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Chapter 5

# Culture and Values Competence in International Investment Projects: HR Management Approach

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Additional information is available at the end of the chapter

http://dx.doi.org/10.5772/intechopen.72183

**Abstract**

This chapter aimed to identify the impact of labor force diversity on human resource (HR) management (HRM) in multinational enterprises, having investment projects in the countries of Eurasian Economic Union, and to propose recommendations which HR practices are effective in making use of diversity. The chapter shows that institutional theory and resource theory are the theoretical bases of diversity management. In practice, diversity management refers to the 'culture and values' competence, included in the ICB Project Management Knowledge Guide 4.0. Methodology research includes publication research, an in-depth analysis of semi-structure interviews with human resource managers and consultants. Interviews identify approaches and human resource practices in the Russian Federation, Kazakhstan and Belorussia: HR marketing attracts foreign workers mostly under pressure stemming from minority customers and the diversity market. They are predominantly recruited for blue-collar jobs, held rather lower management positions and provided few pro- motion opportunities. Besides, managers have not gotten competencies in diversity management, but they think that it is truly important for managing divers personnel, and they are ready for learning and using diversity management. Findings demonstrate as a business case. Besides, diversity management competences of managers and HR officers are representing as model of competences.

**Keywords:** culture and values competence, sociocultural diversity, human resource management, diversity management, international investment projects

## 1. Introduction

There are two main causes of great importance of diversity factor in economic development of Eurasian Economic Union countries such as Russian Federation, Kazakhstan and Belorussia.

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First of all, these countries had sustainable growth of international investment projects from the beginning of the twenty-first century. Second, there is a negative trend for decreasing economically active population. For example, rate of able-bodied population in total population in Russian Federation and such industrial region as Sverdlovsk oblast (4.5 million citizens) decline from 67.6 (64.2) to 64.0 (61.0)%. Unfortunately, it is a long-term trend. On the one hand, this can be explained by falling birth rates as a result of negative economic situation in the early 1990s. Another reason for reducing economically active population is low life expectancy and high incidence of disease, also resulting from the negative effects of transitional reforms (**Figure 1**).

The main human resource management (HRM) problems connected with ethnic and cultural diversity are the following:

(a) Differences in religious and cultural traditions. Different religions have different potentials for integrating into the Russian, European and American business culture. For example, the Hindus demonstrate a high level of tolerance which is preached in Hinduism and Buddhism. As SIETAR research shows that there are an average of 15% fewer conflicts between Hindu employees and Christian employees than the conflicts within the group consisting of only Christians. At the same time, the number of conflicts between Pakistani employees (Muslims by religion) and Christian employees, on the opposite, is 20% bigger than the average [1].

(b) Foreign employees' poor knowledge of the official language.

(c) Inflexible policies of the companies towards ethnic and cultural diversity.

As a result of these problems, potential productivity is not achieved, employee's creativity and innovative activity fall and staff turnover and evasion of performance increase.

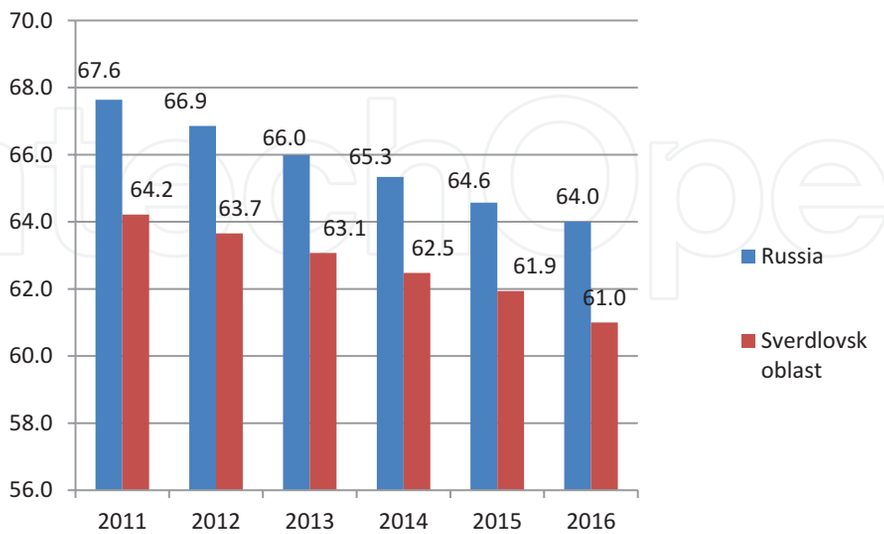


**Figure 1.** Rate of able-bodied population in total population (%).

The experience of solving these problems in the tradition of American and European management is represented by the concepts of managing social and cultural diversity (diversity management) and intercultural management (cross-cultural management). The research in the theory and practice of social and cultural diversity management held in the Sverdlovsk oblast became the basis for this article. The objective is taking into account the experience of the European Union countries to determine the prospects for developing practices of social and cultural diversity management in the organizations of the Sverdlovsk oblast which use foreign labor.

The tasks to be solved to achieve this goal are:

- Identifying the approaches in sociocultural diversity management and the types of managerial competencies required by employers who face sociocultural diversity of staff in the Russian Federation, Kazakhstan and Belorussia.
- Working out proposals and recommendations for the development of social and cultural diversity management practices in the organizations and culture and values competencies [2] of managers in international investment projects.

## 2. Theoretical basics of using the competence approach in the management of sociocultural diversity (diversity management)

The theoretical basis of social and cultural diversity management (diversity management) is the institutional theory, the resource theory [3] and the concept of 'competence approach' (competency-based management) [4].

Competence approach has a relatively short history of development—about 150 years; however, today it is the basis of the most advanced education systems, for example, the system of European education. Using the concept of competencies in HR management goes back to the early 1980s of the last century and is a response to organizational changes and the move towards higher levels of performance. Today, the use of competency approach in HR management (competency-based management) is a recognized method of management.

Competence-based approach is an approach to the description, assessment and development of the person within which the behavior of the person is considered to be the manifestation of his competences. In foreign scientific literature, there are three main directions of competence-based approach: American (behavioral), English (functional) and integration in France, Germany and Austria. The common things in these directions help to define 'competences' as behavioral characteristics which the individual must have or which he must acquire to effectively cope with the work [5].

Referring to sociocultural diversity management, the competence approach provides methods of evaluation, development, motivation and stimulation of the required competences of employees and managers. Describing the state of research in the field of sociocultural

diversity, it should be noted that the sociocultural diversity management is a relatively young industry, known little in Russia and in Eastern Europe. Its development is of great interest, because of the current problem for some ethnic groups to integrate in the Russian society and the issues of interaction with labor migrants, foreign partners in the WTO and foreign investors [6]. The management of sociocultural diversity (diversity management) as a separate direction in the personnel management (human resource management) originated in the USA and was a reaction to a common situation, when the company's staff consists of employees of different ages, nationalities, races, religions, etc. It is based on the principle that differences between people should not prevent their joint work [7].

'Diversity' may relate to various aspects: gender, age, color, religion, cultural differences, etc. In this article the focus is on cultural diversity and its specifics connected with employing foreigners and representatives of ethnic and religious minorities. Sociocultural diversity management is seen by many studies as the key strategic aspect of international companies. For example, in the work of the Canadian scientist of Indian origin Srinivas, it is noted that 'one of the key factors for the success and growth of global companies is that they have a global type of thinking, which includes such skills as curiosity, interest, recognition of the complexity and attention to diversity, the search for new opportunities, belief in progress, continuous improvement, long-term perspective and systematic thinking' [7]. In the work of Barkema, Baum and Mannix, the management of sociocultural diversity is considered as 'challenge of the time, the response to which will help companies to cope with diversity in international business, especially if the companies are able to cope with the undesirable consequences of diversity, such as interpersonal conflicts' [8].

Das and Parker note that there is no single correct or best way to manage sociocultural diversity. The authors prove the hypothesis that there are internal and external factors which define what approach to managing sociocultural diversity will be selected by the company, involved in international business. These authors propose the following typology of approaches to diversity management:

- Resistance—denying diversity and the need to manage it.
- Discrimination and fairness—discrimination of specific groups in the name of justice for all.
- Access and legitimacy—access to new markets is complicated without involving employees with different cultural, social and other characteristics; legitimacy refers to the trust that people have towards someone who looks and/or behaves in the same way as they do.
- Learning and effectiveness—forming the attitude to diversity in organizations that allows to incorporate different points of view of employees to improve the efficiency of individual decisions, strategies and rules helps to redefine the mission and change the corporate culture. In this approach, it is recognized that often the choices made by workers and the way they implement these decisions depend on their social and cultural background [9].

In the work of Shtykhno, there is a classification of methods of diversity management, based on the approaches Dass and Parker:

(a) Sustaining homogeneity

(b) Assimilating individuals

(c) Celebrating difference

(d) Acculturation and pluralism [1]

Thus, the higher the external pressure on the organization is and the higher it prioritizes diversity, the better this organization integrates diversity management into other organizational and production processes. The success of diversity management implementation depends on the corporate culture, business strategy and HR policy, which develop internal communications and affect the exchange of information and creativity. This has a positive impact on the employees' performance and, consequently, the performance of the company.

Kohan, Bezrukova and others' works describe the results of researches done to identify the effects of using the methods of diversity management:

- The efficiency of innovative management is directly proportional to the degree of racial diversity and gender balance.
- Staff development policy, including coaching, open communications and consultations with employees, reduces the negative impact of cultural differences on teamwork.
- In some areas intercultural diversity contributes to the business. Companies giving importance to the integration and training on the diversity management are more successful than homogeneous organizations that do not practice staff upgrade training.
- The effectiveness of the approach depends on the size of the group. In large groups or organizational units, diversity matters more than in small ones.
- Contrary to popular belief, the diversity in the team does not necessarily help to attract diverse customers [10].

Analysing the experience of German companies, Ziegert notes that 'an acute shortage of competencies in the field of intercultural communication is mainly experienced by companies operating internationally' [11]. The role of intercultural competences is considered within a separate concept of management—'intercultural management'. Intercultural management issues refer to those organizations that 'employ foreign workers, as management needs to take into account their motivation system' and 'transnational corporations… which should take into account the cultural specifics of different countries in adapting the management style practiced by the company headquarters' [12]. An ability to effectively interact with different cultures is an important criterion for highly qualified specialists and, as a consequence, the success factor in creating innovation and the growth of economic well-being, entering new markets and preserving the existing markets. Based on the above-mentioned results of the research in the USA, Florida introduces a new formula for economic growth, 'describes it as the so-called "Three Ts": Technology, Talent and Tolerance, which contribute to economic development, market attractiveness and competitiveness' [13].

## 3. Study of sociocultural diversity management practices in the Russian Federation, Kazakhstan and Belorussia

A study of administrative practices in the organizations of the Russian Federation, Kazakhstan and Belorussia experiencing sociocultural diversity was held in the first half of 2017. The researchers used the methodological approach proposed by Professor Dvořáková [14]. The methods included the accumulation of data and information using multiple methods: analyzing scientific publications and conducting semi-structured interviews and observation. The data included both historical and present-day information about the given social sphere. The reasons for using specified methods are connected with studying the social phenomena: national culture, values, behavior and HR management practices. Thus, the collection, selection and analysis done by using the methods of interpretation (reveal ideas (meanings) generated in human economic activity show the sphere for their implementation) provide the basis for achieving visible results and developing recommendations. These methods are used in the in-depth analysis of data obtained from semi-structured interviews with managers and HR specialists to explore approaches and practices in the field of diversity management in the national cultural environment as in the business model.

The object of the research on diversity management practices in the Russian Federation, Kazakhstan and Belorussia was the 74 organizations involved in the three types of activity that provide employment to more than 80% foreign workers (**Table 2**):

- Manufacturing—14 organizations (number of employees over 1000 people)
- Construction—24 organizations (number of employees over 100 people)
- Wholesale and retail trade—26 organizations (number of employees over 200 people)
- Other community, social and personal services—10 organizations (number of employees over 200 people)

If respondents from Kazakhstan and Belorussia were all countries location, than such from Russian Federation were locate in Sverdlovsk oblast. Sverdlovsk oblast is traditionally an industrial region with diversified economy and developed labor market. Structure and dynamics of Sverdlovsk oblast labor market are such as structure and dynamics of Russian labor market. In terms of ethnic diversity, Sverdlovsk oblast holds one of the leading positions in Russia. There are 160 ethnic groups living in the region. According to the all-Russian census of 2010, the Russians make up the significant majority in the population of the Sverdlovsk oblast (3,684,843 people)—85.7% of all the local population, that is, 90.6% of those people who identified their ethnicity. The second largest ethnic community in the region is the Tatars (143,803 people)—3.3% of all the local population in the region. The third largest ethnic community is the Ukrainians (35,563 people)—0.8% of all the local population in the region. The Bashkirs make up the fourth largest community. There are 31,181 representatives of this ethnic group living in the Sverdlovsk oblast. The Mari people take the fifth position; their number is 23,801 people. These are followed by the Azerbaijani, Udmurts, Belarusians, Armenians, Tajiks, Chuvashes, Kirghiz, Mordovians, Jewish, Germans and others.

Three cultures defined the ethnocultural distinctness of the Sverdlovsk oblast—Finno-Ugric (Mansi, Udmurts, Mari, Mordovians), Turkic (Tatars, Bashkirs) and Slavic (Russians, Ukrainians, Belarusians). Besides, Sverdlovsk oblast is one of the multireligious regions of the Russian federation. As for 01.01.2016, there are 770 religious organizations which represent 20 world religious denominations. There are also more than 100 ethnocultural organizations and 22 ethnocultural autonomies. From 2011 to 2014, there was an annual growth in the number of non-resident labor force in the Sverdlovsk oblast. So in 2011, the number of non-resident labor force was 61,757, and in 2014 this figure was 80,169 (an increase of 129.8%). There was such an increase due to the growing number of non-residents working in the Sverdlovsk oblast on the patents (from 16,133 people in 2012 to 56,446 people in 2014) (**Table 1**).

In 2015, the number of patents granted to work decreased to 46,000 (by 28%). But it should be taken into account that in 2015–2016 the previously granted work permits are still valid: some categories of people continue working in Russia on permission. There are also some people who chose not to formalize their employment because of the cost of procedure (13.2 thousand roubles) and problems with law. Taking into account all the above-mentioned categories of people, the Federal Immigration Service Office in the Sverdlovsk oblast registered 313,621 foreign citizens in 2015 (337,955 in 2014). Mostly, these are citizens of Tajikistan, Uzbekistan, Kyrgyzstan, Vietnam and China.

The respondents were 82 line managers and HR managers who filled in questionnaires or took part in semi-structured interviews on the questionnaire. The questionnaire aims to identify HR management practices which are used when the staff consists of foreign workers and native citizens from ethnic and religious minorities. Besides, it measures managerial competences in the field of diversity management and cross-cultural management, as well as understanding the need to acquire (deepen) these competencies (**Table 2**).

The study showed prevailing practices of recruiting citizens of Russia coming from ethnic and religious minorities for jobs that require both unskilled and highly skilled labors. One hundred percent of employers confirmed the use of such practices. None of the respondents mentioned the cases of any conflicts related to sociocultural differences between the citizens of the Russian Federation.

The results of our study are consistent with the results of a study conducted by the centre for the promotion of ethnocultural associations under the Urals State Mining University in 2012. The research theme was 'The attitude of members of ethnic and cultural public associations to the development of ethno-religious relations in the Sverdlovsk oblast'. Of the 388 respondents representing 70 ethnic and cultural associations of the Sverdlovsk oblast, 94% of respondents assessed the level of relations between the representatives of different peoples in the Sverdlovsk oblast as 'satisfactory', 'good' or 'very good' [15].

The results of the studies conducted in the Russian Federation, Kazakhstan and Belorussia differ significantly from the results of the study on diversity management practices organized by the group of Professor Korgova in the republics of the North Caucasus. The study revealed that 80% of organizations work under multinational management teams. However, 92% of CEOs prefer to choose the management team and employees representing one ethnicity [16].

| Indicator | All foreign workers and people/share of employment in the economy (%) | | | | Deviation (%) | | |
|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2012–2011 | 2013–2012 | 2014–2013 |
| The number of foreign workers residing in the Sverdlovsk oblast | 61,757 (2.79) | 62,872 (2.93) | 63,056 (2.93) | 80,169 (3.74) | 101.81 | 100.29 | 127.14 |
| By types of activity | | | | | | | |
| Agriculture, hunting and forestry | 2545 (2.45) | 978 (1.34) | 795 (1.42) | 1431 (2.12) | 38.43 | 81.29 | 180.00 |
| Mining | — | — | 69 (0.11) | 6 (0.01) | — | — | 8.70 |
| Manufacturing | 6320 (1.26) | 4834 (0.99) | 5289 (1.11) | 4480 (0.93) | 76.49 | 109.41 | 84.70 |
| Construction | 13,640 (10.04) | 9168 (6.88) | 9148 (6.88) | 5298 (3.99) | 67.21 | 99.78 | 57.91 |
| Wholesale and retail trade; repair of motor vehicles, motorcycles, household goods and personal utensils | 13,601 (3.84) | 7248 (2.16) | 4999 (1.48) | 5956 (1.77) | 53.29 | 68.97 | 119.14 |
| Transport and communications | 2647 (1.24) | 2140 (1.02) | 2381 (1.15) | 1920 (0.95) | 80.85 | 111.26 | 80.64 |
| Financial activities | | | 3 (0.01) | 6 (0.02) | — | — | 200.0 |
| Education | — | — | 17 (0.01) | 10 (0.01) | — | — | 58.82 |
| Other community, social and personal services | 6871 (10.16) | 5165 (7.63) | 5618 (6.91) | 4576 (5.94) | 75.17 | 108.77 | 81.45 |
| The number of foreign workers engaged in labor activities in the Sverdlovsk oblast on the basis of a patent | 16,133 | 33,339 | 34,639 | 56,446 | 206.65 | 103.90 | 162.96 |
| Individuals | 16,133 | 33,339 | 34,639 | 56,446 | 206.65 | 103.90 | 162.96 |
| Legal entities | — | — | — | — | — | — | — |

Source: http://www.sznural.ru/content/статистика%20и%20аналитика.

**Table 1.** Dynamics in the number of foreign workers who received work permit or a patent in the Sverdlovsk oblast in 2011–2014.

Meanwhile, the majority of managers and HR specialists (90%) do not consider it necessary to address the special social and cultural competences in managing employees who are the citizens of the Russian Federation representing ethnic and religious minorities. This result may be explained by insignificant differences in labor and consumer behavior of the Russian Federation citizens representing different ethnic and religious groups.

| No | Questions |
|---|---|
| 1 | Are foreign workers of only one ethnic group or different ethnic groups recruited for unskilled/skilled/highly skilled jobs? |
| 2 | Were special social and cultural competences taken into account when deciding to recruit foreign workers? |
| 3 | Are foreign workers' special social and cultural competences considered in your organization's foreign labor management? |
| 4 | Were there any cases of conflicts in your organization caused by social and cultural differences of foreign workers? |
| 5 | Does your organization provide unskilled/skilled/highly skilled jobs to the Russian Federation citizens representing ethnic and religious minorities? |
| 6 | Are special social and cultural competences taken into account in the management of the Russian Federation citizens representing ethnic and religious minorities? |
| 7 | Were there any cases of conflicts caused by the social and cultural differences of the Russian Federation citizens representing ethnic and religious minorities? |
| 8 | What is the most challenging management problem related to staff diversity? What management functions were carried out to solve this problem? |
| 9 | Are social and cultural diversity values part of your organization strategy? |
| 10 | What is the willingness of the heads of departments to take effective decisions which take into account sociocultural diversity of the staff? |
| 11 | What experience (competencies) have you received, working with the representatives of another culture? |
| 12 | Are you familiar with the methods of diversity management and cross-cultural management? What activities did you organize (participated in) to create the competencies and understanding of sociocultural diversity problems? |
| 13 | Do you consider it necessary to deepen professional knowledge in the field of diversity management and cross-cultural management? |

**Table 2.** Questions for analyzing the diversity management practices in the Russian Federation, Kazakhstan and Belorussia.

The situation with foreign workers is radically different: 100% of respondents recruit foreign workers for unskilled jobs, only 30% hire foreign workers for skilled jobs and none of the respondents confirmed hiring foreign workers for highly skilled jobs.

Sixty-seven percent of respondents spoke about the past or present conflicts between managers and foreign employees as well as conflicts between foreign workers and nationals of the Russian Federation caused by sociocultural differences of the foreign workers. This result is also consistent with the research data of the centre for the promotion of ethnocultural associations under the Urals State Mining University, in which 58% of respondents assessed the impact of the inflow of migrant workers on ethnic and confessional relations as 'increasing tension' and 'bringing a lot of harm'.

However, 54% of respondents noted taking into account particular social and cultural competencies when deciding to employ foreign workers. The proportion of foreign workers employed in construction was 80%, and the proportion of those employed in sales was 67%. Foreign workers employed in the utilities and manufacturing industries accounted for less than 50%.

All respondents agreed on the necessity of and confirmed the fact of taking into account foreign workers' special social and cultural competences in the organization's management practices.

Among the most serious management challenges related to staff diversity, there were organizing internal communications (poor knowledge of the Russian language by foreign workers, lack of work contact with the employees who are the citizens of the Russian Federation), increasing the loyalty of foreign workers. Among the measures being taken, there were organizing trainings of foreign workers in the Russian language and culture (required by the Russian legislation).

Eight respondents (10%) proved to be familiar with diversity management methods and cross-cultural management. However, no special events aimed to create competences and understand sociocultural diversity challenges which were held in the organization. The values of sociocultural diversity were not part of the organization's strategy.

All the respondents noted the need to deepen professional knowledge in the field of diversity management and cross-cultural management.

## 4. Culture and values competence of managers

Eight respondents, which were competent in diversity management, note that competences are important for managers in organizations with sociocultural diversity of staff (**Table 3**).

| No. | Group of competences | Competences | Respondents (%) |
|---|---|---|---|
| 1 | Managerial competence | • Recruitment and selection of staff, taking into account sociocultural competences<br>• Controlling and assessing sociocultural diversity of staff<br>• Motivation and stimulation of sociocultural competencies | 100<br>100<br>100 |
| 2 | Basic social competence (soft skills) | • Openness and interest in the new<br>• Flexibility and respect for other people and other cultures<br>• The ability to adjust themselves to the changing circumstances of another culture<br>• The ability to act successfully in a new cultural context | 50<br>100<br>75<br>75 |
| 3 | Communicative competence | • The ability and desire to communicate effectively, taking into account the sociocultural diversity of the staff<br>• Style of communication, taking into account sociocultural diversity of the staff | 100<br>75 |
| 4 | Knowledge of national culture (hard cultural skills) | • Knowledge about the national characteristics | 100 |

**Table 3.** Culture and values competence of managers in international investment projects.

Results of this researching show that competences in nowadays management of diversity are more important for managers and HR specialists (75–100% of respondents) than competences in development of diversity (50–75% of respondents).

## 5. Recommendations for diversity management in the organization

Based on the labor legislation, experience of managing sociocultural diversity in leading multinational companies and research into diversity management practices in the Sverdlovsk region, we recommend taking into account the following measures to develop diversity management practices:

- To include the sociocultural diversity management in the HR policy of the organization (**Figure 2**)
- To conduct an audit of HR policies and processes to avoid discriminatory conditions
- To collect and analyze information about the sociocultural environment in the organization
- To develop the policies and techniques of diversity management (including them in the planning, recruitment, selection, training and development of the staff and in the performance management, motivation and stimulation, wage and labor relations)
- To organize staff training in the issues of sociocultural diversity
- To provide information support to the initiatives in the field of diversity management

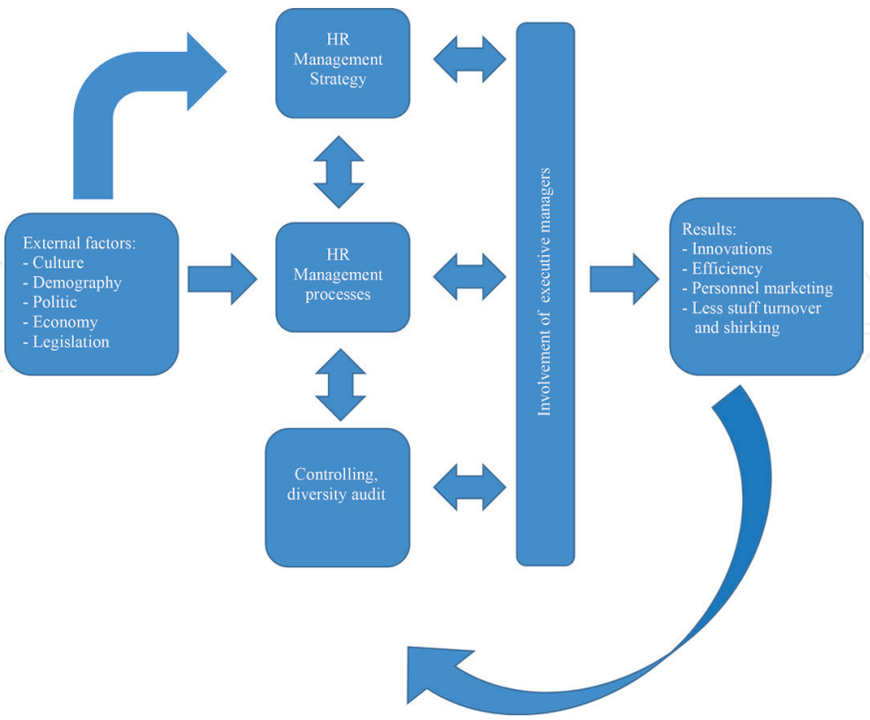


**Figure 2.** Sociocultural diversity in HR management system.

- To increase the involvement of employees representing ethnocultural minorities, through special training and organizing intra-network of communications
- To organize the popularization of diversity management practices using informal internal communications

## 6. Conclusion

The desire to respect and to strengthen cultural diversity in the company is motivated not only by ethical but also purely rational considerations, a direct count on success. It comes to those companies who understand that competitive challenge in dynamic global markets requiring constant innovation and creativity, organizational flexibility and adaptive capacity should better be responded by combining the experience and knowledge of the multinational team.

Such a strategy becomes a powerful motivating tool that can greatly facilitate the implementation of the diversity management system in the enterprise. The task of management is to create the framework conditions in which the enterprise could live and work on the principles of respect for human dignity and respect for human rights and recognition of people of a different culture as equal partners. Diversity management requires, on the one hand, to recognize the value of the 'diversity' phenomenon and, on the other hand, to be prepared for 'cultural transformation', for creating and strengthening the corporate culture which stimulates the differences.

A study of management practices in organizations of the Sverdlovsk oblast showed the absence of conflicts related to sociocultural differences between citizens of the Russian Federation representing ethnic and religious minorities. None of the respondents spoke to them. At the same time, the study revealed conflicts between managers and foreign employees, as well as between foreign workers and workers who are citizens of the Russian Federation. All the respondents agreed on the necessity of and the fact of taking into account special social and cultural competences of foreign workers when developing management practices in the organization.

Among the most serious management challenges related to staff diversity, the respondents identified organizing internal communication (foreign workers' poor knowledge of the Russian language, lack of worker contact with the employees who are the citizens of the Russian Federation), increasing the loyalty of foreign workers.

A study of management practices in socially and culturally diverse organizations of the Sverdlovsk oblast revealed the managers' and specialists' lack of knowledge in the field of diversity management. At the same time, managers and professionals realize the importance of the problems to be solved using the methods of diversity management and the need to deepen the knowledge in this area and put it into practice.

The diversity management within the framework of traditional HR management processes provides a significant economic effect. Thus, an important objective of diversity management is developing the methods of HR management based on the use of staff diversity. The use of these methods in practice makes the staff diversity management one of the directions of the organization's HR policy.

Further research in the field of diversity management requires the surveys of foreign workers' opinions on the management methods. It requires building the models and profiles of socio-cultural competences of managers and specialists as well as in-depth studying the specific processes of managing socially and culturally diverse staff.

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