 96) is driven by three forces: population demographic changes, required representation of these demographics in the workforce (through federal regulation for example), and voluntary representation of these demographics in the workforce (through workplace values for example). The demographics of the U.S. workforce will change during the next five years based on these forces. An estimated 25 million people will join the workforce for the first time.

About 85% of these new workers will be women, members of minority groups, and people with disabilities (Rice, 94).

#### **WORKFORCE DIVERSITY: NEGATIVE OR POSITIVE IMPACT?**

The research (Milliken & Martins, 96) on directly observable attributes of diversity appears to be fairly consistent. In general, the more diverse the group (in gender, race, age) the higher the turnover rate, and the more likely that dissimilar individuals will turn over & be absent.

Much research about the knowledge-based attributes of diversity show positive outcomes. This research has been mainly on top management groups & project teams. It was found that knowledge-based diversity increases creative & innovative ideas. However, these teams have integration problems and tend to be more likely to turn over.

#### **MANAGING DIVERSITY - BUILDING THE APPROPRIATE CLIMATE.**

Previous paragraphs describe how diversity is a business imperative and how diversity may have negative and positive impacts on business performance.

At this point the question is: What can we do to ensure the best impact of our workforce diversity on our business performance? Many authors contend the answer to this question is a variable called diversity climate (Cox, 93). Diversity climate depends on several factors including personal, group/intergroup & organizational factors.

When we invest in and achieve a supportive diversity climate in the organization, we reject stereotypical attitudes and maximize the contribution of each individual, therefore maximizing the realization of potential within the organization. However, the same authors recognize that it is very difficult to determine:

- diversity climate influences on job satisfaction & commitment.
- diversity climate influences on productivity & competitive edge.

## SYSTEM DYNAMICS APPROACH

System Dynamics has been widely used to address the complexity associated with social systems, and to explore and understand the dynamic source of problems within them. Therefore, System Dynamics may provide significant value in identifying the dynamics underlying a diverse organization, and the implications of this diversity on overall business performance.

In the following paragraph we describe, from a very high level view point, the main causal interactions among key variables, and their possible implications to business results.

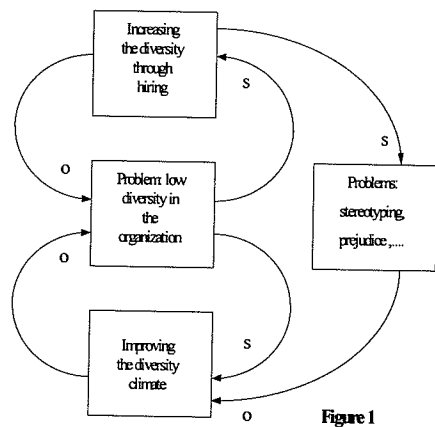


Figure 1

the diversity climate will be the capacity to attract, retain & maximize the contribution of the best quality diverse workforce. To maximize the contribution of the workforce,

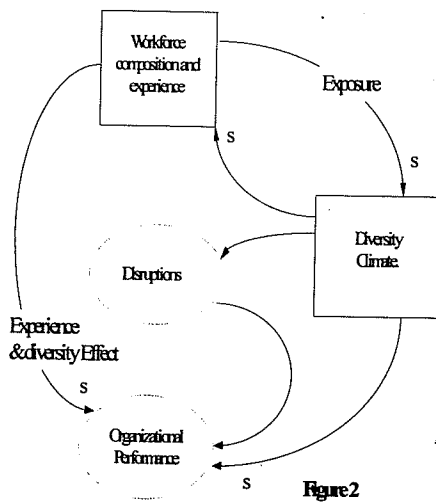


Figure 2

Many of the problems associated with HR in modern U.S. organizations are related to the increase of diversity without ensuring, previously or simultaneously, an adequate diversity climate. In this case, a dynamic similar to the "shifting the burden" archetype appears (Figure 1). An organization in this situation would show a high hiring rate and a high turnover rate at the same time (Gallen, 95). The payoff for investing in improving

the diversity climate will be the capacity to attract, retain & maximize the contribution of the best quality diverse workforce. To maximize the contribution of the workforce, we have to increase motivation and organizational commitment to avoid absenteeism, and open the workplace to creativity, innovation, ..etc. This will create benefits for all business functions, and therefore produce important performance improvements. While we build an appropriate diversity climate, we have to pay

special attention to personal & organizational disruptions that may appear. Some of these disruptions include: the time required to learn the new way of doing things, the change required to management styles, the accountability and follow-up needed on the diversity programs, ...etc.

## **CONCLUSIONS**

In order to maximize the positive impact on business performance of the future workforce demographics of their human resources, modern companies have to invest money and time to create a supportive diversity climate. The timing is crucial in this process. Companies need time to assimilate diversity climate changes into the organization before or while they become more diverse. Especially when these changes may create important performance disruptions. System Dynamics helps us investigate how to maximize the contribution of a diverse workforce, surpassing the performance limitations of the homogeneous organization.

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