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# Cultural diversity's impact on firm performance: The moderating influence of diversity initiatives and socialization tactics

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CULTURAL DIVERSITY'S IMPACT ON FIRM PERFORMANCE:  
THE MODERATING INFLUENCE OF DIVERSITY  
INITIATIVES AND SOCIALIZATION TACTICS

by

Amy McMillan-Capehart

A Dissertation Presented in Partial Fulfillment  
of the Requirements for the Degree of  
Doctor of Business Administration

COLLEGE OF ADMINISTRATION AND BUSINESS  
LOUISIANA TECH UNIVERSITY

May, 2003

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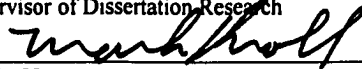
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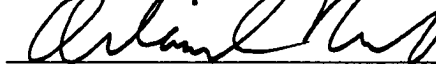


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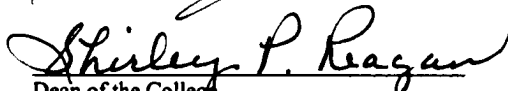
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## ABSTRACT

The primary purpose of this dissertation is to test the hypothesized relationships between cultural diversity and firm performance. Specifically, this dissertation examines whether or not socialization tactics and diversity initiatives moderate the relationship between diversity and firm performance. This dissertation uses ROA, ROE, and employee productivity in order to capture an accurate picture of firm performance.

My second purpose is to test competing hypotheses that are based on different theories. Theories relating to diversity suggest that there may be both positive and negative effects of a heterogeneous workforce. Therefore, it is necessary to isolate those instances in which diversity can be a competitive advantage. This dissertation uses competing hypotheses to test these theories.

All of the hypotheses were tested using hierarchical regression analysis. According to Cohen and Cohen (1983: 120) "it is one of the most useful tools for extracting information from a data set." Hierarchical regression

analysis allows for the testing of hypothesized contingency relationships. In addition, this technique is considered to be a conservative method for testing interaction effects because the interaction terms are tested after the other independent variables are entered into the equation. Therefore, significant changes in adjusted  $R^2$  provide support for the hypotheses (Delery & Doty, 1996).

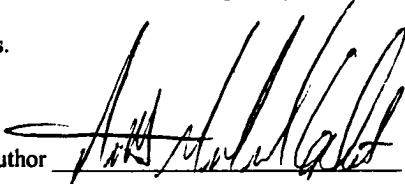
This study offers several contributions to the diversity management literature. In particular, empirical support is provided for the relationship between diversity and firm performance. By testing competing hypotheses, limited support was found for the social identity theory framework in diversity research. Limited support was also found for the contingency theory framework combined with the resource based view of the firm. In other words, left alone, racioethnic diversity can have a negative impact on performance. However, if managed properly, the negative impact can be lessened and a positive impact can be achieved.



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## CHAPTER 1

### INTRODUCTION

This dissertation examines the effects of cultural diversity on firm performance within the context of the organization's diversity initiatives and socialization tactics. These relationships are presented in Figure 1.1. Chapter 1 begins with a discussion of the importance of the study variables. An examination of the need for further research and the objectives of the study follows this. Finally, a description of the potential contributions and research plan of this dissertation concludes the chapter.

#### The Importance of the Study Variables

##### Cultural Diversity

The actual term cultural diversity generally did not appear in the management literature until *Workforce 2000: Work and Workers for the Twenty-First Century* (Johnston & Packer, 1987). This publication contributed to the popularity of the phrase among organizational researchers

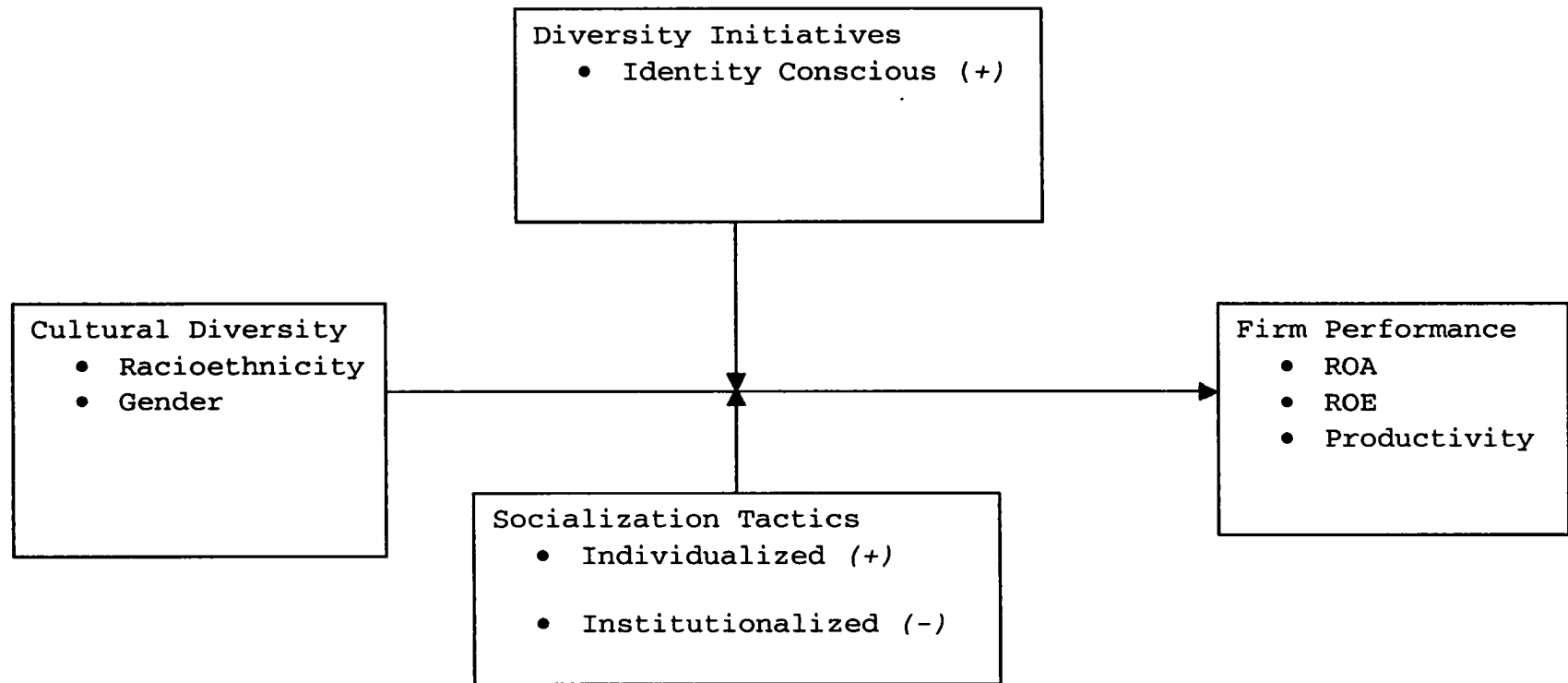


FIGURE 1.1  
Study Framework

(e.g., Greenhaus, Parasuraman, & Wormley, 1990; Riccucci, 1997; Thomas, 1999; Watson, Kumar, & Michaelsen, 1993). The increased interest in diversity was due largely to Johnston and Packer's (1987) prediction that nonwhites would constitute 29 percent of net new entrants into the U.S. workforce by the year 2000. In addition, *Workforce 2000* predicted that native white males would comprise only fifteen percent of the net new entrants into the workforce during the same time period (Johnston & Packer, 1987).

*Workforce 2000* had such an impact that the Hudson Institute published a second study in 1997, which extended predictions to 2020. *Workforce 2020* predicted that the nation's workforce would continue to become more ethnically diverse because the number of white non-Hispanics has been declining for many years (Judy & D'Amico, 1997). For example, it predicted that minorities will comprise slightly more than half the net new entrants into the workforce by 2005. In addition, it forecasted that women (of all races and ethnic backgrounds) will comprise half of the workforce by 2020. Furthermore, according to President Clinton's Initiative on Race (1998), the percentage of white Americans will drop from 72.7 percent of the total workforce population to 53 percent by the year 2050.

Cultural Diversity Defined. Before defining cultural diversity it is necessary to distinguish between race and ethnicity. While they are sometimes used interchangeably, they are also used to describe different aspects of individuals. Until the 20<sup>th</sup> century ethnic groups were defined as "composed of people from other countries" while racial groups were "composed of people with certain biological characteristics" (Yin, 1973: 45). Common examples of ethnic groups in the U.S. were the Irish, Italians, Mexicans, and Jews. When the term "race" was first introduced into the literature in 1749, it was used to represent a subdivision of species in order to distinguish between geographically located groups of man (Montagu, 1973). Racial groups were classified into three major races: Mongolian, Caucasian, and Negro. Today, these definitions are inadequate.

Ethnic groups do not necessarily share a country of origin but instead share a common political or cultural origin. They may also share a common religion, a common language, or even similar behaviors and customs. Even more importantly, the members must consider themselves part of the same ethnic background. Race is more difficult to define because it has no real conceptual relationship to the genetic characteristics of man (Yin, 1973). It has

primarily become a social identification that we use to define people (Montagu, 1973), and is often defined by the physical characteristics of man (e.g. skin color, hair color and type, and facial features). However, it is difficult to classify individuals on the basis of biological characteristics such as those mentioned above because there are no consistent clusters of traits that distinguish individuals (Lincoln, 1973). As such, Montagu (1973) suggests that the term be dropped from our vocabulary all together.

According to a survey of human resource professionals, contemporary workforce diversity is defined as consisting of the following characteristics: race, gender, culture, national origin, handicap, and age (Carrell & Mann, 1995). In particular, cultural diversity refers to "the representation, in one social system, of people with distinctly different group affiliations of cultural significance" (Cox, 1994: 6). Therefore, members of a culturally diverse group share a subjective culture, which according to Triandis (1976) represents their worldview. Individual worldviews include beliefs, values, norms and attitudes (Cox, 1994). For the purpose of this dissertation, cultural diversity will be defined as differences between individuals based on racioethnicity

and gender and the resulting attitudes, beliefs, and values that comprise their worldview. It should be noted that this dissertation will use the term racioethnicity, in referring to differences that are racially and/or ethnically based (c.f., Cox, 1994).

Operationalization. The level of cultural diversity will be operationalized by asking the HR managers in participating organizations to indicate the percentage of White, Black, Hispanic, Asian, and American Indian men and women in the organization. Managers will record information on a blank 1999 EEO-1 form in order to make reporting simpler and consistent across firms. Diversity level will be measured by Blau's (1977) index of heterogeneity, which assesses overall organizational diversity.

#### Diversity Initiatives

Diversity management refers to a variety of issues and activities related to the recruitment, hiring, and effective use of diverse human resources (Richard & Kirby, 1997). These activities are often referred to as "diversity initiatives" and involve actions such as creating an organizational culture that values diversity, facilitating higher career involvement of non-traditional



employees, and dealing with employee resistance to diversity (Richard & Kirby, 1997). Simply having a diverse workforce is not enough to harness the benefits. An organization must place significant emphasis on diversity. As such, organizations that effectively manage their culturally diverse workforce through diversity initiatives will reap the rewards.

Operationalization. Diversity initiatives will be measured using a scale created by Konrad and Linnehan (1995). This questionnaire distinguishes between identity conscious and identity blind structures. The instrument consists of 117 items that measure the two structures. Only 18 of the items will be used in this dissertation.

#### Socialization Tactics

Organizational socialization is defined as the process by which "an individual comes to appreciate the values, abilities, expected behaviors, and social knowledge essential for assuming an organizational role and for participating as an organizational member" (Louis, 1980; 229). These processes represent a mechanism by which newcomers learn the organization's culture and adjust to its environment (Hood & Koberg, 1994). In order to

function successfully it is necessary for employees to appreciate the values and beliefs of the organization.

Through intense socialization processes employees identify strongly with the organization (Tsui & Gutek, 1999). Socialization therefore provides employees with a frame of reference with which to identify. In the case of culturally diverse employees, the organization may attempt to replace the employees' preexisting social identity with a new frame of reference that is focused on the firm. If however the organization does not attempt to eradicate the employee's preexisting identification but instead creates an environment where differences are valued then the socialization process can contribute to a supportive environment for culturally diverse employees (Tsui & Gutek, 1999). As such, the ability of an organization to achieve a competitive advantage based on the benefits of diversity is dependent upon the socialization process of the organization.

Operationalization. Socialization tactics will be measured using a scale developed by Van Maanen & Schein (1979) and later adapted by Jones (1986). The instrument distinguishes between individualized and institutionalized

socialization tactics. Six, 5-item scales will be used to measure each of the socialization tactics.

#### Need for Further Research

The quantity of research on diversity is an indication of its importance, however, more emphasis has been placed on diversity with respect to age and tenure than gender or racioethnicity (e.g. O'Reilly, Caldwell, & Barnett, 1989; Simons, Pelled, & Smith, 1999; Tsui & O'Reilly, 1989). Moreover, organizational demographers have seldom focused on cultural diversity and its effects on groups or organizations (Williams & O'Reilly, 1998). As a result, relatively little is known about the impact of gender or racioethnicity on organizations.

Despite the suggestion that cultural diversity should be considered as a valuable resource in meeting the challenges of competing in a global economy (Doka, 1996), many current studies have been concerned with the negative experiences of women and minorities. For example, Tsui, Egan, and O'Reilly's (1992) found that cultural diversity in terms of racioethnicity and gender has more negative effects on affective consequences than age. Other studies also consistently indicate that observable attributes have negative effects on outcomes such as a identification with

the group and job satisfaction, at both the individual and group levels of analysis (Jehn, Northcraft, & Neale, 1999; Milliken & Martins, 1996; Tsui, Egan, & O'Reilly, 1992). As such, research that is aimed at overcoming the negative effects and capitalizing on the positive effects of cultural diversity on organizations is necessary. In particular, studies that examine the potential moderating influences on the cultural diversity-firm performance relationship are needed in order to allow managers to mitigate the potential negative effects and exploit the positive effects of diversity.

Despite the conflicting results of many studies, diversity is now an organizational reality that managers are faced with everyday. Unfortunately, regardless of the increasing number of cultural diversity studies, organizational research does not offer much in terms of understanding how to manage an increasingly diverse workforce. Diversity management consists of activities such as creating an organizational culture that values diversity, establishing unbiased human resource systems, and reducing employee resistance to diversity (Richard, 2000).

As such, organizations that have high levels of diversity must take action to create diversity management

programs that address these issues, plus many more that may arise. For example, firms that received awards from the Department of Labor for their diversity initiatives enjoyed higher stock performance immediately following the award (Wright, Ferris, Hiller, & Kroll, 1995). Firms that announced pending lawsuits or litigation involving harassment or discrimination experienced a drop in stock performance immediately following the announcement (Wright, Ferris, Hiller, & Kroll, 1995). These results indicate that firms may indeed obtain a competitive advantage by effectively managing diversity. The implications are even greater when we consider the increasing diversity of the workforce. Firms that are heterogeneous will be forced to take action and manage their diversity in order to reap the benefits.

Due to the increased interest in diversity research there have been a number of perspectives and theories on which existing studies have been based. For example, those studies that can be classified as falling under the resource-based theory of the firm generally suggest that diversity will have a positive impact on the organization (e.g., Cox & Blake, 1991; Elsass & Graves, 1997; McLeod, Lobel & Cox, 1996; Richard, 2000a). On the other hand, scholars that rely on social identity theory often argue

that diversity will have a negative effect on organizational behaviors and performance (e.g., Chatman, et al., 1998; Pelled, et al., 1999; Riordan & Shore, 1997; Thomas, 1999; Tsui, et al., 1992).

### Objective of the Study

The primary purpose of this dissertation is to test hypothesized relationships between cultural diversity and firm performance, within the context of organizations' socialization tactics and diversity initiatives. Specifically, Hierarchical regression is used to investigate whether or not socialization tactics and diversity initiatives moderate the relationship between cultural diversity and firm performance. This dissertation will use several measures of firm performance in order to capture an accurate picture.

The second purpose is to test competing hypotheses drawn from resource-based theory and social identity theory. Testing competing hypotheses is critical for the development of a theoretical foundation to guide both theory and practice (Wright & McMahon, 1992). Theories relating to cultural diversity suggest that there may be both positive and negative effects of a heterogeneous workforce. Therefore, it is necessary to isolate those

instances in which cultural diversity can be a competitive advantage. This dissertation will use competing hypotheses to test these theories.

#### Contributions of This Study

The major contribution of this dissertation is that it offers the opportunity for a greater understanding of the impact of cultural diversity on the organization. Cultural diversity at all levels of the firm is inevitable and therefore, understanding how it impacts the organization may aid managers in taking advantage of its benefits while avoiding the negative effects. In particular, this dissertation will offer insight in how certain diversity initiatives, when implemented in culturally diverse firms will result in higher firm performance. Finally, this dissertation will also offer insight to how culturally diverse organizations can socialize new employees in order to create an environment where diversity is valued or one where employees are encouraged to shed their own unique identities and adopt the organization's norms and values.

### Plan of Study

This dissertation investigates the impact of diversity initiatives and socialization tactics on the cultural diversity-firm performance relationship. Chapter 2 provides a review of the literature relevant to this dissertation. It also develops the framework to be tested and introduces the hypotheses. Chapter 3 presents the sampling methodology, data collection techniques, and statistical techniques. The results of the data analysis will be presented in Chapter 4. Finally, Chapter 5 will include the conclusions of the study, limitations of the study, managerial implications, and recommendations for future research.



## CHAPTER 2

### LITERATURE REVIEW AND HYPOTHESES

The purpose of this chapter is to review the existing literature concerning cultural diversity and firm performance and then present the hypotheses to be examined. The first section reviews common conceptualizations of diversity and then defines cultural diversity. The following sections identify the various theoretical frameworks that are used as the basis for diversity research. Empirical work based on each framework is examined.

The first framework reviewed is the resource-based view of the firm. Following this review is an examination of diversity research based on social identity theory. Finally, the literature based on the contingency framework is reviewed. The next sections of the chapter are concerned with the contingency variables, diversity initiatives and socialization tactics with the respective hypotheses presented.

## The Meaning of Diversity in Organizations

Diversity has been defined in several different ways (See Table 2.1). In a comprehensive review of diversity literature, Williams and O'Reilly (1998) identified five of the most commonly examined types of diversity: tenure, background, age, sex, and race/ethnicity. Tenure and background are considered to be underlying attributes while age, sex, and race/ethnicity are observable or readily detectable attributes (Milliken & Martins, 1996). Diversity in demographic characteristics (social and organizational) "create social categories which in turn lead to social psychological processes that can create feelings of isolation, discomfort, and confusion, as well as creative tension and diverse solutions to problems" (Tsui & Gutek, 1999: 5).

### Gender

According to Cox (1994), gender represents a distinct cultural category. This is evidenced in the socialization of men and women in most societies of the world. As a result, women possess a worldview that is often very

TABLE 2.1 Definitions of Diversity

Author(s)	Definition
Pfeffer (1985)	Organizational Demography - distribution of various dimensions such as date of hire, age, sex, ethnicity, and background in an organization. This definition captures relations among individuals, but is a property of the social aggregate and is important in affecting similarity and social relations.
Jackson, Stone, and Alvarez (1993)	Diversity - situations in which the actors of interest are not alike with respect to some attribute(s).
Pelled, Eisenhardt, and Xin (1999)	Diversity - the degree to which a unit is heterogeneous with respect to demographic attributes.
Loden (1996)	Diversity - includes those important human characteristics that impact individuals' values, opportunities, and perceptions of self and others.
Harrison, Price, & Bell (1998)	Surface Level Diversity - Overt, biological characteristics that are typically reflected in physical features.
Tsui & Gutek (2000)	Diversity - Sociological categories of demography, including both ascribed and achieved personal attributes that distinguish people in any group.

different from men (Cordeiro & Stites-Doe, 1997; Kirby & Richard, 1999; Elkins, Phillips, & Bozeman, 1999; Heilman & Blader, 2000; Kravitz & Platania, 1993; Tsui & O'Reilly, 1989; Wahn, 1998). Gender diversity may be associated with higher levels of conflict, less favorable evaluations of women, and higher levels of turnover (Tsui & O'Reilly, 1989; Tsui, et al., 1992). However, despite these negative effects, Rosener (1995) argues that women managers enhance

a firm's flexibility and ability to deal with ambiguity and research suggests that women may be better managers than men (Rizzo & Mendez, 1988; Schwartz, 1989; Powell, 1990; Flynn, 1994). In addition, firms with increased diversity, in terms of higher percentages of women, enjoy higher return on sales, return on assets, return on income, and return on equity (Shrader, Blackburn, and Iles, 1997).

### Racioethnicity

Organizational demographers have seldom focused on racial or ethnic diversity and its effects on groups or organizations (Tsui & Gutek, 1999; Williams & O'Reilly, 1998). Tsui and Gutek (1999) identified twenty-five empirical studies conducted between 1983-1999 that were primarily concerned with organizational demographic issues. The authors noted that there was not a single study of the demographic composition of an organization's entire workforce. Most of the studies focused on specific groups or divisions within entire organizations. Race is often omitted or simply included as a control factor when investigating other variables (Nkomo, 1992). In fact, only eight of the twenty-five studies examined by Tsui and Gutek (1999) involved race. As a result, while research on

ethnicity and race has received an abundance of attention from psychologists, sociologists, and educators, there has been less attention given to the impact of race or ethnicity on organizations by management scientists (Williams & O'Reilly, 1998).

### Cultural Diversity

Studies that have been conducted offer conflicting findings concerning cultural diversity's impact on organizations (Milliken & Martins, 1996; Williams & O'Reilly, 1998). The current literature on the effects of cultural diversity can generally be classified into two categories: those that find positive effects and those that find negative effects. However, in order to advance the state of the field there is a need to integrate these categories into a strong theoretical framework. Unfortunately, no single theory explains why diversity seems to be both an asset and a liability (Jackson, Brett, Sessa, Cooper, Julin, Peyronnin, 1991). The resource-based view of the firm provides a theoretical basis for examining the positive effects of cultural diversity. Those studies finding negative effects have been grounded in social identity theory.

## Theoretical Frameworks of Cultural Diversity

### The Resource-Based View

The resource-based view provides a theoretical rationale for hypothesizing a positive impact of diversity. This theory posits that sources of sustainable competitive advantage should be valuable, rare, imperfectly imitable, and non-substitutable (See Table 2.2) (Barney, 1991). Resource-based theory proposes that organizations can best achieve a sustainable competitive advantage by selectively obtaining and effectively utilizing physical, human, and organizational resources (Barney, 1991). Diversity and strategic human resource management (SHRM) scholars however, suggest that competitive advantages found with technological and/or physical resources have become easier to imitate (e.g., Pfeffer, 1994; Richard, 1999). Thus, human resources may serve as a critical differentiating factor for organizations.

As long as the demand for labor is heterogeneous and the supply of labor is heterogeneous, human capital can create value for the firm (Steffy and Maurer, 1988). Human resources can be considered rare because cognitive ability is normally distributed in the population, resulting in

TABLE 2.2 Resource-Based View of the Firm

Resources	<ol style="list-style-type: none"> <li>1. Physical</li> <li>2. Organizational</li> <li>3. Human</li> </ol>
Valuable	<ul style="list-style-type: none"> <li>• Exploits opportunities and/or neutralizes threats in a firm's environment.</li> <li>• Enable a firm to formulate and implement strategies that improve its efficiency or effectiveness.</li> </ul>
Rare	<ul style="list-style-type: none"> <li>• Number of firms that possess a particular resource is less than the number of firms needed to generate perfect competition in an industry.</li> </ul>
Imperfectly imitable	<ul style="list-style-type: none"> <li>• Historical conditions - ability to acquire and exploit resources depends upon their place in time and space.</li> <li>• Social complexity - very complex social phenomena that are difficult to systematically manage and influence.</li> <li>• Causal ambiguity - exists when the link between the resources controlled by a firm and a firm's sustained competitive advantage is not understood.</li> </ul>
Nonsubstitutable	<ul style="list-style-type: none"> <li>• The inability to substitute a similar resource that enables it to conceive of and implement the same strategies.</li> </ul>

fewer employees that possess high levels of knowledge, skills, and abilities (Wright, McMahan, & McWilliams, 1994).

Human resources are imperfectly imitable through historical conditions, social complexity, and causal ambiguity. First, historical conditions suggest that an

organization's human resources may be combined in such a way as to create a synergistic work culture that can only be developed over time. Second, it is possible that the relationships between employees turn into a complex social situation due to the knowledge and trust that are developed over time. In addition, "social complexity, by definition, must result from human interactions" (Wright, et al., 1994: 310). Finally, human resources are a source of causal ambiguity if the competition does not realize that it is the unique grouping of employees that is leading to the sustainable competitive advantage. In particular, the use of teams may result in causal ambiguity because it is unlikely that the competition will be able to recreate a team with exactly the same attributes as the focal firm's team (Wright, et al., 1994).

Diversity as a Sustainable Competitive Advantage. Cox and Blake (1991) center their discussion of diversity on the "value-in-diversity hypothesis." They offer six arguments for how effectively managing cultural diversity can result in a competitive advantage for organizations: cost, resource-acquisition, marketing, creativity, problem solving, and systems flexibility.



The cost argument suggests that those organizations that do a good job of integrating diverse workers will create cost advantages over those who do not, through lower training costs, lower turnover costs, or lower costs associated with legal disputes. For example, replacement costs for the typical employee (e.g., the costs associated with the recruitment and training of replacement employees) have been estimated to be 93% of the departing employee's annual salary (Robinson & Dechant, 1997).

The second argument, resource-acquisition, suggests that those companies that have the best reputations for managing diversity will attract the best personnel. This is becoming increasingly important because *Workforce 2020* predicts that the number of educated and skilled employees will decrease (Judy & D'Amico, 1997).

The increase in cultural diversity in the U.S. is changing formerly small market niches into larger ones that organizations want to pursue (Robinson & Dechant, 1997). Therefore, the marketing argument proposes that ethnically diverse employees bring insight and knowledge about diverse market segments that can increase sales for the organization.

Fourth, the creativity argument posits that work team heterogeneity promotes creativity in all aspects of organizational processes. For example, culturally diverse groups bring different perspectives and ideas to the task (Tsui & Gutek, 1999). This breadth of perspectives often results in more creative solutions and ideas.

Fifth, diversity can result in a competitive advantage through enhanced problem solving. This argument suggests that a culturally diverse workforce can result in better decision-making and problem solving through different perspectives and experiences. In particular, the synergy obtained from a culturally diverse workforce allows for better decision making and problem solving.

Finally, the last argument, system flexibility, suggests that diversity results in less standardization and more flexibility. According to Cox and Blake (1991) women and minorities tend to have higher tolerances for ambiguity, which in turn, has been linked to factors such as flexibility.

In sum, Cox and Blake's (1991) cultural diversity arguments fit well within the resource-based view theoretical framework. Their arguments all support Barney's (1991) theory that a competitive advantage can stem from unique social relationships that cannot be

duplicated (e.g., synergies resulting from culturally diverse employees). These social relationships are often valuable, rare, non-imitable, and non-substitutable. In particular, Cox and Blake's (1991) diversity arguments are most closely tied to the concepts of social complexity and causal ambiguity, which are related to imperfect imitability (Barney, 1991).

Cultural diversity provides several opportunities for an organization to achieve a sustainable competitive advantage through social complexity. For example, organizations can increase the number of women and minorities to better match the demographic characteristics of their markets (Cox & Blake, 1991; Pfeffer & Salancik, 1978). According to the marketing argument proposed by Cox and Blake, (1991), organizations that can successfully attract a diverse workforce will be better positioned to sell to a broader and more diverse customer base, potentially increasing organizational performance. Social complexity may also stem from the synergies created when diverse individuals work together and in cooperation with one another to achieve organizational goals. In addition, organizations that develop experience in, and reputations for managing diversity will likely attract the best personnel (resource-acquisition argument) (Carrell,

Elbert, & Hatfield, 2000; Cox & Blake, 1991). These employees will possess unique skills or abilities that are valuable, rare, imperfectly imitable, and non-substitutable. As the number of minority entrants in the work pool increases, this effect will likely become increasingly important.

In addition, organizations can benefit from the causal ambiguity associated with cultural diversity. It is often unclear to competitors that diversity is actually generating a sustained competitive advantage, or whether that advantage reflects other firm resources. In addition, it is unlikely that the competition will be able to create a set of human resources with exactly the same attributes and characteristics and thus imitate a competing firm's competitive advantage (Wright, McMahan, McWilliams, 1991).

#### Individual Level Effects of Cultural Diversity.

According to Nkomo (1992), race, ethnicity, and gender influence the way we understand ourselves, our experiences, our interactions with others, and our activities. Therefore, it is possible that cultural diversity will affect our performance in organizations and, if managed properly, can possibly provide a sustainable competitive advantage. In particular, Nemeth

(1992) states that when individuals are faced with dissenting viewpoints they often are motivated to recall more information, to use multiple problem solving strategies, and to produce creative solutions. In another study conducted at the individual level of analysis, Wahn (1998) found that women exhibited higher levels of continuance commitment than men. Women also exhibited higher levels of affective commitment than men according to Mathieu and Zajac's (1990) meta-analysis. Kirchmeyer and Cohen (1992) found that minorities reported greater commitment to the group when their contribution levels increased. In contrast, the "nonminority" participants' commitment to the group did not significantly increase with higher levels of contribution. However, it should be noted that the minorities were the lowest contributors in the group.

The organizational commitment of culturally diverse employees will become more critical as the group of workers referred to as "baby boomers" begin to retire. *Workforce 2020* predicts that as the older members of the workforce begin to retire there will not be enough younger workers to replace them. As a result, organizations will be forced to find new ways of recruiting and retaining employees. Those organizations that are able to hire

culturally diverse employees that are committed will save costs in the long run.

Group Level Effects of Cultural Diversity. Most diversity research has been conducted at the group level (see Table 2.3). However, in comparison to other types of diversity (e.g., background, functional, education, age) and group performance, there is actually very little research that focuses on the impact of racioethnicity and gender (O'Reilly, Williams, & Barsade, 1997; Pelled, et al., 1999; Riordan & Shore, 1997). Studies do show however, that heterogeneity in racioethnicity and gender leads to increased creativity, flexibility and better decision-making and problem solving (e.g., Cox, 1994; Elsass & Graves, 1997; McLeod, Lobel, & Cox. 1996). Watson, Kumar, & Michaelson, (1993) found that homogeneous groups reported more process effectiveness at the early stages of problem solving while ethnically diverse groups reported more difficulty in agreeing on what was considered critical and in working together. However, after the first nine weeks, the diverse and homogeneous groups performed at the same level with regard to the range of perspectives and alternatives generated.

TABLE 2.3 Cultural Diversity and Resource-Based View  
at the Group Level of Analysis

Article	Sample	Type of Diversity	Key Findings
Watson, Kumar, & Michaelson (1993)	36 groups of undergraduate students.	Ethnicity	After nine weeks both homogeneous and diverse groups performed at same level with regards to range of perspectives and alternatives generated. By the end of the study, diverse groups were more effective at problem identification and generating alternatives
McLeod, Lobel, & Cox (1996)	135 graduate & undergraduate students.	Culturally Diverse	Increased creativity and decision-making
Cox, Lobel, & McLeod (1991)	136 graduate & undergraduate students.	Race & Ethnicity	Ethnically diverse groups were more cooperative than all-Anglo groups.
Chatman, Polzer, Barsade, & Neale (1998)	258 MBA students.	Ethnicity & Gender	Increased ethnic and gender diversity related to decreased interaction and increased productivity.
O'Reilly, Williams, & Barsade (1997)	32 teams in a large firm.	Ethnicity	Groups of Asians and Anglos were more effective in implementing ideas than homogenous groups.
Espinoza & Garza (1985)	Anglo & Hispanic students.	Ethnicity	Anglo and Hispanic students in the majority were equally cooperative. When in minority, Hispanics were more competitive than Anglos.

By the conclusion of the study, diverse groups were more effective than the homogeneous groups at identifying the problem and generating alternatives. Therefore, despite the time constraints, culturally diverse groups can provide benefits to an organization through improved problem solving and creativity.

Diversity among employees provides a wider range of perspectives, increased creativity, and better decision-making (Elsass & Graves, 1997; Loden & Rosener, 1991; Williams & O'Reilly, 1998). Robinson and Dechant (1997: 27) state "attitudes, cognitive functioning, and beliefs are not randomly distributed in the population, but tend to vary systematically with demographic variables such as age, race, and gender." Therefore, an increase in cultural diversity results in the presence of different perspectives and more creativity and problem solving capability. From the resource-based perspective these outcomes can all contribute to achieving a competitive advantage for the firm.

Creativity is often the result of a variety of perspectives. Kanter (1968) refers to the variety of perspectives that stimulate the production of more ideas as "kaleidoscope thinking". Kaleidoscope thinking involves "twisting reality into new patterns and rearranging the



pieces to create a new reality" (1968: 11). Heterogeneity allows groups to engage in kaleidoscope thinking. This idea is supported in a study conducted by McLeod, et al., (1996), which found that culturally diverse work teams have a performance advantage over homogeneous groups due to increased creativity and their decisions were of higher quality than homogeneous groups. In addition, Kanter (1983) found that the most innovative companies deliberately establish diverse teams in order to generate numerous viewpoints.

Cultural diversity can also have positive effects on group performance. For example, Chatman, Polzer, Barsade, and Neale (1998) found that increased ethnic and gender diversity was related to decreased interaction but increased productivity. Productivity was assessed in three ways: the number of tasks completed, the average number of minutes spent on each of the tasks, and the percentage of total tasks each subject addressed. O'Reilly, et al., (1997) found that groups composed of Asians and Anglos were more effective in implementing new ideas than homogeneous groups. Therefore, it is suggested that the increase in productivity could be a result of the diverse members focusing more on the tasks and less on socializing. Nevertheless, cultural diversity appears to

have a positive impact on productivity, which offers more evidence that diversity can result in a competitive advantage.

Conflict is often perceived as having a negative effect on individuals, however in some instances, it can actually lead to increased creativity. This has significant implications for organizations attempting to take advantage of the decision-making and creativity benefits associated with cultural diversity. In a survey of Human Resource professionals, respondents ranked enhanced creativity as one of the top five most important effects of workforce diversity (Carrell & Mann, 1995). Instead of attempting to reduce conflict, those organizations with collectivistic cultures would benefit from encouraging a certain amount of emotional conflict in order to increase the creativity of employees. An understanding of the benefits of the conflict may lead to creativity and improved problem solving. Therefore, diversity can possibly meet the criteria of value, rareness, imperfect imitation, and non-substitutability in achieving a sustainable competitive advantage. Those organizations that understand the benefits and capitalize on them will have an advantage over those organizations that do not.

Organizational Level Effects of Cultural Diversity.

Cox (1994) states that executives are most interested in how diversity affects the performance of organizations. While research has focused on the effects of diversity on individual and group level outcomes, there has been little research with regard to organizational level outcomes (see Table 2.4). According to Cordeiro and Stites-Doe (1997), this is due in part to organizations' reluctance to disclose employment details that may expose them to regulatory scrutiny or public disdain.

Numerous studies have examined the top management group's effect on organizational performance. However, because of difficulties obtaining a sample that is diverse with regards to racioethnicity and gender, these studies have been concerned with background, age, and tenure diversity (e.g., Jackson, et al., 1991; Murray, 1989; Simons, Pelled, & Smith, 1999; Smith, Smith, Olian, Sims, O'Bannon, & Scully, 1994; Wagner, Pfeffer, & O'Reilly, 1984). Women and minorities are not generally found in the top management positions (Judy & D'Amico, 1997). However, results indicate that gender diversity in top-level managerial ranks is positively related to organizational performance (Cordeiro & Stites-Doe, 1997). For example, the stock-market performance of firms was significantly

TABLE 2.4 Cultural Diversity and Resource-Based View  
at the Organizational Level of Analysis

Article	Sample	Type of Diversity	Key Findings
Cordeiro & Sites-Doe (1997)	Secondary data source - E.E.O.C. computer tapes of top 200 firms on basis of stock value.	Gender	Gender diversity in top management is positively related to organizational performance.
Richard (2000a)	63 banks - HR directors.	Ethnicity	No significant effect of ethnicity on firm performance
Richard, Barnett, Chadwick, & Dwyer (2000c)	177 banks - HR directors and presidents.	Gender	Gender diversity is positively related to firm performance.
Richard, McMillan, Chadwick, & Dwyer, (2000d)	177 banks - HR directors and presidents.	Ethnicity	Organizations with high levels of ethnic diversity and an innovative business strategy achieve higher levels of firm performance than those organizations that do not.

improved by the presence of female managers (Cordeiro & Sites-Doe, 1997).

Other studies conducted by Richard and colleagues suggest that some forms of cultural diversity may have a significant impact on firm performance while others do not. For example, Richard (2000a) found that there was no significant effect of ethnic diversity on firm

performance. In a separate study, Richard, Barnett, Chadwick, and Dwyer (2000c) found that gender diversity was positively related to measures of firm performance.

Thus, the positive effects of diversity are socially complex and causally ambiguous. We know that cultural diversity does indeed affect performance but not exactly how or why (e.g., Richard, 2000;). Many researchers propose that it is the differences in beliefs, experiences, and values that benefit organizations. However, we do not have a "formula" for developing the best diversity mix. Managers and organizations that are aware of the benefits of diversity would be well suited to use them to their advantage.

While culturally diverse individuals in the workforce are not rare in the current labor force, those organizations that understand and take advantage of their positive impact are rare. The firms that can effectively manage a diverse workforce will stand out from the competition. The resource-based view theory provides a theoretical framework for continued investigations of the benefits of cultural diversity. Cultural diversity can provide a competitive advantage that is valuable, rare, imperfectly imitable, and non-substitutable. Therefore, the following hypotheses is offered:

H<sub>1a</sub>: Cultural diversity within the management group is positively related to firm performance.

H<sub>2a</sub>: Cultural diversity within the organization is positively related to firm performance.

The theories presented thus far suggest that there are positive effects of diversity on the "bottom line." However, it is not surprising that many studies have found that diversity has detrimental effects at all levels of analysis: individual, group, and organizational. Social identity theory provides a theoretical framework for examining the negative effects of diversity.

#### Social Identity Theory

Social identity theory and its extension, self-categorization theory, have frequently been used as a theoretical framework to study diversity (e.g., Chatman, et al., 1998; Pelled, et al., 1999; Riordan & Shore, 1997; Thomas, 1999; Tsui, et al., 1992). Social identity concerns "the individual's knowledge that he/she belongs to certain social groups together with some emotional and value significance to him/her of the group membership" (Tajfel, 1972: 31). This theory proposes that part of an individual's self-concept is derived from his/her membership in a social group (or groups) and the value and emotional significance attached to that membership

(Tajfel, 1978), which frequently lead to favoring of in-groups and negative stereotyping of out-groups.

Social identity theory draws from Festinger's (1954) social comparison theory, which suggests that individuals are driven to compare themselves with others who are similar or even slightly better on relevant dimensions (Abrams & Hogg, 1990). These comparisons are generally made between in-groups and out-groups. As such, individuals go through a process of identification that is a direct result of their desire to maintain a high level of self-esteem and a positive self-identity (Abrams & Hogg, 1990). This process of identification is defined as self-categorization.

Self-categorization. This theory, developed by Turner (1985), builds upon Tajfel's work on social identity theory. In particular, self-categorization is concerned with the antecedents, nature, and consequences of psychological group formation (Turner, 1985). According to self-categorization theory, people move through a three-stage process of identification (Hogg & McGarty, 1990). First, people categorize themselves into distinct social categories. Second, they learn the norms of that category. Finally, they internalize these norms and their behavior

becomes more similar to others in the group as their membership in the category becomes more salient.

An important issue addressed by self-categorization theory is the mechanism by which people perceive themselves or others to be members of different social categories. For example, under what conditions does someone perceive himself to be Black, or male, as opposed to a doctor, or a Democrat? The answer lies in the distinctiveness of the category (Hogg & McGarty, 1990). In particular, the salience of social categories is determined by their novelty, frequency, or perceived prominence. Thus, the social category Black is more likely to be salient when Blacks are in the numerical minority.

Social categorization of people in terms of race, ethnicity, religion, education, and gender often results in the emphasis of intergroup differences and intragroup similarities on the focal dimensions (Hogg & McGarty, 1990). This emphasis on intergroup differences is designed to attain a "positively valued distinctiveness from other groups in order to satisfy, through such a relatively positive social identity, a motive to achieve a satisfactory concept or image of self" (Tajfel, 1972: 3). Thus, groups often compete for resources, or anything else that can enhance their positive social identities.



Individuals define themselves in terms of a social identity (Tajfel & Turner, 1986). However, social identification often results in stereotypical perceptions of self and others that ultimately lead to ethnocentrism, prejudice and discrimination (Ashforth & Mael, 1989; Brickson, 2000). It is on this that diversity researchers have focused. For example, studies indicate that readily detectable attributes such as race, ethnicity, and gender result in negative outcomes such as low organizational commitment, low job satisfaction, and high turnover and conflict (Pelled, et al., 1997; Tsui, et al., 1992; Wharton & Baron, 1989).

Individual Level Effects of Cultural Diversity. Many studies concerned with diversity at the individual level of analysis can be classified as falling under the social identity framework (see Table 2.5). Individuals' work-related attitudes and behaviors are affected by the degree to which their demographic characteristics (i.e., gender, race, and ethnicity) are similar to those of their work groups (Riordan & Shore, 1997). A lack of identification with one's work group can result in turnover, infrequent communication, lower organizational commitment, and lower job satisfaction (Tsui et al., 1992; Wharton & Baron,

1987; Zenger & Lawrence, 1989). In addition, in keeping with social identity theory and the fact that individuals will identify with others that can help them achieve high levels of self-esteem, Turban, Dougherty, and Lee, (1999) found that a protégé's perceived similarity to his/her mentor is positively related to the perception of the quality of the relationship. The more similar the protégé perceived himself/herself to be with the mentor, the more quality they perceived in the relationship. In addition, Thomas (1993) found that ethnically diverse individuals perceived their mentoring relationship to be more positive when both the protégé and the mentor preferred the same strategies for dealing with racial differences.

Research indicates that employees in mixed-gender dyads (supervisor-subordinate) receive lower ratings than employees in same-sex dyads (Tsui & O'Reilly, 1989). The proportion of culturally diverse employees has a negative effect on supervisor evaluations. For example, African-American employees were rated lower than Whites on task and relationship dimensions of performance when the supervisor was White (Greenhaus et al., 1990). These poor evaluations can then lead to further negative outcomes such as limited in-house promotion opportunities, limited advancement to management positions, and higher turnover.

TABLE 2.5 Cultural Diversity and Social Identity Theory  
at the Individual Level of Analysis

Article	Sample	Type of Diversity	Key Findings
Riordan & Shore (1997)	1,554 employees in a major insurance company.	Gender, Race & Ethnicity	Work-related attitudes and behaviors are affected by the degree to which demographic characteristics are similar to those of work groups.
Tsui, Egan, & O'Reilly (1992)	151 units in 3 different organizations	Gender & Race	Increasing dissimilarity is associated with lower effectiveness and increased role ambiguity.
Wharton & Baron (1987)	1973 Quality of Employment Survey. 822 males from sample of 1,496 people.	Gender	Men in mixed gender groups were less satisfied and had lower self-esteem than men in male or female dominated work groups.
Turban, Dougherty, & Lee (1999)	303 doctoral students & 151 faculty advisors.	Gender & Race	Similarity to mentor was related to perceived quality of the relationship.
Thomas (1993)	18 cross - race developmental pairs in a single organization.	Ethnicity	Mentoring relationships were perceived to be more positive when protégé and mentor preferred similar strategies for dealing with racial differences.
Tsui & O'Reilly (1989)	272 superior-subordinate dyads from variety of Fortune 500 corporations.	Ethnicity & Gender	Employees in mixed-gender dyads received lower ratings than employees in same sex dyads. White employees with Black supervisors reported high levels of role ambiguity and role conflict.

Group Level Effects of Cultural Diversity. Most of the studies regarding the negative effects of diversity have been conducted at the group level of analysis (See Table 2.6). These negative effects range from lower levels of satisfaction and commitment, decreased interaction among group members, and increased relational conflict (Jehn, Northcraft, & Neale, 1999; Pelled, Eisenhardt, & Xin, 1999; Tsui, Egan, & O'Reilly, 1992). For example, among a sample of culturally diverse employees, Tsui et al., (1992) found that increased cultural diversity in work groups was associated with an increase in absences, lower levels of commitment, and the intent to stay. In addition, the negative effects of deep-level diversity (i.e., attitudes, beliefs, and values) become more evident than those of surface-level diversity (i.e., race, sex, and age) after the passage of time (Harrison et al., 1998).

Conflict is another phenomenon that has been found to be a negative consequence of cultural diversity (Jehn et al., 1999; Pelled et al., 1999). It is possible that because race is "relatively impermeable, people find it difficult to identify with (and easy to stereotype) those of a different race." (Pelled et al., 1999: 20). The result is an increase in conflict characterized by heated debates, segregation, and lower group performance.

TABLE 2.6 Cultural Diversity and Social Identity Theory  
at the Group Level of Analysis

Article	Sample	Type of Diversity	Key Findings
Harrison, Price, & Bell (1998)	Sample 1 = 39 groups of employees in a hospital. Sample 2 = Employees in 32 grocery stores.	Race, Gender, Beliefs, Attitudes, and Values	Over time, the negative effects of cultural diversity are mitigated.
Jehn, Northcraft, & Neale, (1999)	485 employees. 92 work units.	Race & Gender	Increases in conflict, characterized by heated debates, segregation, and lower group performance. Gender diversity leads to increased relational conflict when task interdependence is high.
Pelled, Eisenhardt, & Xin (1999)	317 employees in 45 different teams. 41 team managers.	Ethnicity	Negative interaction effect between ethnic diversity and functional background diversity on task conflict.
Tsui, Egan, & O'Reilly (1992)	151 units in 3 different organizations.	Gender, Race, & Ethnicity	Increased cultural diversity is related to decreased commitment, and intent to stay and increased turnover.
Thomas (1999)	77 undergraduate students in New Zealand. 24 multicultural teams.	Ethnicity	Homogeneous groups outperformed heterogeneous groups in all cases.

In fact, research suggests that employees may choose to ignore the contributions of others from different

functional areas when they are of a different race (Pelled et al., 1999).

Gender diversity has also been found to lead to increases in relational conflict when task interdependence is high (Jehn et al., 1999). This is a critical finding because of the impact of relational conflict on group performance. For example, relational conflict is positively associated with group satisfaction, intent to remain, cohesiveness, and commitment (Jehn et al., 1999). Relational conflict is defined as disagreements over "personal preferences for communicating, cooperating, and coordinating collective efforts" (Jehn, et al., 1999).

Ethnic diversity in work groups has been found to negatively impact group performance. For example, homogeneous groups performed better than heterogeneous groups (Thomas, 1999). Cultural diversity in groups may result in process losses that prevent the groups from achieving their full potential. These results contradict earlier findings by Watson et al. (1993). Thomas (1999) offers several explanations for the difference in results. For example, he suggests that the differences could be due to the nature of the task, the measurement of performance, or the amount of feedback given to participants.

Organizational Level Effects of Cultural Diversity.

Few studies drawing upon a social identity framework have addressed the effects of diversity on organizational performance (see Table 2.7). Richard (2000a) examined the effect of ethnic diversity on bottom-line measures of performance, operationalizing firm performance using three measures (productivity, return-on-equity, and market performance). He found no relationship between ethnic diversity and firm performance. However, when examining the moderating effect of business strategy he found that growth firms had the highest productivity. Results indicate that firms employing a downsizing strategy with ethnic diversity had the lowest productivity.

In a similar study, Richard et al., (2000b) examined the moderating effects organizational culture and business strategy on the diversity-firm performance relationship. Results indicate that the interaction of gender with an adhocracy culture was negatively related to return-on-equity. In other words, organizations that have an external focus and gender diversity will suffer from lower returns on equity. Interestingly, for gender diversity, an interaction with a growth strategy and an adhocracy culture was positively associated with performance.

TABLE 2.7 Cultural Diversity and Social Identity Theory  
at the Organizational Level of Analysis

Article	Sample	Type of Diversity	Key Findings
Richard (2000a)	63 banks - HR directors	Ethnicity	No relationship to firm performance. Firms employing a growth strategy had highest productivity.
Richard, Dwyer, & Chadwick, (2000b)	177 banks - HR directors and presidents	Gender	Interaction of gender with adhocracy culture is negatively related to ROE. The same interaction is positively associated with performance when combined with a growth strategy.

Social identity theory suggests that diversity results in stereotypical perceptions of self and others that ultimately lead to ethnocentrism, prejudice and discrimination (Ashforth & Mael, 1989; Brickson, 2000). An emphasis on demographic categories may result in majority groups engaging in activities that reflect prejudice, stereotypes, and distrust. As such, minority members that belong to out-groups will feel threatened and experience low job satisfaction, alienation, and poor job performance (Brickson, 2000; Elsass & Graves, 1997). In addition, diverse individuals who are different from others are often less socially integrated and are more likely to leave the organization (Tsui & Gutek, 1999). Therefore,



organizations that foster distinct groups based on gender and racioethnicity will not experience any of the positive effects of diversity while experiencing all of the negative effects of diversity.

Demographic homogeneity in organizations strengthens adherence to organizational norms through in-group favoritism and social attraction (Hogg & Terry, 2000). Demographic diversity, on the other hand, weakens the impact of organizational norms, especially if there are high levels of conflict among the different demographic categories. As such, diverse members will refer to their group memberships outside the organization for behavioral norms. Demographic membership then becomes salient, strengthening adherence to demographic norms, not organizational norms (Hogg & Terry, 2000).

Self-esteem is not an automatic consequence of being a member of a minority group. Instead, Milner (1984) suggests that members of low status social groups do not automatically suffer from low self-esteem, but that the contexts in which they find themselves, may trigger such feelings. As such, it is possible that organizations often create a culture where distinct groups of employees are formed and in-groups are favored and provided with more resources than out-groups. Such a culture creates lower

self-esteem for out-groups as they struggle to retain a positive social identity. Additionally, groups with higher self-esteem are more likely to engage in ethnocentric behavior and intergroup discrimination (Hogg & Abrams, 1990).

Heterogeneous organizations are likely to experience decreased satisfaction among employees, lowered levels of cohesiveness, reduced communication, decreased cooperation, and higher levels of task and relational conflict (Williams & O'Reilly, 1998). These negative effects are the result of a social categorization process where in-group and out-group members are determined on the basis of gender or racioethnicity. This process results in "otherness" being seen as an imperfection (Loden & Rosener, 1991). Employees that are different in terms of gender or racioethnicity are therefore viewed as inadequate and not as qualified as members of the in-group. Many times, these stereotypes result in a self-fulfilling prophecy as out-group members begin to believe they are not capable of achieving organizational goals.

Social identity theory suggests that when in-groups and out-groups are formed, they often create "rival camps" within an organization (Ashforth & Mael, 1989). The in-group often has more resources, power, status and prestige

than the out-group (Abrams & Hogg, 1990). Therefore, these two separate camps experience conflict as the groups fight over who should have greater authority or access to more resources. As such, competition within the organization can be so great that group members lose sight of the organization's goals and become more concerned with their own personal agenda. Consequently, firm performance is lower because group members are no longer working in the best interest of the organization but instead are competing with one another. As such, the following hypotheses is offered:

H<sub>1b</sub>: Cultural diversity in management teams is negatively related to firm performance.

H<sub>2b</sub>: Cultural diversity at the organizational level is negatively related to firm performance.

It is apparent from the studies examined above, the relationship between cultural diversity and firm performance is unclear. While there are several studies that have examined both the positive and negative consequences on performance the results are at best ambiguous. Contingency theory provides a strong theoretical framework from which to position cultural diversity studies. Dass and Parker (1999: 68) suggest that "a fit or match between diversity pressures, perspectives,

and strategic responses is likely to improve organizational performance, whereas a mismatch is likely to entail economic and noneconomic costs."

Contingency Variables in the  
Cultural Diversity to Firm  
Performance Relationship

Contingency theory has been used as a foundation for cultural diversity research at the group and organizational levels of analysis. Contingency theories propose that the relationship between the independent variable and dependent variable changes with different levels of the contingent variable (Richard, 2000a). In particular, the crux of contingency theory lies in the fact that there is no one best way to manage an organization (Lawrence & Lorsch, 1967). According to Venkatraman (1989), contingency theories are more complex than universalistic theories because they examine interaction effects. As such, contingency theory allows diversity to be examined in conjunction with other aspects of the group or organization. Contingency theory has been used as a foundation for cultural diversity research at the group and organizational levels of analysis (e.g., Chatman, Polzer, Barsade and Neale, 1998; Richard, McMillan, Chadwick, & Dwyer, 2000d).

### Group Levels of Analysis

Most of the contingency studies conducted at the group level of analysis have been concerned with the relationship between diversity and relational or emotional conflict (see Table 2.8). One exception to this was a study conducted by Turban, Dougherty, and Lee (1999). They found that protégés in dyads composed of both males and females reported receiving more mentoring than did same sex dyads after the passing of time. As such, the relationship between gender diversity and the quality of the mentoring relationship was contingent upon the amount of time that has passed.

Gender diversity is more likely to increase relational conflict when task interdependence is high (Jehn, Northcraft, & Neale, 1999). Relational conflict is a result of individuals' communication styles, cooperation, interpersonal interaction styles, and disagreements. Task interdependence was defined as the extent to which members rely on one another to complete their jobs. As such, according to the evidence, relational conflict will increase when demographically diverse employees are required to work closely with one another in order to complete their tasks. An important implication of

this research is that relational and task conflicts are negatively related to performance.

TABLE 2.8 Cultural Diversity and Contingency Theory at the Group Level of Analysis

Article	Sample	Type of Diversity	Key Findings
Turban, Dougherty, & Lee (1999)	303 doctoral students & 151 faculty advisors.	Gender	Protégés in mixed gender dyads received more mentoring than similar gender dyads after the passing of time.
Jehn, Northcraft, & Neale (1999)	485 employees. 92 work units.	Gender	Gender diversity results in increased relational conflict.
Pelled, Eisenhardt, & Xin (1999)	317 employees in 45 different teams. 41 team managers.	Ethnicity	Passage of time decreases the positive associations between diversity and conflict. Interaction of task routineness and ethnic diversity is negatively related to emotional conflict.

While diversity may be positively related to conflict, it is possible that the passing of time may attenuate the relationship. Pelled et al., (1999) studied the moderating effect of time on work group conflict. Evidence indicates that the passage of time decreased the positive associations between cultural diversity and conflict. In addition, they examined the moderating effect of task routineness on diversity and various types of conflict. Results suggest that the interaction of task

routineness and ethnic diversity is negatively related to emotional conflict.

Organizational Levels of Analysis. As with the resource-based view of the firm and social identity theory, there has been little research conducted at the organizational level of analysis within a contingency framework (see Table 2.9). Research suggests that there is not a simple, direct relationship between ethnic diversity and performance (Richard, 2000a). According to Jackson (1999: 202), "the understanding of diversity within organizations requires taking into account business strategies, organizational culture, and human resource management (HRM) systems." Contingency theory posits that characteristics of the environment, strategy, and structure all interact and impact the organization. In addition, Meyer, Tsui, & Hinings state that "situational contexts often determine the organizational characteristics needed for effective performance" (1993; 1178). The resource-based view does not take into account the strategy, structure, and environment within which resources are embedded (Oliver, 1990; Richard, 2000a). As such, contingency and resource-based theoretical frameworks can be applied to examine how diversity

interacts with different constructs to affect firm performance and thereby achieve a competitive advantage (Richard, 1999).

TABLE 2.9 Cultural Diversity and Contingency Theory at the Organizational Level of Analysis

Article	Sample	Type of Diversity	Key Findings
Richard (2000a)	63 banks - HR directors.	Ethnicity	Ethnically diverse firms that pursue growth strategies experience a higher ROE than firms with same levels of diversity and no growth strategy.
Richard, Dwyer, & Chadwick (2000b)	177 banks - HR directors and presidents.	Gender	TMG with growth strategies, adhocracy cultures and gender diversity have positive effects on performance.
Richard, McMillan, Chadwick, & Dwyer (2000d)	177 banks - HR directors and presidents.	Ethnicity	An innovative business strategy moderates the relationship between diversity and firm performance.

The effects of cultural diversity on firm performance may be determined, at least in part, by the strategy a firm pursues. Richard (2000a) found that ethnically diverse firms that pursued growth strategies experienced a higher return on equity than firms with the same level of diversity and no growth strategy. Additional studies suggest that other strategic influences might also



moderate the cultural diversity-firm performance relationship (Richard & Johnson, 1999; Richard et al, 2000b).

For instance, Richard & Johnson (1999) propose that the positive effects of cultural diversity require taking into account different business strategies and organizational cultures. In fact, Richard, Dwyer, & Chadwick, (2000b) found several important relationships regarding cultural diversity and firm performance. Gender diversity in top management groups (TMG) in conjunction with a growth strategy and adhocracy culture was found to have a positive effect on firm performance. According to the Competing Values Model, adhocracy culture emphasizes flexibility and spontaneity (Cameron & Quinn, 1999). Dominant characteristics are entrepreneurship, creativity, adaptability, and change. However, the interaction between TMG gender diversity and a clan culture was also found to have a significant effect on performance. According to the Competing Values Model, clan culture emphasizes affiliation with other organizational members. Important values include trust, tradition, and long-term commitment to the organization (Cameron & Quinn, 1999). Ethnic diversity was only found to have a significant effect on

firm performance when used in conjunction with a clan culture.

Richard, et al., (2000d) found that an internal alignment between ethnic diversity and innovation increases firm performance. Culturally diverse organizations with a more innovative business strategy performed better in terms of both ROA and ROE than did firms with a less innovative business strategy. This suggests that firms may be able to take advantage of a culturally diverse workforce in developing and marketing new products and/or services. The enhanced innovative capacity that may result from a culturally diverse workforce can provide firms with one of the most critical components in building a sustainable competitive advantage (Hill & Jones, 1998).

The results of this analysis are supported by the resource-based perspective, which states that a competitive advantage accruing from human resources, if properly aligned, can lead to increased firm performance (Barney, 1991). The complexity of the social interactions within ethnically diverse firms makes duplication of competitive advantage by competitors almost impossible (Richard, 2000a). An organization with a diverse workforce should be well positioned to achieve a competitive

advantage as they draw on the unique perspectives and mix of skills necessary to compete in a broad range of product markets (Richard, 1999). For managers, the implication is that diversity, as a knowledge-based resource, may allow firms to better adapt existing products or services, or create new ones, to anticipate and meet the changing needs of the marketplace.

The following sections are concerned with contingency variables that may affect the cultural diversity-firm performance relationship. In particular, this dissertation will examine diversity initiatives and socialization tactics.

#### Diversity Initiatives

It is estimated that companies spend \$200 to \$300 million dollars a year on diversity programs (Flynn, 1998a). As such, diversity initiatives are a critical aspect of organizations. Organizations must effectively manage the non-traditional groups of employees that make up the workforce in order to reap the full benefits diversity has to offer.

Diversity management refers to a variety of issues and activities related to the recruitment, hiring, and effective use of diverse human resources (Richard & Kirby,

1997). These activities are often referred to as "diversity initiatives" and involve actions such as creating an organizational culture that values diversity, facilitating higher career involvement of non-traditional employees, and dealing with employee resistance to diversity (Richard & Kirby, 1997).

### Value-in-Diversity

It is important to differentiate between traditional affirmative action (AA) and equal employment programs (EEO) and the new focus on diversity programs. One of the main differences between these programs is that diversity initiatives are voluntary and not mandated by the government while EEO and AA are forced upon organizations in order to rectify discrimination problems (Carrell & Mann, 1995; Loden, 1996). In addition, diversity initiatives are concerned with fostering an acculturation process in order to facilitate the handling of conflict within organizations. EEO and AA only address general workforce demographics with little or no consideration for other aspects of the organization (Carrell & Mann, 1995). Another difference is that "AA means using an individual's group identity as a criterion for making selection decisions" (Flynn, 1998b). Programs that emphasize the

value of diversity assume that diversity is a strategic advantage (Flynn, 1998b; Loden, 1996).

Another distinction can be made with regards to employee perceptions. For example, research indicates that employees often perceive affirmative action programs negatively. These perceptions result in unfavorable outcomes such as resentment by the majority group toward non-traditional employees, lower satisfaction, less commitment, and negative self-perceptions of competence by the minority group (Chacko, 1982; Heilman, Kaplow, Amato, & Stathatos, 1993). Diversity programs on the other hand, result in the elimination of stereotypes, enhanced communication, and better role models for non-traditional employees (Carrell & Mann, 1993; Ellis & Sonnenfeld, 1994). Finally, EEO and AA programs are targeted toward minority groups and neglect or exclude White males. A successful diversity program includes everyone in the organization and recognizes the fact that all employees make up the diversity of the firm (Loden, 1996).

Simply because an organization hires diverse employees does not mean that it automatically will benefit from enhanced creativity, decision making, or flexibility. Instead, the multiculturalism and uniqueness of a diverse workforce must be cultivated and promoted so employees

feel free to express their viewpoints (Comer & Soliman, 1996). However this is not an easy task to accomplish. Unless the organization appreciates the value of a diverse workforce any attempt to integrate culturally diverse employees will result in conflict and high turnover. As such, a "value-in-diversity" approach is necessary in order to enjoy the positive effects of diversity while avoiding the negative effects (Cox, 1994). Firms that value diversity encourage all employees to participate in organizational decision-making and to fully develop their unique skills and perspectives (Comer & Soliman, 1996).

It is important to remember that just as EEO/AA programs are not the same as diversity initiatives, valuing diversity and diversity are not the same thing (Loden, 1996). In order to value diversity, organizations must be truly diverse at all echelons. Simply having a diverse employee base at the lower levels of the organization does not mean that the firm values diversity.

Cox (1991) examines three different types of types of organizations: monolithic, pluralistic, and multicultural. Monolithic organizations are very homogeneous. They are characterized as having substantial white males with few females and people of color (Cox, 1991). Those women and people of color that do enter the organization must adopt

the organizational norms that were developed by the white males. As such, the monolithic organization is very ethnocentric. There is very little integration of white males and the minority groups. As a result, there are severe limitations on career opportunities for women and people of color (Cox, 1991).

The plural organization differs from the monolithic organization in several respects. First, the plural organization is more heterogeneous and takes steps to include women and people of color (Cox, 1991). However, despite the attempt to integrate women and people of color into the formal organization there are still heavy lines drawn in the informal organization. Minority group members are still forced to assimilate into the organization and adopt the norms set by the majority (Cox, 1991). As such, prejudice and discrimination still exist in plural organizations on many levels.

The multicultural organization is the most heterogeneous organization of the three. Instead of being forced to assimilate into the organization, minority group members are considered a valuable part of the organization (Cox, 1991). Multicultural organizations provide diversity training programs, language training, and mentoring for all employees. The multicultural organization emphasizes a

value-in-diversity strategy (Cox, 1991). As such, women and people of color are fully integrated into the organization. The organization's norms reflect the diverse workforce instead of being associated with the behaviors of the majority group (Cox, 1991).

As the labor pool becomes more and more diverse, individuals are beginning to cite diversity programs as a primary prerequisite for employment. In particular, applicants are looking at demographic profiles, training programs, and recognition and reward systems in order to determine if an organization truly values diversity (Loden, 1996). As such, it is apparent that valuing diversity can provide organizations with a competitive edge in the labor market. Organizations that are successful in implementing diversity initiatives are able to attract and retain a diverse workforce. This is particularly important because, as mentioned previously, the workforce is changing as an increasing number of employees begin to retire.

Organizations that value diversity enjoy many organizational benefits such as increased creativity, enhanced teamwork, and greater innovation (Loden, 1996). However, when diversity is not a primary concern of managers, organizations may experience higher absenteeism,



higher turnover, reduced productivity, and lost sales (Loden, 1996). As such, organizations that effectively manage their diverse employees can obtain a competitive advantage over firms that do not. It should be noted however that there are many different types of diversity programs. As indicated by the following review, while many diversity initiatives contain similar programs some may be better than others. Of course, this may be due to an increased commitment on the part of top management.

#### Diversity Programs

Similar to HR practices, diversity initiatives are often "bundled" together as a system of activities an organization adopts and implements. Several studies have examined the different approaches to diversity programs and their implementation (e.g., Carrell & Mann, 1993; Dass & Parker, 1999; Kandola & Fullerton, 1996; Konrad & Linnehan, 1995). In a survey conducted by Carrell and Mann (1993), human resource professionals responded to questions regarding the most commonly used diversity policies and programs in operation. Results indicate that only 34 percent had a written policy or program on diversity. Of those organizations that did have some type of diversity program the two most frequently reported

activities were recruitment (70 percent) and selection (59 percent). In addition, other practices included awareness training, workshops, sensitivity training, and customer services.

In a study conducted by Kandola and Fullerton, (1996) 285 organizations identified the top ten most frequently and least frequently implemented diversity initiatives (refer to Table 2.10). Top managers reported that the number one reason for implementing diversity initiatives was that they made good business sense (40 percent). In addition, they stated that they were forced to develop a diversity program due to legislation or legal reasons. It should be noted, however, that there is a difference between diversity programs and EEO/AA and therefore, it is possible that those organizations that cited legal reasons for implementing such programs may not have a "true" program that focuses on value-in-diversity.

In 1989, the Center for Creative Leadership conducted a study resulting in the Guidelines on Leadership Diversity, (Morrison, 1996). The study was concerned with identifying and solving problems related to diversity. In particular, the project group identified sixteen organizations that had a proven track record in

effectively managing a diverse workforce. These organizations either had higher than normal percentages of

TABLE 2.10 Diversity Initiatives

Most Frequently Implemented Initiatives	Least Frequently Implemented Initiatives
1. Policy on equal opportunity	1. Helping employees establish networks
2. Equal opportunity monitoring	2. Employee support groups
3. Strategy on equal opportunity	3. Helpers/signers for employees with disabilities
4. Fair selection training for recruiters	4. Access training to improve underrepresented group selection
5. Physically changing the work environment to accommodate disabilities	5. Providing skills updating for those out of the workforce for some time
6. Eliminating age criteria from selection decisions	6. Performance appraisals of managers based on equal opportunities given to employees
7. Explicit policy for harassment	7. Targets for the composition of the workforce
8. Flexible work arrangements (flextime)	8. Obtaining information regarding special needs during interviews
9. Allowing time off for dependent care beyond legal requirements	9. Assistance with childcare
10. Ongoing contact with local/national special interest groups	10. Employee opinion surveys on equal opportunities

Based on Kandola & Fullerton (1996)

women and people of color in management positions, or had effectively implemented and managed diversity practices.

Managers were asked to identify key policies and practices that were related to the organization's diversity initiative (see Table 2.11). Top management intervention was rated as the most important practice included in a diversity program. The next important practices included targeted recruitment of nonmanagers, internal advocacy groups, an emphasis on EEO statistics and the inclusion of diversity in performance evaluation goals and ratings.

TABLE 2.11 Top 52 Diversity Practices

Accountability	Development	Recruitment
1. Top management's personal intervention	1. Diversity training programs	1. Targeted recruitment of non-managers
2. Internal advocacy groups	2. Networks and support groups	2. Key outside hires
3. Emphasis on EEO statistics, profiles	3. Development programs for all high-potential managers	3. Extensive public exposure on diversity
4. Inclusion of diversity in performance evaluation goals, ratings	4. Informal networking activities	4. Corporate image as liberal, progressive, benevolent
5. Inclusion of diversity in promotion decisions, criteria	5. Job rotation	5. Partnerships with educational institutions
6. Inclusion of diversity in management succession planning	6. Formal mentoring program	6. Recruitment incentives such as signing bonuses
7. Work and family policies	7. Informal mentoring program	7. Internships

Table 2.11 Continued

8. Policies against racism, sexism	8. Entry development programs for all high-potential new hires	8. Public products highlight
9. Internal audit or attitude survey	9. Internal training (personal safety or language)	9. Targeted recruitment managers
10. Active AA/EEO committee office	10. Recognition, rewards, events	10. Partner non-traditional groups
11. Inclusion of diversity in determining manager's compensation	11. Development of programs for high-potential non-traditionals	11. Community involvement
12. Board of directors members activities	12. External training, seminars	
13. Personnel resources	13. Career planning	
14. Grievance procedure	14. Programs to interest employees in management jobs	
15. Child-care resources	15. Targeted job assignments for non-traditionals	
16. Selection of nontraditional vendors	16. Misc. development practices	
17. Inclusion of diversity in mission statement	17. Structured survey feedback to managers, promotion candidates	
18. Misc. accountability practices	18. Entry development programs for high-potential non-traditionals	
19. Customer satisfaction audits		
20. Exit interviews		
21. Noncash benefits for attracting non-traditionals		
22. Inclusion of non-traditionals in selection decisions, criteria		
23. Inclusion of non-traditionals in special awards		

Based on the GOLD Project (1989)

Konrad and Linnehan (1995) developed a list of diversity initiatives that can be categorized as either

identity-blind or identity-conscious HR structures (refer to Table 2.12). Identity-blind structures are "formalized HRM practices designed to ensure that the human resource decision making process is the same for each individual" (Konrad & Linnehan, 1995: 789). Identity-blind structures ensure that individuals are evaluated and rewarded based on merit. In addition, the number of employees considered for the distribution of resources is increased with these practices. As such, group identity is ignored in all aspects of decision making within an organization. It should be noted that these programs are closely related to EEO in which managers are instructed to be "blind" to differences between individual employees.

Identity-conscious structures include both merit and demographic group identity in the decision making process (Konrad & Linnehan, 1995). These programs take into account and individuals' gender, race, national origin, or other protected identity. As such, the goal of identity-conscious structures is to remedy discrimination, redress past injustices, and achieve fair and visible representation in leadership positions (Konrad & Linnehan,

TABLE 2.12 Identity-Conscious versus  
Identity-Blind Structures

Identity-Conscious Structures	Identity-Blind Structures
-------------------------------	---------------------------

<p><i>Policies and Issues</i></p> <ul style="list-style-type: none"> <li>• EEO statement</li> <li>• Identification and targeting of members of protected groups</li> </ul>	<p><i>Policies and Systems</i></p> <ul style="list-style-type: none"> <li>• Policies for harassment and whistleblowing</li> <li>• Job descriptions include minimum qualifications</li> </ul>
<p><i>EEO/AA Office</i></p> <ul style="list-style-type: none"> <li>• Appointed EEO/AA position</li> </ul>	<p><i>Training and Development</i></p> <ul style="list-style-type: none"> <li>• Tuition benefits available</li> <li>• Mentoring programs available</li> <li>• Remedial education available</li> </ul>
<p><i>Accessibility</i></p> <p>Work place is accessible for the disabled</p>	
<p><i>Affirmative Action Plan</i></p> <ul style="list-style-type: none"> <li>• Formal AA plan</li> </ul>	<p><i>Work/Family Interface</i></p> <ul style="list-style-type: none"> <li>• Flexible hours and schedules</li> <li>• Child care information is available</li> <li>• Financial support for childcare</li> <li>• Telecommuting</li> <li>• On-site child care is available</li> </ul>
<p><i>Line Management</i></p> <ul style="list-style-type: none"> <li>• Appraisals include adherence to the EEO/AA plan</li> <li>• EEO/AA statistics affect rewards and bonuses</li> <li>• Job descriptions include EEO/AA goals</li> </ul>	
<p><i>Training and Development</i></p> <ul style="list-style-type: none"> <li>• Mentoring programs for protected groups</li> <li>• Workshops for managing culturally diverse workforce</li> </ul>	<p><i>Compensation</i></p> <ul style="list-style-type: none"> <li>• Stock plan exists</li> <li>• At least 50% of managers' salary increase is based on performance</li> </ul>
<p><i>Work/Family Interface</i></p> <ul style="list-style-type: none"> <li>• Disability plan and separate maternity leave policies</li> </ul>	<p><i>Groups and Professional Associations</i></p> <ul style="list-style-type: none"> <li>• Sponsors membership in professional associations for managers</li> </ul>
<p><i>Compensation</i></p> <ul style="list-style-type: none"> <li>• Promotions and salary increases are examined for their impact on equal pay</li> </ul>	<p><i>Recruiting</i></p> <ul style="list-style-type: none"> <li>• Methods other than interviews</li> <li>• Internal career ladders</li> <li>• System for identifying eligible senior management candidates</li> <li>• HR screens all potential candidates</li> <li>• College recruiting</li> <li>• Head hunters are used</li> </ul>
<p><i>Groups and Professional Associations</i></p> <ul style="list-style-type: none"> <li>• Company sponsors membership in professional associations for women and minorities</li> <li>• Interest groups for minorities and women</li> </ul>	
<p><i>Recruiting</i></p> <ul style="list-style-type: none"> <li>• Formal policy for aggressive recruiting of protected groups</li> </ul>	<p><i>Workforce Reductions</i></p> <ul style="list-style-type: none"> <li>• Salaries are influential in who is let go</li> <li>• HR discusses rationale for each termination with line managers</li> </ul>

Table 2.12 Continued

	<p><i>Terminations/discharges for poor performance</i></p> <ul style="list-style-type: none"> <li>• Managers receive regular feedback</li> <li>• There must be written documentation of poor performance prior to firings</li> <li>• Employees must see such documentation first</li> </ul>
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Based on Konrad & Linnehan (1995)

1995). Identity-conscious structures include practices such as an EEO/AA office, affirmative action plans, training and development, recruiting of non-traditional employees, and group and professional associations.

Results indicate that identity-conscious structures are positively associated with the ranking and percentage of women and people of color in management. There was no significant association between identity-blind structures and the number of women and people of color in management positions. This presents a potential problem for many organizations because of the negative perceptions of identity-conscious structures (Konrad & Linnehan, 1995). Therefore, while identity-conscious structures are necessary for the improved employment status of non-traditional employees, organizations will have to work extra hard to justify these programs in order to alleviate the negative perceptions.



It is apparent that organizations are developing diversity initiatives in order to more effectively manage their employees. Kandola and Fullerton (1996) report that in select organizations, diversity initiatives have indeed had an impact on organizations. For example, several companies reported that the implementation of on-site day care facilities, extended maternity leave, and "family friendly policies" resulted in a decrease of post maternity turnover ranging from 10-20 percent. Another company reported that gender awareness training has reduced turnover costs to less than \$2 million a year.

Moderating Impact of  
Diversity Initiatives  
on the Diversity  
Firm Performance  
Relationship

It is important to remember that simply having a diverse workforce is not enough to harness the benefits. An organization must place significant emphasis on diversity. For example, valuing diversity should be linked to the strategic goals of the organization. It should coincide with the firm's HR system but is "recognized as being more than a HR program" (Loden, 1996: 34). As such, organizations must to effectively manage their diversity in order to reap rewards.

Organizations do not automatically benefit from the enhanced creativity, decision-making, or flexibility that is associated with diversity. Instead, a diverse workforce must be cultivated and promoted so employees feel free to express their ideas (Comer & Soliman, 1996). Unless the organization implements diversity initiatives to effectively manage diversity, any attempt to integrate culturally diverse employees will result in conflict and high turnover. Firms that have diversity programs are able to fully develop the unique skills and perspectives of culturally diverse employees (Comer & Soliman, 1996).

Identity-conscious structures formally recognize differences in employees based on gender and race/ethnicity. Recognizing distinctions in employees allows organizations to capitalize on the different perspectives and ideas that diversity brings. Organizations are therefore able to exploit the positive effects of diversity. Identity-conscious structures increase the interaction between majority and minority groups, thereby increasing the likelihood of more meaningful contact (Brickson, 2000). This increase in meaningful contact may result in a better understanding of the different cultural groups within an organization. As such, identity-conscious structures create an organization

where diversity is accepted and discussed openly. This "value-in-diversity" approach allows a firm to benefit from increased organizational performance.

In addition, individuals often cite diversity programs as a primary prerequisite for employment. In particular, applicants are interested in working for organizations that have formal diversity policies in place in order to reduce discrimination and harassment. Organizations that implement identity-conscious structures are able to attract and retain a diverse workforce. As such, identity-conscious structures can provide organizations with a competitive edge in the labor market. This is particularly important given the prediction that the labor pool will not possess enough qualified candidates to fill necessary jobs by the year 2020 (Judy & D'Amico, 1997). Organizations that are able to attract and retain a diverse workforce that is highly skilled and knowledgeable will be able to achieve a competitive advantage and enjoy increased levels of firm performance. As such, the following hypothesis is offered:

H<sub>3</sub>: Identity-conscious structures positively moderate the relationship between cultural diversity and firm performance.

### Socialization Tactics

Organizational socialization is defined as the process by which "an individual comes to appreciate the values, abilities, expected behaviors, and social knowledge essential for assuming an organizational role and for participating as an organizational member" (Louis, 1980; 229). These processes represent a mechanism by which newcomers learn the organization's culture and adjust to its environment (Hood & Koberg, 1994). Socializing employees through tactics that emphasize the organization's ethos will strengthen the identification the employee has with the firm. This is particularly important when considering the possibility that an employee might identify strongly with a particular cultural group, such as is the case of women and people of color. In order to function successfully it is necessary for employees to appreciate the values and beliefs of the organization.

Socialization plays an important role in assisting employees as they determine their place within the organization. It is the primary process by which new employees adapt to a job and their role within the organization (Chao, O'Leary-Kelly, Wolf, Klein, & Gardner, 1994). Organizations exist within a cultural context,

therefore, socialization experiences help determine the level of cultural congruence between the individual and the organization. Socializing a culturally diverse employee into the organization represents a distinct challenge for managers. Understanding the unspoken rules and norms of the organization is especially difficult for members that are culturally diverse because they are often not included in the informal social networks of the organization.

Hood & Koberg (1994) suggest that the acquisition of norms and values at work during the socialization process can be more difficult for women than men. They propose that women who are not included in the informal networks, are not provided adequate mentors during their career, and are denied the sense of peer acceptance granted to those who are members of the majority group will be prohibited from acquiring the knowledge necessary to perform the job.

It is important to note however, that socialization is a complicated process. Managers should be careful not to create such a strong identification with the organization that employees lose all identity as an individual. Employees should retain their own cultural identity because this is what brings the different perspectives and viewpoints that can aid an organization

in attaining a competitive advantage. The goal is to create a feeling of unity in the organization that brings diverse people together instead of creating divisions based on culture (i.e., gender or racioethnicity).

Through intense socialization processes employees begin to identify strongly with the organization (Tsui & Gutek, 1999). Socialization therefore provides employees with a frame of reference with which to identify. In the case of culturally diverse employees, the organization may attempt to replace the employees' preexisting social identity with a new frame of reference that is focused on the firm. If however the organization does not attempt to eradicate the employee's preexisting identification but instead creates an environment where differences are valued then the socialization process can contribute to a supportive environment for culturally diverse employees and place an emphasis on the value of diversity (Tsui & Gutek, 1999). In particular, whether the organization is supportive of diversity or operates to homogenize the behaviors of newcomers may ultimately determine the creative capacities of the organization (Jackson, 1992). As such, the ability of an organization to achieve a competitive advantage based on the benefits of diversity

is dependent upon the socialization process of the organization.

According to Lado & Wilson (1994), socialization processes can aid a firm in achieving a sustainable competitive advantage by enabling new employees to learn "tacit" knowledge that is deeply embedded in the organization. This tacit knowledge is then transformed into organizational knowledge that is linked to the organization's strategy. Therefore, certain socialization processes, when used in the appropriate context, such as high levels of diversity, can result in a competitive advantage.

### Socialization Tactics

Research regarding socialization tactics is often viewed as an organizational choice (e.g. Allen & Meyer, 1990; Jones, 1983; Van Maanen & Schein, 1979). The organization chooses tactics that either encourage diversity or homogeneity. Six groups of socialization tactics (refer to Table 2.15), collective vs. individual, formal vs. informal, sequential vs. random, fixed vs. variable, serial vs. disjunctive, and investiture vs. divestiture describe how the organization acclimates newcomers (Van Maanen & Schein, 1979; Jones, 1986).

The first two types of tactics, collective vs. individual and formal vs. informal, refer to the context in which organizations provide information to employees (Jones, 1986). Collective tactics involve placing all new employees in a group to provide a common learning experience. Employees are taught standard responses to

TABLE 2.13 Socialization Tactics

Institutionalized Socialization		Individualized Socialization	
Collective		Individual	
Formal	Content	Informal	
Sequential		Random	
Fixed	Context	Variable	
Serial		Disjunctive	
Investiture	Social	Divestiture*	

Based on Van Maanen and Schein (1979)

\*Adapted from Jones (1986)

numerous situations. On the other hand, individual tactics involve providing employees with unique situations so they may develop diverse responses. New employees are often separated from one another and encouraged to be creative and innovative when developing responses to different situations. When using formal socialization tactics, employees are separated from tenured members while they are trained in the responsibilities of their new roles. An example of informal socialization tactics can be found in on the job training programs that encourage employees to



learn as they go. Individual, informal socialization tactics encourage diverse ideas and problem solving techniques while collective, formal tactics encourage identical responses and standard procedures.

The next two categories of tactics involve the content of information that is conveyed to employees (Jones, 1986). These categories include sequential vs. random and fixed vs. variable tactics. Sequential tactics provide employees with guidelines about the sequence and timing of advancement or other related activities in the organization. Random tactics do not provide employees with information regarding the sequence of events that constitute a process. In other words, employees are not provided with a clear career path or recipe for success in an organization. Companies that utilize fixed socialization tactics provide employees with precise timetables for advancing in an organization. Conversely, variable tactics provide no information regarding the learning process or advancement. When used in conjunction with a highly diverse group of employees random, variable tactics may encourage innovative responses. Sequential, fixed tactics on the other hand, will lead to conformity (Van Maanen & Schein, 1979).

Finally, the last category of socialization tactics involves introducing the employee to the organization through social methods. Serial tactics provide a mentor relationship by placing an experienced member with the new employee. Disjunctive tactics force new employees to come to their own conclusions about situations because they are not provided with a mentor to guide them. Companies that employ investiture tactics acknowledge individuals' personal characteristics and reinforce their beliefs and values. Divestiture however, attempts to force the newcomer to unlearn their values and beliefs and mold a new employee that is similar to other members of the organization. It should be noted that contrary to Van Maanen & Schein (1979), divestiture tactics do not cause individuals to adopt a custodial role orientation. Instead, individuals are actually encouraged to question situations thereby stimulating innovative role orientations (Jones, 1986). As such, disjunctive, divestiture tactics encourage input from a diverse workplace because the organization values differences of opinion and beliefs. Serial and investiture tactics on the other hand, discourage diversity in the workforce by producing employees that are similar in values and beliefs.

Individualized Socialization Tactics. Individualized socialization tactics encourage an innovative role orientation (i.e. employees question the status quo and develop their own approach to their roles) (Jones, 1986). Individualized socialization involves individual, informal, random, variable, disjunctive, and divestiture tactics. An organization that employs individualized socialization is more heterogeneous because differences in values, opinions, and beliefs are encouraged and accepted (Jones, 1986).

Individualized socialization tactics promote a heterogeneous organization that capitalizes on differing beliefs and values. In the past, these tactics have been positively related to performance but negatively related to conflict (Ashforth & Saks, 1996; Jones, 1986). It is possible however, that the negative relation to conflict is due to matching improper tactics with different levels of diversity. For example, an organization that has high levels of cultural diversity will benefit from using socialization tactics that encourage employees to draw upon their experiences, beliefs, and values in order to solve problems and make decisions.

Through encouraging employees to develop innovative roles and appreciating individuals' differing beliefs and

values, organizations may create a diverse workplace where women and minorities feel valued and an important part of the success of the organization. The use of individualized socialization tactics should result in mutual respect between employees and acknowledgement of the benefits associated with cultural diversity (i.e. increased firm performance). Individualized tactics should reduce discrimination in the workplace and provide role models or mentors. As a result, racioethnic minorities and women should not be excluded from the networks and social groups because these tactics encourage and promote staffing decisions regarding diverse individuals.

Organizations will benefit from the positive consequences of diversity if tactics are used that encourage and promote diversity in the workplace. Therefore, organizations that seek to take advantage of the benefits associated with high levels of diversity may experience increased firm performance by using individualized socialization tactics. This socialization process leads to a multicultural organization in which "all members and their cultures are appreciated and utilized to achieve organizational success" (Richard & Grimes, 1996: 165). The result is an increase in firm performance. As such, the following hypotheses is offered:

H<sub>4</sub>: Individualized socialization tactics will positively moderate the relationship between cultural diversity and firm performance.

Institutionalized Socialization Tactics. Institutionalized tactics refer to the way in which collective, formal, sequential, fixed, serial, and investiture tactics provide new employees with explicit guidelines about behavior as well as the sequence and timing of progression in an organization (Allen & Meyer, 1990). A structured program that encourages a custodial role orientation (i.e. employees passively accept preset roles and thus maintain homogeneity) characterizes institutionalized socialization tactics (Jones, 1986). Institutionalized socialization produces a more homogeneous organization where innovation is inhibited and employees respond to situations very similarly. According to Allen & Meyer (1990), institutionalized socialization tactics may have a negative effect on creativity and innovation.

The negative impact of institutionalized socialization tactics can be examined based on a collective identity orientation. In particular, minority group members feel an increased amount of pressure to assimilate to majority group norms in order to demonstrate their allegiance (Brickson, 2000). Institutionalized socialization tactics often force individuals to fit the

organization. Employees are forced to assimilate into the organization and assume the same values and beliefs as the majority. This process can be very difficult for culturally diverse individuals; especially those that wish to retain their own culture (Richard & Grimes, 1996).

In extreme cases of conflict associated with assimilation, individuals may experience acculturative stress (Berry, 1997). Acculturative stress involves the psychological, social, and physical health consequences involved when individuals of different cultures come into contact and experience subsequent changes in their cultural patterns (Olmedo, 1979). Therefore, organizations with high levels of diversity experience the negative effects related to conflict and turnover because of the improper socialization of new employees. A culturally diverse organization that employs institutionalized tactics will experience higher levels of conflict and turnover and lower firm performance.

Institutionalized socialization tactics are more suited for organizations with low levels of diversity. These tactics produce homogeneous organizations with employees that respond similarly to situations and share similar values and beliefs. Organizations that select individuals who are culturally similar should find the

socialization process much smoother when using institutionalized tactics than organizations with culturally diverse employees. Thus, the following hypothesis is offered:

H<sub>5</sub>: Institutionalized socialization tactics will negatively moderate the relationship between cultural diversity and firm performance.

### Chapter Summary

Chapter 2 presents a review of the existing literature relevant to the study of cultural diversity, human resource systems, diversity initiatives, and socialization. The first section was concerned with the cultural diversity literature. In particular, the diversity review was divided into several subdivisions. First, was a review of the literature based on the resource-based view of the firm. The next subdivision focused on social identity theory and the last subdivision was concerned with contingency theory. The second section presented arguments for the importance of adopting a contingency perspective when examining diversity initiatives. Following this was a review of the socialization tactics employed by organizations when introducing newcomers to the firm. The next chapter presents the research methodology, which includes a

description of the sample, a discussion of data collection instruments, and the data collection procedure.



## CHAPTER 3

### RESEARCH METHODOLOGY

The purpose of this chapter is to discuss the methods employed in this dissertation. The first section of this chapter provides details on the sample frame utilized in this study. Then, the operationalization of the constructs is reviewed. Then, the exact procedures used to collect data are reviewed. Finally, the data analysis method used to test hypotheses is discussed.

#### Sample Methodology

This dissertation was conducted in multiple industries in order to allow for more generalizability of the results and to obtain a sample size large enough to provide adequate power. Two different sample frames were used. One sample frame (See Table 3.1) was drawn from Compact Disclosure, a database containing comprehensive financial information for over 12,000 publicly held firms. Firms were included in the sample frame if they had more

TABLE 3.1 Sample Frame Description

Compact Disclosure Service Industry		Total = 1,516 firms
<ul style="list-style-type: none"> <li>➤ October 2000</li> <li>➤ &gt; 100 employees</li> <li>➤ U.S. owned</li> </ul>		
Industry Description		
Transportation SIC = 40, 41, 42,44, 45, 47	Establishments primarily engaged in transportation services (e.g., passenger transportation, warehousing, air transportation, & crating).	engaged in (e.g., railroads, trucking, & packing & crating).
Communication SIC = 48	Establishments primarily engaged in communication services (e.g., broadcasting, television publishing, information retrieval services, & motion picture theatres).	engaged in (e.g., radio broadcasting, & motion picture theatres).
Utilities SIC = 49	Establishments primarily engaged in the generation, transmission, and/or distribution of natural resources (e.g., electric services, natural gas, & water supply).	engaged in the
Wholesale Trade SIC = 50, 51, 52, 53, 54	Establishments engaged in the wholesale distribution of goods (e.g., furniture, medical supplies, & dairy products).	engaged in the
Retail Trade SIC = 55, 56,57,58,59	Establishments primarily engaged in the distribution of retail goods (e.g., hardware, automotive dealers, clothing, computers, & mail order houses).	engaged in the
Insurance SIC = 63, 64	Establishments primarily engaged in underwriting insurance (e.g., title insurance, insurance agents, & fire insurance).	engaged in
Real Estate SIC = 65	Establishments primarily engaged in the operation or renting, buying, or selling of buildings, land or equipment (e.g., real estate agents, heavy equipment leasing, videotape rental, & passenger car leasing).	engaged in the
Finance SIC = 60, 61, 62	Establishments primarily engaged in financial services (e.g., loan brokers, credit institutions, & investment advice).	engaged in financial
Business Services SIC = 73	Establishment primarily engaged in services offered for business purposes (e.g., advertising agencies, computer programming services, collection services, & employment agencies).	engaged in services
Consumer Services SIC = 70, 72, 75, 76, 78, 80, 81, 82, 86, 87, 89	Establishments primarily engaged in services offered to consumers (e.g., lodging, repair services, & motion pictures).	engaged in services

than 100 employees and were primarily involved in service industries. Industries included transportation, communication, utilities, wholesale and retail trade, insurance, real estate, finance, and business services. Firms were excluded from the sample frame if they were foreign-owned or were primarily involved in manufacturing. The total number of firms included in the sample frame was 1,516.

The second sample frame included only banks. The sample frame was obtained from Sheshunoff's Financial Database. Banks were included in the sample frame if they had 100 or more employees. The total number of banks included in the sample frame was 1,453.

### Operationalization of the Constructs

#### Diversity Levels

The level of cultural diversity was operationalized by asking the HR managers in participating organizations to indicate the percentage of White, Black, Hispanic, Asian, and Native American men and women in the organization. Managers recorded information on a blank 1999 EEO-1 form in order to make reporting simpler and consistent across firms.

Blau's (1977) heterogeneity index was used to assess the level of diversity in the organizations. This index has been used in several studies (e.g., Richard, 2000; This index of heterogeneity:

$$(1-\sum p_i^2)$$

assesses overall organizational diversity where  $p$  is the proportion of members in a category and  $i$  is the number of different categories represented in the organization. In cases of extreme homogeneity, the measure reflects a value of zero and in cases of extreme heterogeneity the measure reflects a value of .8.

Management group diversity was measured using the EEO form. The HR manager indicated the percentage of White, Black, Hispanic, Asian, and Native American men and women in the management group of the organization.

### Diversity Initiatives

Diversity initiatives were measured using a scale created by Konrad and Linnehan (1995). This scale distinguishes between identity conscious and identity blind initiatives (See Table 3.2). The authors used two independent raters, who categorized items as either identity conscious or identity blind. The raters achieved 98 percent agreement on the classifications. Two items

TABLE 3.2 Identity-Conscious Structure

<b>Identity-Conscious Structure:</b>	
<i>Instructions: These include any formalized policy, procedure, practice, or program that involves categorizing people on the basis of race, color, religion, sex, and/or national origin and focussing specially on the experiences of groups that are protected under Title VII and EO 11246. Such structures may (1) examine the characteristics or experiences within these categories, (2) compare the characteristics or experiences of categories of people and/or adjust the distribution of outcomes between categories or people, (3) entail following different or more extensive procedures in making personnel decisions regarding people in protected categories than for others and/or (4) identify special means of attracting, retaining, and developing people in protected categories that would not be used to attract, retain, or develop others. Please answer each item with either Yes or No.</i>	
1.	A diversity policy statement exists.
2.	There is a written statement of the consequences for violating the diversity policy.
3.	Turnover rates are calculated for protected groups.
4.	Members of protected groups who are potential candidates for management are identified and targeted for promotion.
5.	A system exists which monitors minority and female representation in feeder jobs, which impact on the ability to meet diversity goals at management levels.
6.	There is a specific position designated to handle diversity issues.
7.	There is a person with diversity expertise on staff.
8.	A diversity expert has been consulted from outside the company to develop or modify the company's employment practices.
9.	Members of protected groups are specially targeted to receive management and development training.
10.	A special mentoring program for female managers exists.
11.	A special mentoring program for managers of color exists.
12.	Managers are trained in their diversity responsibilities.
13.	Workshops or seminars on managing a culturally diverse workforce are made available to managers.
14.	Community minority or women's programs or associations are regularly supported either financially or through nonfinancial means (e.g., provide meeting space, give a reception, print a newsletter).
15.	The company sponsors membership in minority professional associations for managers.
16.	The company sponsors membership in women's professional associations for managers.
17.	There is a minority interest group.
18.	There is a women's interest group.

(Konrad & Linnehan, 1995)

were dropped in order to obtain a 100 percent rating agreement. The result was 117 items, 54 of which were defined as identity conscious structures, and 63 of which were defined as identity blind structures. Cronbach's alpha was .93 for the identity-conscious structures.

Only three categories were used for the purpose of this dissertation: policies/systems, training/development, and groups and professional associations. Policies/systems and training/development were chosen because they represent the diversity initiatives most often employed by organizations (Carrell & Mann, 1993; Kandola & Fullerton, 1996). Groups and professional associations were chosen because they were among the least often implemented initiatives (Kandola & Fullerton, 1996). Respondents were asked to indicate whether or not their companies implemented specific diversity practices. For most of the items either a simple yes (1) or no (0) answer was requested.

The scores reflected the proportion of the practices adopted by each organization. The higher the proportion the more practices an organization adopts. For example, if a particular organization answered yes to eight of the eighteen items on the identity-conscious scale then they would have a score of 8.

### Socialization Tactics

Socialization tactics were measured using a scale developed by Van Maanen & Schein (1979) and later adapted by Jones (1986). The instrument distinguishes between individualized and institutionalized socialization tactics (See Table 3.3). Jones (1986) performed factor analysis with orthogonal rotation of the factors to ensure that all items loaded as expected. The social and content tactics all loaded correctly. However, the context tactics, loaded on two different dimensions. As such, Jones (1986) states that the results provided moderate support for this classification.

TABLE 3.3 Socialization Tactics

Instructions: <i>These statements are about your organization. Please indicate the degree to which these statements describe the actual conditions in your organization.</i>
<b>Collective vs. Individual Tactics</b>
1. New employees are extensively involved with each other in common job related training activities.
2. New employees are instrumental in helping each other understand their job requirements.
3. This organization puts all newcomers through the same set of learning experiences.
4. Most of the new employee training is carried out apart from other new employees.
5. There is a sense of "being in the same boat" among newcomers in this organization.
<b>Formal vs. Informal:</b>
1. New employees are put through a set of training experiences which are specifically designed to give them a thorough knowledge of job related skills.
2. During training for their job, new employees are normally physically apart from experienced organizational members.
3. New employees do not perform any part of their normal job responsibilities until they are thoroughly familiar with departmental procedures and work methods.

Table 3.3 Continued

4. Much of a new employees job knowledge is acquired informally on a trial and error basis.
5. New employees are very aware of the fact that they are seen as "learning the ropes" in this organization.
<b>Investiture vs. Divestiture:</b>
1. New employees are made to feel that their skills and abilities are very important in this organization.
2. Almost all the experienced organizational members are supportive of newcomers in this organization.
3. Newcomers often have to change their attitudes and values to be accepted in this organization.
4. Experienced organizational members go out of their way to help newcomers adjust to this organization.
5. Newcomers often feel experienced organizational members keep them at a distance until they conform to their expectations.
<b>Sequential vs. Random:</b>
1. There is a clear pattern in the way one role leads to another or one job assignment leads to another in this organization.
2. Each stage of the training process has, and will, expand and build upon the job knowledge gained during the preceding stages of the process.
3. The movement from role to role and function to function to build up experience and a track record is very apparent in this organization.
4. This organization does not put newcomers through an identifiable sequence of learning experiences.
5. The steps in the career ladder are clearly specified in this organization.
<b>Serial vs. Disjunctive:</b>
1. Experienced organizational members see advising or training newcomers as one of their main job responsibilities in this organization.
2. New employees gain a clear understanding of their role in this organization from observing their senior colleagues.
3. New employees receive little guidance from experienced organizational members as to how they should perform their job.
4. New employees have little or no access to people who have previously performed their role in the organization.
5. New employees are generally left alone to discover what their role should be in this organization.
<b>Fixed vs. Variable:</b>
1. New employees can predict their future career path in this organization by observing other people's experiences.
2. New employees have a good knowledge of the time it will take to go through the various stages of the training process in this organization.
3. The way in which new employees' progress through this organization will follow a fixed timetable of events that is clearly communicated to them.
4. New employees have little idea of when to expect a new job assignment or training exercise in this organization.
5. Most of a newcomer's knowledge of what will happen to him/her in the future comes informally, through the grapevine, rather than through regular organizational channels.



The result was six, 5-item scales that measure each of the socialization tactics. The instrument is a 7-point Likert-type format with some items reverse scored. Responses range from "strongly disagree" to "strongly agree." The senior HR manager - indicated the degree to which he/she agrees or disagrees with each statement. For every organization, the items in each scale were summed and mean of each scale was determined. The resulting value was then interpreted as either above or below mean for all organizations.

#### Dependent Measures

Financial information from 1999 was collected from firms in the service industry while financial information from 2001 was collected for banks. Three measures of firm performance were used. Two accounting based measures, return on assets (ROA) and return on equity (ROE), were used as well as an employee productivity measure. ROA and ROE are useful in assessing the overall effectiveness of the firm's management. ROA was calculated as net income divided by total assets. Therefore, ROA is a measure of how effectively we are managing our assets. ROE was calculated as net income divided by common equity. ROE

measures the rate of return earned on common stockholder's investment.

Employee productivity was also used as a measure of performance. Productivity is particularly important in service organizations because human labor costs can be high (Mehra, 1996). In addition, productivity has been used consistently in studies measuring performance (e.g., Huselid, 1995; Huselid, Jackson, & Schuler, 1997; Richard, 2000). Employee productivity was calculated as the net income per employee.

#### Control Variables

Five control variables were used. First, firm size was operationalized as the natural logarithm of the total dollar value of assets. Previous research has shown that a relationship exists between size and profitability in some industries (Delery & Doty, 1996). Second, the year of information obtained was controlled by using dummy variables. 1 was entered for the year 1999 and 0 was entered for the year 2001. Third, due to the fact that the sample was cross-sectional, the performance measures were adjusted for industry norms (Wright & Kroll, 2001). This industry adjustment involves estimating the industry average level of ROE, ROA, and productivity. In order to

calculate each industry's employee productivity, Net income was divided by the number of employees for each company in the industry. Then these numbers were averaged as the industry productivity. This was completed for each SIC code used in the study.

Finally, race and gender were used as control variables. In regressions analyzing race, gender was used as a control variable and in regressions analyzing gender, race was used as a control variable.

#### Data Collection Procedure

Information regarding the independent and moderating variables was collected with a questionnaire mailed to the senior human resource professional in each organization. Financial performance information was obtained from Compact Disclosure or the FDIC website. Return on assets and return on equity information was obtained directly from the databases while employee productivity was calculated using information provided in the databases.

Two complete mailings were sent to the senior human resource professional of each firm. The second mailing followed the first by three weeks. For the firms in the service industry a third mailing was sent out because of the Anthrax threats that coincided with the second

mailing. Therefore, a total of 5 mailings were sent. Included in the mailing was a cover letter on University letterhead explaining the purpose of the study and assuring confidentiality.

The questionnaire consisted of 87 items. In order to facilitate responses it was formatted to fit on one 8 1/2 by 11 inch sheet front and back. The sheet was then folded in half like a pamphlet. In addition, the questionnaire was printed on blue paper so it would stand out. The complete questionnaire appears in the Appendix.

### Data Analysis

Hypotheses 1 and 2 posit that cultural diversity is associated with firm performance.

H<sub>1a</sub>: Cultural diversity in the management group is positively related to firm performance.

H<sub>1b</sub>: Cultural diversity in the management group is negatively related to firm performance.

H<sub>2a</sub>: Cultural diversity at the organizational level is positively related to firm performance

H<sub>2b</sub>: Cultural diversity at the organizational level is negatively related to firm performance.

The first set of hypotheses were tested by hierarchical regression analysis. Due to the control variables included in this dissertation, hierarchical regression was appropriate. In addition, according to Cohen and Cohen

(1983: 120) "hierarchical regression is one of the most useful tools for extracting information from a data set."

Hypotheses 3-5 posit that diversity initiatives and socialization tactics moderate the relationship between cultural diversity and firm performance.

H<sub>3</sub>: Identity-conscious structures positively moderate the relationship between cultural diversity and firm performance.

H<sub>4</sub>: Individualized socialization tactics will positively moderate the relationship between cultural diversity and firm performance.

H<sub>5</sub>: Institutionalized socialization tactics will negatively moderate the relationship between cultural diversity and firm performance.

All of the contingency hypotheses were tested using hierarchical regression analysis. Hierarchical regression analysis allows for the testing of moderated relationships. Since the last four hypotheses were based on contingency theory, this is the appropriate statistical technique. In addition, this technique is considered to be a conservative method for testing interaction effects because the interaction terms are tested after the other independent variables are entered into the equation. Therefore, the interaction effects are deemed significant only if they explain a significantly greater portion of the variance in the dependent variable than that which is

explained by the individual independent variables (Hair, et al., 1998). In other words, significant changes in adjusted  $R^2$  provide support for the hypotheses (Delery & Doty, 1996).

A full hierarchical regression procedure consists of a series of multiple regression analyses, each with one more variable or set of variables than the one before (Cohen & Cohen, 1983). It should be noted that the order of variables is a critical factor to be considered. Each variable should only be entered in a manner that reflects their presumed causal priority (Cohen & Cohen, 1983). A major advantage of hierarchical regression is that once the order of independent variables has been specified, a unique partitioning of the total Y variance accounted for by the independent variables may be made.

First, all of the control variables were entered. Cultural diversity was entered in the second step. Next the moderating variables, diversity practices and socialization tactics were entered. Finally, the interactions between cultural diversity and each of the moderating variables was entered. This procedure will therefore measure the change in the level of explained variation before and after the variables of interest are added to the control variables (Richard, 2000).

## CHAPTER 4

### PRESENTATION OF DATA ANALYSIS

The purpose of this chapter is to present the results of the empirical analysis. The first section of this chapter provides details of the characteristics of the sample, as well as a discussion of measurement issues, presentation of descriptive statistics, and correlations. Finally, the hypotheses tests and results are discussed.

#### Characteristics of the Sample

Two separate databases were used as sampling frames for this study. First, 1,516 companies in the service industry were sent a cover letter requesting the HR Director's participation along with the survey and a business reply envelope. A total of three complete mailings were conducted. Each mailing contained a cover letter, survey, and a business reply envelope. A total of 36 usable surveys were returned. Eighty-nine were returned by the post office as undeliverable. Finally, 34 were returned incomplete and therefore, unusable.

The second sample frame included 1,453 banks listed in Sheshunoff's Financial Services Database. As in the first sample frame, each mailing contained a cover letter, survey, and a business reply envelope. A follow up postcard was sent two weeks after the first mailing as a reminder notice. Forty-nine usable surveys were returned. Eight were returned as undeliverable by the post office. Eight were returned incomplete and therefore, unusable.

One case was removed from the database because it was an outlier in terms of firm performance. A normal Q-Q plot was created to determine if the firms were normally distributed with regard to firm performance. The data was normally distributed with the exception of one case. This case was removed from the data set. Therefore, there were 85 total usable surveys.

The response rate was 2.8%. This is an extremely low percentage and is one of the limitations of the study. There are several possible reasons for this response rate. First, the information requested was of a highly sensitive nature. Some companies are not willing to give out information regarding the diversity of their organizations. Due to the high risk of lawsuits and affirmative action issues, HR managers are reluctant to discuss the number of minorities employed within the



company. Another possible reason for the low response rate was timing. At the time the second mailing was sent out, America was in the midst of an Anthrax scare. This ultimately affected the way companies handled and responded to unsolicited mailings.

Response bias was tested in order to ensure there were no significant differences in the way the companies of the two sample frames responded to the survey. According to Delery and Doty (1996) logistic regression is a useful way of determining response bias. A dummy variable coded 0 was used for the banks and 1 was used for the service industry. The independent variables included return on assets, return on equity, and productivity. Table 4.1 shows the results of the logistic regression. There were no significant differences between the banks and the service companies in the first sample.

TABLE 4.1 Logistic Regression for Response Bias

Model Chi-Square	108.82				
Degrees of Freedom	3				
Significance	.000				
Variable	B	S.E	Wald	Df	Sig
ROA	-3.118	10.369	.090	1	.764
ROE	-5.566	7.289	.583	1	.445
Productivity	-1.656	1.959	.715	1	.398

In addition to testing for differences between the banks and the service companies differences between the companies in the sample and the industries were also tested. T-tests were performed in order to compare the means across ROA, ROE, and productivity. Results indicated that there were no significant differences between the companies in this sample and other companies in the industry with respect to ROA and productivity. There was a significant difference between the companies included in this sample and the industry with respect to ROE.

This does not pose a serious problem for this study because further testing revealed the difference was due to several high performers included in the sample. The inclusion of these outliers with respect to ROE does not change the results of this study.

The banks had an average of 168 full-time employees. The number of full-time employees ranged from 35-371. There was an average of 40 managers per bank, with a range of 3-100. The average assets of banks included in the sample were \$479,616,814.00. Total assets ranged from \$244,893,000-\$1,385,000,000.

Service companies had an average of 8,983 employees. The number of full-time employees ranged from 24-174,259. There was an average of 609 managers per service firm,

with a range from 9-7,209. The average assets of service companies included in this sample were \$1,475,814,514.00. Total assets ranged from \$62,304,000-\$14,450,000,000.

### Measurement Issues

#### Reliability Analysis

The valid measurement of constructs is essential in any science. Operationalizations of constructs must be consistent with their definition and appropriate for the particular research design. The most common method for measuring the reliability of multiple item scales is Cronbach's coefficient alpha. Reliability coefficients of .70 are generally used as the rule of thumb for most research (Nunnally, 1978). However, social science research often reports coefficient alpha reliabilities under .70 (Hatcher, 1994). In addition, Caplan, Naidu, & Tripathi (1984) suggest that reliability coefficients of .50 are adequate for research purposes. In addition,

Reliability analysis was conducted on the Socialization Tactics Scale. Each of the six categories were examined and alphas were calculated (Table 4.2). All but one category had coefficient alphas of .60 or higher. Category one had a coefficient alpha of .2997. Results indicated that item 4 was negatively correlated with the

rest of the items. Therefore, it was removed and the coefficient alpha improved and rose to .6113. Formal versus Informal tactics reflected an alpha of .4243 and was therefore, dropped. The remaining five categories were all included in the final analysis.

TABLE 4.2 Reliabilities

Category	Alpha
1. Collective-Individual	.6113
2. Formal - Informal*	.4299
3. Sequential - Random	.8091
4. Fixed - Variable	.7348
5. Serial - Disjunctive	.7684
6. Investiture - Divestiture	.7329

\* This category was removed from the analysis due to low reliability.

#### Descriptive Statistics

The means, standard deviations, and correlations are provided in Table 4.3. Each of the variables will be discussed in this section.

Diversity was calculated using Blau's Heterogeneity index. Based on the categories in the Standard EEO form, a score of .8 would indicate maximum levels of racial diversity. According to the responses the average level of racial diversity in the firms studied was .2313. This would indicate that many of the firms did not have very high levels of diversity. The average level of gender

TABLE 4.3 Correlations<sup>a</sup>

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1 Year	1.00													
2 Ind. ROA	-.059	1.00												
3 Ind. ROE	-.005	-.036	1.00											
4 Ind. Prod	-.168	-.009	-.008	1.00										
5 Firm Size	-.175	-.163	.101	-.103	1.00									
6 Race Index	.228*	.046	.063	.016	.038	1.00								
7 Gender Index	.529**	.079	-.015	-.037	-.042	.343**	1.00							
8 Mgt. Group - Race	.159	.090	-.011	-.003	.046	.769**	.266**	1.00						
9 Mgt. Group - Gender	-.312**	.031	-.002	.270**	-.058	-.084	.206*	.043	1.00					
10 Soc. Tactics	.180*	.093	-.162	-.067	-.090	.043	.173	-.124	-.179	1.00				
11 Identity Conscious	-.003	-.154	.116	.096	.321**	.065	.019	.067	-.040	-.077	1.00			
12 ROA	-.830**	.025	.036	.129	.150	-.295**	-.460**	-.231*	.249*	-.103	.064	1.00		
13 ROE	-.783**	.038	-.001	.128	.117	-.315**	-.349**	-.244*	.232*	-.093	.026	.929**	1.00	
14 Employee Product.	-.520**	.216*	-.109	.053	-.299**	-.170	-.330**	-.110	.135	-.167	-.394**	.397**	.404**	1.00

<sup>a</sup> N = 85 \* p < .05, \*\* p < .01 for one-tailed tests

diversity was slightly higher with a mean of .3696. Based on the categories in the Standard EEO form, a score of .5 would indicate maximum levels of gender diversity. Therefore, relative to the score for racial diversity, this is a high level for gender diversity. The mean of management group racial diversity was .1125. The mean of management group gender diversity was .4179. The diversity scores for racial diversity in the management group was low, while the scores for gender diversity were high.

The socialization tactics scale consisted of five categories with 5 items each. The average score for the five categories was 3.3233. According to the scale, the higher the score the more institutionalized its tactics. The lower the score, the more individualized its tactics. Therefore, companies in this study were more likely to implement individualized socialization tactics. The mean score for the identity conscious scale was 6.8471. This indicates that firms, on average, implement about 7 of the 18 practices included in the survey.

### Hypothesis Tests and Results

The results of the hierarchical regression analysis are presented in this section. It should be noted that all beta coefficients are standardized.

Hypotheses 1a and 1b stated that diversity in the management group is positively or negatively related to firm performance. Table 4.4 presents the results for both racial and gender diversity across all three dependent variables. While no effects were found for gender diversity in the management group, racial diversity did account for a slight significant change in R-square for both ROA and ROE. In particular, racial diversity in the management group was negatively associated with firm performance. As such, hypotheses 1a and 1b were not supported for gender diversity and hypothesis 1b was partially supported for racial diversity in terms of ROA and ROE.

Hypotheses 2a and 2b stated that overall firm diversity is positively or negatively related to firm performance. Table 4.5 presents the results for both racial and gender diversity across all three dependent variables. Results indicate that racial diversity was significantly and negatively related to ROA and ROE. Gender diversity was significantly and positively related to ROE. Therefore, hypothesis 2b was partially supported for racial diversity while hypothesis 2a was partially supported for gender diversity.

TABLE 4.4 Mean, Standard Deviation, and Range

Variable	Mean	Standard Deviation	Minimum	Maximum
1 Year	.4235	.4971	0.00	1.00
2 Ind. ROA	-.1206	2.7111	-.1206	21.54
3 Ind. ROE	.4244	1.8601	-2.63	15.94
4 Ind. Prod	-1,195,132	8,605,923	-56,000,000	2357444
5 Firm Size	8.5377	.7768	5.37	10.36
6 Race Index	.2313	.1688	0.00	.66
7 Gender Index	.3696	.0946	.21	.50
8 Mgt. Group - Race	.1125	.1511	.22	.69
9 Mgt. Group - Gender	.4179	.0935	0.0	.50
10 Soc. Tactics	3.3233	.6710	1.60	4.72
11 Identity Conscious	6.8471	3.8313	0.00	16.00
12 ROA	.6758	.7261	-.58	2.82
13 ROE	7.4411	8.219	-1.68	35.82
14 Employee Product.	13.8395	1.5914	7.56	16.43



TABLE 4.5 Results of Hierarchical Regression Analysis<sup>a</sup> for Hypotheses 1a and b

Step	Predictor	ROA			ROE			Productivity		
		$\beta$	$\Delta R^2$	F	$\beta$	$\Delta R^2$	F	$\beta$	$\Delta R^2$	F
1.	Year of financial info	-.810**			-.761**			-.670**		
		-.013			.002			-.090		
2.	Industry	.001			-.002			-.076		
	Control	.011	.685	.000	-.012	.606	.000	-.421**	.481	.000
3.	Gender Index-Top Mgt.									
4.	Firm Size									
5.	Race Index-Top Mgt.	-.102 <sup>+</sup>	.010	.060	-.122 <sup>+</sup>	.014	.046	.019	.000	.409
1.	Year of financial info	-.810**			-.761**			-.670**		
		-.013			.002			-.090		
2.	Industry	.102 <sup>+</sup>			-.122 <sup>+</sup>			.019		
	Control	.011	.695	.000	-.012	.621	.000	-.421**	.476	.000
3.	Race Index-Top Mgt.									
4.	Firm Size									
5.	Gender Index-Top Mgt.	.001	.000	.493	-.002	.000	.492	-.076	.005	.200

<sup>a</sup> N = 85

\* p < .05

\*\* p < .01

+ p < .10

One-tailed Test

Hypothesis 3 stated that identity conscious structures would positively moderate the relationship between diversity and firm performance. Table 4.6 presents the results of the hierarchical regression analysis for both racial and gender diversity across all three dependent variables. Results indicate that identity conscious structures positively and significantly moderated the relationship between racial diversity and ROA. In addition, support was found for identity conscious

structures positively moderating the relationship between gender diversity and employee productivity.

Interaction plots were created in order to examine the interaction effects of identity conscious structures on the racioethnic diversity-firm performance relationship. Both racioethnic diversity and identity conscious structures were separated by the mean. High levels of identity conscious structures indicate increased numbers of programs implemented while low levels indicate fewer identity conscious structures implemented. Figure 4.1 shows that firms with high levels of racioethnic diversity enjoy higher firm performance when identity conscious structures are implemented. It should be noted that firms with lower levels of diversity benefit from higher levels of ROA when they do not implement identity conscious structures. Figure 4.2 shows the interaction effects of gender diversity and identity conscious structures. The interaction plot suggests that firms with high levels of gender diversity benefit from fewer identity conscious programs. Interestingly, firms that implement few identity conscious programs enjoy higher firm performance when high

TABLE 4.6 Results of Hierarchical Regression Analysis<sup>a</sup>  
For Hypotheses 2a and b

Step	Predictor	ROA			ROE			Productivity		
		$\beta$	$\Delta R^2$	Sig. F	$\beta$	$\Delta R^2$	Sig. F	$\beta$	$\Delta R^2$	Sig. F
1.	Year of financial info	-.808**			-.823**			-.584**		
2.	Industry Control	-.017			.018			-.089		
3.	Gender Index	.008			.147*			-.039		
4.	Firm Size	.010	.691	.000	-.015	.620	.000	-.412**	.436	.000
5.	Race Index	-.113*	.011	.044	-.178**	.028	.007	.007	.000	.471
1.	Year of financial info	-.808**			-.823**			-.584**		
2.	Industry Control	-.017			.018			-.089		
3.	Race Index	-.113*			-.178**			-.007		
4.	Firm Size	.010	.702	.000	-.015	.633	.000	-.412**	.435	.000
5.	Gender Index	.008	.000	.458	.147*	.014	.038	-.039	.001	.352

<sup>a</sup> N = 85

\* p < .05

\*\* p < .01

+ p < .10

One-tailed Test

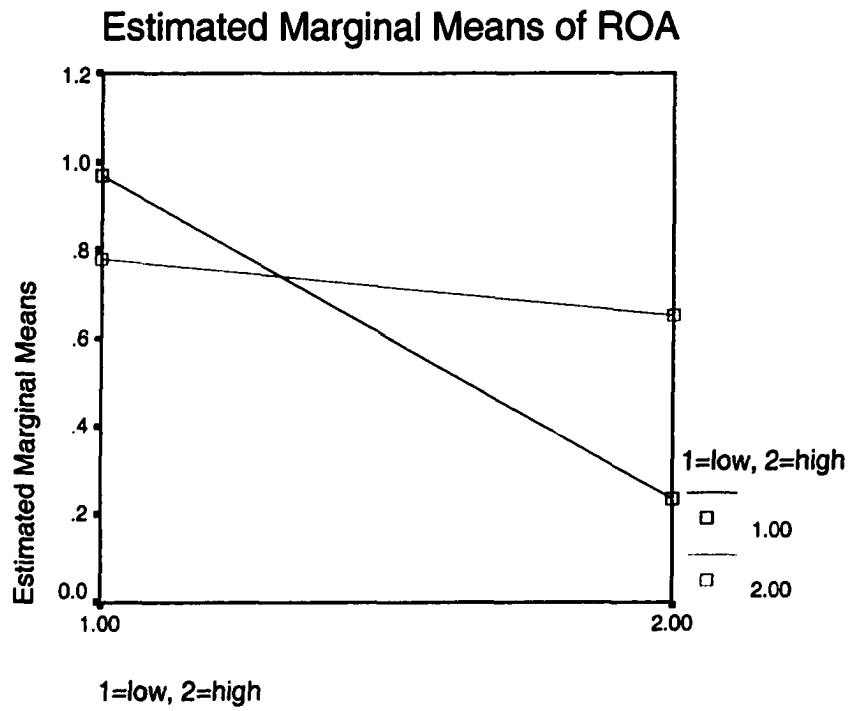


FIGURE 4.1

Racioethnic Diversity, Identity Conscious  
Structures, and ROA.

levels of gender diversity are present than those firms with lower gender diversity. However, the results contradict the hypothesis offered where gender diversity is concerned.

Hypothesis 4 stated individualized socialization tactics would positively moderate the relationship between diversity and firm performance. Hypothesis 5 stated institutionalized tactics would negatively moderate the relationship between diversity and firm performance. Tables 4.7 and 4.8 present the results of the hierarchical regression analysis for racial and gender diversity across all three measures of firm performance. Results indicated there was no support for socialization tactics moderating the relationship between racioethnic diversity and firm performance. In addition, there was no support for socialization tactics moderating the relationship between gender diversity and firm performance.

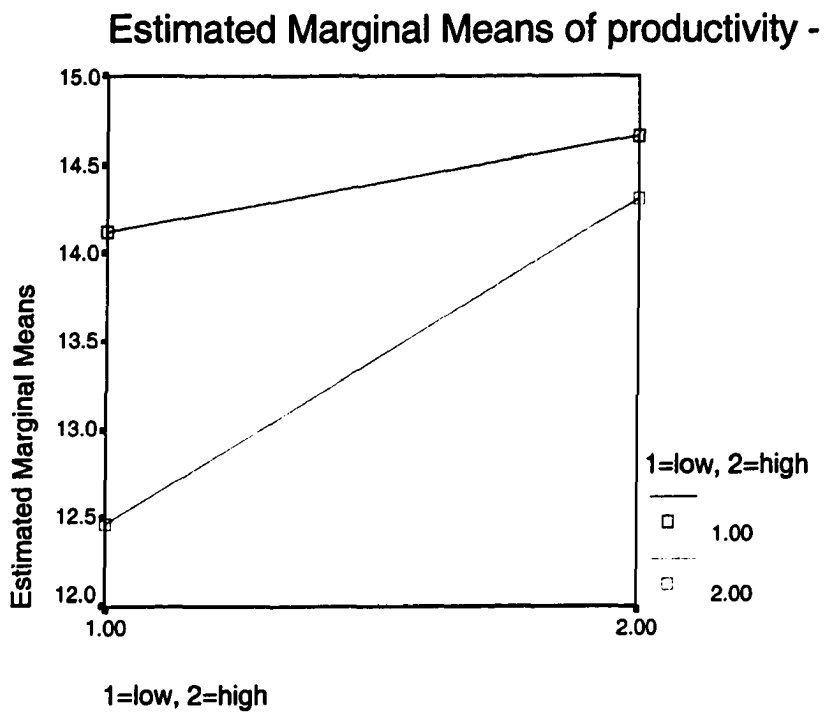


FIGURE 4.2

Gender Diversity, Identity Conscious Structures,  
and Employee Productivity

TABLE 4.7 Results of Hierarchical Regression Analysis<sup>a</sup>  
for Hypothesis 3

Step	Predictor	ROA			ROE			Productivity		
		$\beta$	$\Delta R^2$	Sig. F	$\beta$	$\Delta R^2$	Sig. F	$\beta$	$\Delta R^2$	Sig. F
1.	Year of financial info	-.804			-.824			-.565**		
2.	Industry Control	.019			.009			-.065		
3.	Gender Index	.005			.149*			-.045		
4.	Firm Size	-.013	.691	.000	-.032	.620	.000	-.309**	.436	.000
5.	Race Index	-.296*	.011	.044	-.323**	.028	.007	.172	.000	.471
6.	Identity Conscious	-.083	.005	.138	-.087	.001	.290	-.140**	.074	.001
7.	raceXIC	.268*	.010	.048	.216	.007	.104	-.251	.009	.111
1.	Year of financial info	-			-.823**			-.521**		
2.	Industry Control	.813**			.016			-.037		
3.	Race Index	-.004			-.179**			.013		
4.	Firm Size	-.118*	.702	.000	-.027	.633	.000	-.289**	.435	.000
5.	Gender Index	-.013								
6.	Identity Conscious	-.017	.000	.458	.162 <sup>+</sup>	.014	.038	-.201 <sup>+</sup>	.001	.352
7.	genXIC	.185	.005	.138	-.029	.001	.290	-	.074	.001
								1.461**		
		-.116	.000	.383	.070	.000	.433		.038	.006
								1.205**		

<sup>a</sup> N = 85

\* p < .05

\*\* p < .01

+ p < .10

One-tailed Test

TABLE 4.8 Results of Hierarchical Regression Analysis<sup>a</sup>  
For Hypotheses 4 and 5

Step	Predictor	ROA			ROE			Productivity		
		$\beta$	$\Delta R^2$	Sig. F	$\beta$	$\Delta R^2$	Sig. F	$\beta$	$\Delta R^2$	Sig. F
1.	Year of financial info	-			-.830**			-.575**		
2.	Industry Control	.816**			.021			-.091		
3.	Gender Index	-.009	.691	.000	.144*			-.026*		
4.	Firm Size	.004			-.017	.620	.000	.423**	.436	.000
5.	Race Index	.008								
5.	Race Index	.172*	.011	.044	-.009**	.028	.007	.130	.000	.471
6.	Socialization	.133	.002	.210	.091	.002	.273	-.063	.010	.117
7.	raceXsocialization	-.305	.004	.169	-.181	.001	.298	-.149	.001	.364
1.	Year of financial info	-			-.828**			-.593**		
2.	Industry Control	.819**			.024			-.095		
3.	Race Index	-.011	.702	.000	-.178**			-.019		
4.	Firm Size	-.116*			-.016	.633	.000	-.429**	.435	.000
5.	Gender Index	.011								
5.	Gender Index	.223	.000	.458	.146*	.014	.038	.624 <sup>+</sup>	.001	.352
6.	Socialization	.222	.002	.210	.045	.002	.273	.400	.010	.117
7.	genXsocialization	-.302	.002	.258	-.005	.000	.496	-.886 <sup>+</sup>	.015	.075

<sup>a</sup> N = 85

\* p < .05

\*\* p < .01

+ p < .10

One-tailed Test



### Conclusion

Results of the hierarchical analysis partially supported hypothesis 1b. In particular, racial diversity in the management group was negatively related to firm performance. Results showed that hypothesis 1b was supported for both return on assets and return on equity. Support was also found for organizational diversity and its relationship to firm performance. Racial diversity was negatively related to return on assets and return on equity, which indicates that racial diversity was negatively related to firm performance. Support was also found for the organizational gender diversity and firm performance relationship. Gender diversity was significantly and positively related to return on equity. Therefore, hypothesis 2a is partially supported for gender diversity while hypothesis 1b is partially supported for racial diversity.

There was some support for the contingency hypotheses. Identity conscious structures positively moderated the relationship between racioethnic diversity and return on assets. As such, firms with higher levels of racioethnic diversity should implement identity conscious programs in order to increase return on assets. Identity conscious structures also positively moderated the

relationship between gender diversity and employee productivity. However, interaction plots indicate that firms with high levels of diversity should not implement many identity conscious structures in order to increase employee productivity. Therefore, hypothesis 3 was partially supported.

Finally, no support was found for socialization tactics moderating the relationship between diversity and firm performance. Therefore, hypotheses 4 and 5 were not supported.

## CHAPTER 5

### DISCUSSION AND IMPLICATIONS

The purpose of this chapter is to review the results of the dissertation as well as the limitations and applications. The first section will discuss the hypotheses tested and the results of the hierarchical regression analysis. The second section will provide a discussion of the limitations of this study. Third, this chapter will examine how these results can be applied to organizations today. Finally, a discussion of future research will conclude this chapter.

#### Research Findings

The purpose of this dissertation was to examine the effects of cultural diversity on firm performance within the context of the organization's diversity initiatives and socialization tactics. The primary objective of this study was to broaden knowledge regarding how organizations can overcome the negative effects of diversity while

capitalizing on the positive effects. To accomplish this objective seven hypotheses were tested.

Racioethnicity/Gender  
and Firm Performance

Four competing hypotheses were offered regarding diversity's impact on firm performance. The first hypotheses were concerned with racioethnicity and gender in the management group. These hypotheses suggested that both racioethnicity and gender in the management group would positively and negatively impact firm performance. Results indicate slight support for these two hypotheses. While there was a weak relationship ( $p < .10$ ) between racioethnicity in the management group and ROA, there was a stronger relationship ( $p < .05$ ) between racioethnicity in the management group and ROE. In particular, racioethnicity was negatively related to firm performance in two out of the three measures. There were no significant results for the relationship between gender in the management group and firm performance.

The second two hypotheses were concerned with racioethnicity and gender at the organizational level. These hypotheses suggested that both racioethnicity and gender diversity in the organization would positively and negatively impact firm performance. The results show

stronger support for the relationship between racioethnicity and firm performance than for gender and firm performance. In particular, racioethnic diversity in the organization was significantly and negatively related to ROA and ROE. These results indicate partial support for the racioethnic diversity-firm performance relationship because only two of the three measures of performance were significant at the .05 and .01 level. Gender diversity was only found to be significantly and positively related to ROE. These results indicate weak support for the gender diversity-firm performance relationship because only one of the three measures of performance was found to be significant at the .05 level.

Therefore, hypothesis 1a was not supported for racioethnic diversity or gender diversity in the management group. The results indicate weak support for hypothesis 1b and racioethnic diversity in the management group. Stronger support was provided for hypothesis 2b and racioethnic diversity. Results were weak however for hypothesis 2a and gender diversity.

Previous studies, based on social identity theory, that examined organizational performance did not find a significant relationship between diversity and firm performance (Richard, 2000). The results provided in this

study, though weak, support the social identity theory framework. Without proper management and programs, cultural diversity results in negative firm performance.

Resource-based theory was not supported when examining the direct relationship between diversity and firm performance. In other words, without proper management, diversity may result in a negative, not positive, effect on firm performance. It is possible that diversity does not become a source of a competitive advantage without proper management. Therefore, the resource-based view of the firm and contingency theory are more appropriate frameworks for studying the positive moderating impact of cultural diversity.

#### Identity Conscious Structures

One hypothesis was offered suggesting a positive impact of identity conscious structures on the relationship between diversity and firm performance. This hypothesis was weakly supported for both racioethnic diversity and gender diversity. In other words, while identity conscious structures positively impacted the relationship between racioethnic diversity and ROA, they did not impact the relationship between racioethnic diversity and ROE or productivity. Therefore, because only

one of the firm measures of performance was supported at the .05 level there was weak support for hypothesis 3 and racioethnic diversity.

As with racioethnic diversity and firm performance, identity conscious structures were hypothesized to positively impact the relationship between gender diversity and firm performance. Results show only weak support for this hypothesis. In particular, identity conscious structures positively moderated the relationship between gender diversity and employee productivity. This hypothesis was supported at the .01 level of significance, however, overall weak support is provided due to the fact that the results only pertain to one measure of firm performance.

Only weak support was provided for hypothesis three. The results do however, indicate that diversity initiatives positively impact the relationship between cultural diversity and firm performance. Therefore, the resource-based theory does hold true when diversity is managed properly. Diversity can become a positive impact on firm performance when diversity initiatives are in place.

### Socialization Tactics

Two hypotheses were offered suggesting that socialization tactics moderated the relationship between diversity and firm performance. In particular, the hypotheses stated that individualized socialization tactics positively moderated the relationship while institutionalized tactics negatively moderated the relationship.

The first hypothesis that individualized socialization tactics positively moderate the relationship between racioethnic diversity and firm performance was not supported. There was weak support at the .10 level of significance for socialization tactics negatively moderating the relationship between gender diversity and employee productivity. While the support was very weak at best, it is contradictory to what this study originally hypothesized and therefore warrants further consideration.

There was no support for the hypothesis that institutionalized socialization tactics negatively moderate the relationship between diversity and firm performance. Even though the relationships were not significant, it should be noted that the signs were in the direction hypothesized.



These results for individualized socialization tactics are in the opposite direction hypothesized. Hopkins and Hopkins (2002) offer a possible explanation for why this occurred. In particular, they suggest that when diverse members are introduced into what were previously homogeneous groups, formal socialization processes will minimize the categorization of new members. In addition, formal tactics will reduce the amount of withdrawal behavior because employees are forced to interact with one another (Hopkins & Hopkins, 2002). Formal socialization tactics may also integrate culturally distant group members much more rapidly than informal tactics.

#### Limitations

This section offers possible limitations to this study. The results of the study should be interpreted with these limitations in mind. In particular, the limitations are related to the response rate and measurement and design issues.

#### Response Rate

This study obtained a response rate of 2.8%. While this is considered a very low response rate, the 85 responses received allowed for adequate testing of the

hypotheses using hierarchical regression. There are several reasons why such a low response rate was obtained.

First, the second mail out was sent at the time of the Anthrax scare. This probably had a serious and negative impact on the number of responses received. Companies were more cautious about opening mail from unknown sources, especially if the envelope appeared to be a bulk mailing as was the survey in this study.

Second, the information requested in this study was extremely sensitive. Many companies replied that they would not divulge the EEOC information because it was confidential. This is mainly due to concerns about lawsuits and charges filed by the EEOC with regard to discrimination and harassment.

#### Measurement and Research Design

This study implemented a cross-sectional design, which limits the examination of cause and effect relationships. It was also limited to the service industries, while manufacturers were not included. Therefore, results cannot be generalized to these companies.

Second, the diversity initiatives scale was shortened from 54 identity conscious structures to 18. In addition,

the original scale included 63 identity blind structures. While this study included some of the most commonly used diversity practices it is possible that the companies included in the sample actually implement other initiatives. Therefore, it would be beneficial to include all the items in the original scale to get a better idea of which initiatives benefit the diversity-performance relationship.

In addition, the scale required Yes/No responses to each of the items included. This does not capture the effectiveness of the practices implemented. Therefore, while a company may utilize these practices on paper, if they do not manage them effectively they will not have an impact on the bottom line.

Another limitation involves the socialization tactics scale. In previous studies multiple respondents were used to determine the socialization tactics implemented by a particular organization. In this study, only one person, the HR manager responded to the items. Therefore, the study did not include a well-rounded and accurate view of the socialization tactics.

Managerial Implications  
for Racio-ethnic and  
Gender Diversity

This study reinforces the fact that racioethnicity could have a negative impact on firm performance if left unmanaged. This was found to be true for both the management group and the organization in general. Therefore, managers must take an active role in introducing racioethnic diversity into the organization. In addition, the human resource manager's job is not over once diversity is achieved.

While gender diversity has been found to impact organizational performance (e.g., Richard 2000), the results of this study show a weak relationship. This should not be interpreted to mean that managers do not need to concern themselves with gender diversity. Instead, they need to remain conscious of the possible ramifications and balance the positive results of gender diversity with the costs associated with managing it.

Implications for Identity  
Conscious Structures

The results indicate that identity conscious structures have a positive impact on the racioethnic diversity-performance relationship. Firms that have high levels of racioethnic diversity and that implement

identity conscious structures can increase firm performance. However, in this study firms with no or little diversity were better financial performers than firms with higher levels of diversity. With the increasing levels of diversity in the U.S. workforce this will not be an option for many organizations. Managers will be forced to hire diverse employees. Therefore, managing these employees will be the critical issue for continued increased performance.

Thus, managers should promote programs that are designed to manage diversity. These programs include, but are not limited to, diversity training, employee support groups, mentoring programs, targeted recruitment of women and people of color, and formal policies regarding diversity.

Identity conscious structures, such as those included in this study, are necessary in order to overcome the negative effects of racioethnic diversity. Managers that recognize the potential value in diversity will implement identity conscious structures in order to capitalize on the positive effects. Of course, it should be noted that implementation of these structures can be time consuming and costly. Therefore, managers must balance these limitations with the more positive outcomes.

The results regarding gender diversity contradicted the hypotheses offered. In particular, organizations with high levels of gender diversity enjoy higher employee productivity when fewer identity conscious programs are offered. Interestingly, these firms benefit from higher levels of productivity than firms with lower levels of gender diversity. This leaves the question of how to manager gender diversity, still open. If identity conscious programs are not needed in order to effectively manager gender diversity, then managers will need to find other ways to do this. It is also possible that the programs to manage gender diversity were not included in this study. It is possible that there are other programs that are more suited to managing gender diversity.

#### Future Research

This study suggests many areas for future research. In particular, more research is needed to examine potential moderators of the diversity-performance relationship. There are many other interesting questions in terms of what managers can do to overcome the negative effects of diversity while capitalizing on the positive. For example, future research should consider the impact of human resource systems and high performance work practices

on the diversity-performance relationship. Individualistic versus collectivistic organizational cultures are another possible moderating factor in the diversity-performance relationship. Research that examines which type of culture is better suited for highly diverse companies would help managers and researchers alike determine how to reap the benefits that diversity has to offer.

Is there a difference between the use of diversity initiatives, socialization tactics, and other human resource practices used in a service versus manufacturing firm? Theory suggests that service firms might benefit more from diversity and diversity related programs than manufacturing firms would. More importantly, the effectiveness of these programs needs to be examined. These results may have been limited by the effectiveness of the programs implemented.

In addition, longitudinal research needs to be conducted. It is difficult to measure the effects of diversity in the same year. It may be that organizations do not actually realize the effects until 1, 2, or even several years later. Longitudinal research would allow us to examine whether or not it actually takes time to benefit from diversity and diversity programs.

Moving beyond racioethnicity and gender, diversity research at the organizational level should include other dimensions such as tenure, age, background, or even sexual orientation. Most of the current studies involving this dimensions of diversity have been conducted at the group level. It is possible that there are other aspects of diversity that can affect firm performance.

### Conclusion

This study offers several contributions to the diversity management literature. In particular, empirical support is provided for the relationship between diversity and firm performance. By testing competing hypotheses, support was found for the social identity theory framework in diversity research. Support was also found for the contingency theory framework combined with the resource based view of the firm. In other words, left alone, racioethnic diversity can have a negative impact on performance. However, if managed properly, the negative impact can be lessened and a positive impact can be achieved.

Second, this study opened the discussion for future research to examine possibilities in terms of how to manage diversity. Very few studies have been conducted at



the organizational level. We now have a basis on which to continue this type of research. We can now begin to examine different types of programs and processes in order to identify which ones have a positive impact on the bottom line.

Finally, this study provides evidence that the negative effects can be overcome. The results prove that through proper programs and processes the negative effects of racioethnic diversity can be reversed and positive outcomes can be achieved. In particular, organizations that implement identity blind diversity initiatives when they are ethnically diverse can achieve higher firm performance than ethnically diverse firms that do not implement identity blind initiatives.

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APPENDIX A  
SURVEY LETTER



May 9, 2003

Senior Human Resource Manager  
Address  
City, State Zip

Dear Human Resource Manager:

I am conducting a survey to develop a greater understanding of the impact of diversity on firm performance. In particular, I am interested in examining the influence of human resource systems on the relationship between diversity and firm performance. I would like to ask for your help in completing this study.

Your insights as a human resource professional are critical to the success of this project. You were scientifically selected to take part in this study from a sample of service organizations. As a result, your response is extremely important to the accuracy of the study. I realize that this is an imposition, however, the information from this questionnaire will be used to initially complete my doctoral dissertation at Louisiana Tech University, and then it will be used by other researchers to aid in understanding how organizations can overcome the negative effects of diversity. I hope that this research will result in improvements in the way that diversity is managed. Please note that individual responses will be kept completely confidential. All responses will be aggregated with others to ensure complete anonymity.

In order to make completing this survey as easy and convenient as possible, I have enclosed a postage-paid reply envelope. To thank you for completing this survey, a copy of the aggregated results will be made available to you. If you would like a copy of the aggregated results, please enclose your name and address on a separate sheet of paper (or business card) when you return this survey.

Your help is very important to me and to this study. Without the information you provide I cannot complete my dissertation. Please take the time to complete this survey and return it to me as quickly as possible. Thank you in advance for your help.

Sincerely,

Amy McMillan  
Doctoral Candidate

APPENDIX B  
SURVEY INSTRUMENT

Thank you for taking the time to complete this survey. In completing this survey, unless otherwise instructed please use **2001** as your reference point. The purpose of this survey is to gather information concerning organizational factors that may influence firm performance. There are no right or wrong answers. Please reflect carefully and answer all the questions as honestly as possible based upon your knowledge. Your responses will be kept confidential and will be aggregated with others. No individual responses will be reported. Some questions in this survey are similar to others. Please answer ALL of the questions.

**Company Name** \_\_\_\_\_

**SECTION 1 – Human Resource Practices**

*Instructions: Please indicate the proportion of the workforce that is subjected to each of the following.*

1. Included in a formal information sharing program (e.g., a newsletter)?
2. Subjected to a formal job analysis?
3. Nonentry level jobs that have been filled from within in recent years?
4. Administered attitude surveys on a regular basis?
5. Participate in Quality of Work Life programs, Quality Circles, and/or labor-management participation teams?
6. Access to company incentive plans, profit-sharing plans, and/or gain-sharing plans?
7. What is the average number of hours of training received by a typical employee over the last 12 months?
8. Access to formal grievance procedure and/or complaint resolution system?
9. Administered an employment test prior to hiring?
10. Performance appraisals are used to determine their compensation?
11. Receives formal performance appraisals?
12. Which of the following promotion decision rules do you use most often? (a) merit or performance rating alone; (b) seniority only if merit is equal; (c) seniority among employees who meet a minimum merit requirement; (d) seniority.
13. For the five positions that your firm hires most frequently, how many qualified applicants do you have per position (on average)?

<b>SECTION 2</b>
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*Instructions: These questions concern any formalized policy, procedure, practice, or program that involves categorizing people on the basis of race, color, religion, sex, and/or national origin and focussing specially on the experiences of groups that are protected under Title VII and EO 11246. Such structures may (1) examine the characteristics or experiences within these categories, (2) compare the characteristics or experiences of categories of people and/or adjust the distribution of outcomes between categories or people, (3) entail following different or more extensive procedures in making personnel decisions regarding people in protected categories than for others and/or (4) identify special means of attracting, retaining, and developing people in protected categories that would not be used to attract, retain, or develop others. Please answer each item with either Yes or No.*

- 
14. \_\_\_\_\_ A diversity policy statement exists.
15. \_\_\_\_\_ There is a written statement of the consequences for violating the diversity policy.
16. \_\_\_\_\_ Turnover rates are calculated for protected groups.
17. \_\_\_\_\_ Members of protected groups who are potential candidates for management are identified and targeted for promotion.
18. \_\_\_\_\_ A system exists which monitors minority and female representation in feeder jobs, which impact on the ability to meet diversity goals at management levels.
19. \_\_\_\_\_ There is a specific position designated to handle diversity issues.
20. \_\_\_\_\_ There is a person with diversity expertise on staff.
21. \_\_\_\_\_ A diversity expert has been consulted from outside the company to develop or modify the company's employment practices.
22. \_\_\_\_\_ Members of protected groups are specially targeted to receive management and development training.
23. \_\_\_\_\_ A special mentoring program for female managers exists.
24. \_\_\_\_\_ A special mentoring program for managers of color exists.
25. \_\_\_\_\_ Managers are trained in their diversity responsibilities.
26. \_\_\_\_\_ Workshops or seminars on managing a culturally diverse workforce are made available to managers.
- \_\_\_\_\_ Community minority or women's programs or associations are regularly supported either financially or through nonfinancial means (e.g., provide meeting space, give a reception, print a newsletter).
28. \_\_\_\_\_ The company sponsors membership in minority professional associations for \_\_\_\_\_ managers.
29. \_\_\_\_\_ The company sponsors membership in women's professional associations for \_\_\_\_\_ managers.
30. \_\_\_\_\_ There is a minority interest group.
31. \_\_\_\_\_ There is a women's interest group.
-

<b>SECTION 3</b>
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*Instructions: These include any formalized policy, procedure, practice, or program that does not attend to the demographic background of the individual. These policies, procedures, practices, or programs structure the process of personnel decision making in the same way for all people regardless of the demographic background. Such structures may (1) examine the characteristics and experiences of the organization's labor force as a whole without distinguishing protected groups, (2) compare the characteristics or experiences of the organizations labor force with other organizations or the area labor force as whole without distinguishing protected groups, (3) entail procedural adjustments designed to enhance the quality of personnel decision making for all people in the same way, and/or (4) identify means of attracting, retaining, and developing the organization's labor force without distinguishing protected groups from others. In rating structures, assume that protected groups are not differentiated from others unless it is specifically stated that they are. Answer each item with Yes or No.*

1. \_\_\_\_\_ A sexual harassment policy exists
2. \_\_\_\_\_ There is a written statement of the consequences for violating the sexual harassment policy.
3. \_\_\_\_\_ A written policy exists to protect "whistleblowers", or employees who make complaints against the company
4. \_\_\_\_\_ There is a written statement of the consequences for violating the whistleblower policy.
5. \_\_\_\_\_ Written job descriptions for managerial positions exist, specifying the minimum qualifications for the position, such as education or experience.
6. \_\_\_\_\_ Managerial job descriptions are reviewed to ensure the positions' minimum qualifications are necessary for future job performance
7. \_\_\_\_\_ There is a management succession plan.
8. \_\_\_\_\_ An employee assistance program exists (e.g., counseling, substance abuse).
9. \_\_\_\_\_ An internal appeals process is available to employees who are terminated.
10. \_\_\_\_\_ A "high potential" program exists which identifies employees capable of advancing significantly beyond their current levels.
11. \_\_\_\_\_ A formal program exists which identifies strengths and development needs of all employees.
12. \_\_\_\_\_ A formal career development program exists for all employees.
13. \_\_\_\_\_ A formal management development program exists.
14. \_\_\_\_\_ Employees are sponsored to off-site management development programs.
15. \_\_\_\_\_ A formal mentoring program for managers exists.
16. \_\_\_\_\_ Remedial education in reading, writing, or arithmetic is offered.
17. \_\_\_\_\_ Managers are trained in how to conduct hiring interviews.
18. \_\_\_\_\_ Managers are trained in how to conduct performance appraisals.
19. \_\_\_\_\_ College tuition benefits are available to nonexempt employees.
20. \_\_\_\_\_ College tuition benefits are available to exempt employees.
21. \_\_\_\_\_ College tuition benefits are available to hourly employees.
22. \_\_\_\_\_ The company sponsors either institutional or individual memberships in professional associations for managers.

<b>SECTION 4 – Socialization Tactics</b>
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Instructions: *These statements are about your organization. Please indicate the degree to which these statements describe the actual conditions in your organization.*

	Strongly Agree	Moderately Agree	Agree	Neither Agree nor Disagree	Disagree	Moderately Disagree	Strongly Disagree
	1	2	3	4	5	6	7
1.	_____ New employees are extensively involved with each other in common job related training activities.						
2.	_____ New employees are instrumental in helping each other understand their job requirements.						
3.	_____ This organization puts all employees through the same set of learning experiences.						
4.	_____ Most of the new employee training is carried out apart from other employees.						
5.	_____ There is a sense of "being in the same boat" among new employees in this organization.						
6.	_____ New employees are put through a set of training experiences which are specifically designed to give them a thorough knowledge of job related skills.						
7.	_____ During training for their job, new employees are normally physically apart from experienced organizational members.						
8.	_____ New employees do not perform any part of their normal job responsibilities until they are thoroughly familiar with departmental procedures and work methods.						
9.	_____ Much of a new employee's job knowledge is acquired informally on a trial and error basis.						
10.	_____ New employees are very aware of the fact that they are seen as "learning the ropes" in this organization.						
11.	_____ New employees are made to feel that their skills and abilities are very important in this organization.						
12.	_____ Almost all the experienced organizational members are supportive of new employees in this organization.						
13.	_____ New employees often have to change their attitudes and values to be accepted in this organization.						
14.	_____ Experienced organizational members go out of their way to help new employees adjust to this organization.						
15.	_____ New employees often feel experienced organizational members keep them at a distance until they conform to their expectations.						
16.	_____ There is a clear pattern in the way one role leads to another or one job assignment leads to another in this organization.						
17.	_____ Each stage of the training process has, and will, expand and build upon the job knowledge gained during the preceding stages of the process.						
18.	_____ The movement from role to role and function to function to build up experience and a track record is very apparent in this organization.						
19.	_____ This organization does not put employees through an identifiable sequence of learning experiences.						
20.	_____ The steps in the career ladder are clearly specified in this organization.						
21.	_____ Experienced organizational members see advising or training new employees as one of their main job responsibilities in this organization.						
22.	_____ New employees gain a clear understanding of their role in this organization from observing their senior colleagues.						
23.	_____ New employees receive little guidance from experienced organizational members as to how they should perform their job.						
24.	_____ New employees have little or no access to people who have previously performed their role in the organization.						
25.	_____ New employees are generally left alone to discover what their role should be in this organization.						
26.	_____ New employees can predict their future career path in this organization by observing other people's experiences.						

27. \_\_\_\_\_ New employees have a good knowledge of the time it will take to go through the various stages of the training process in this organization.
28. \_\_\_\_\_ The way in which new employees' progress through this organization will follow a fixed timetable of events that is clearly communicated to them.
29. \_\_\_\_\_ New employees have little idea of when to expect a new job assignment or training exercise in this organization.
30. \_\_\_\_\_ Most of a new employee's knowledge of what will happen to him/her in the future comes informally, through the grapevine, rather than through regular organizational channels.

<b>SECTION 5</b>
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*Instructions: The following are demographic questions and will only be used to categorize the results of the study.*

1. Gender \_\_\_\_\_ Male \_\_\_\_\_ Female                      Age \_\_\_\_\_

2. Marital Status \_\_\_\_\_ Single \_\_\_\_\_ Married \_\_\_\_\_ Divorced

3. What is your job title? \_\_\_\_\_ Ethnicity? \_\_\_\_\_  
(Please use the categories listed in the EEO-1 Form)

4. What is your highest level of education?

\_\_\_\_\_ Grade School                      \_\_\_\_\_ Some High School                      \_\_\_\_\_ High School Grad.

\_\_\_\_\_ Some College                      \_\_\_\_\_ College Degree                      \_\_\_\_\_ Some Grad. School

\_\_\_\_\_ Graduate Degree

**SECTION 6 – EEO-1 FORM, SECTION D**

**Instructions:** Please report these numbers for the year 2001. Employment at this establishment – Report all permanent, full-time and part-time employees including apprentices and on-the-job trainees unless specifically excluded as set forth in the instruction booklet. Enter the appropriate figures on all lines and in all columns. Blank spaces will be considered as zeros. If you already have a completed EEO-1 form you may attach it to the questionnaire instead of completing the one below. **Please note that box 1 asks for information regarding the Top Management Group in your organization. You may need to complete this box separately.**

Job Categories	Number of Employees										
	Overall Totals (Sums of Col. B Thru K)	Male					Female				
		White (Not of Hispanic Origin)	Black (Not of Hispanic Origin)	Hispanic	Asian or Pacific Islander	American Indian or Alaskan Native	White (Not of Hispanic Origin)	Black (Not of Hispanic Origin)	Hispanic	Asian or Pacific Islander	American Indian or Alaskan Native
Top Management Group 1											
Officials & Managers 2 (Other than the top management group)											
Professionals 3											
Technicians 4											
Sales Workers 5											
Office & Clerical 6											
Craft Workers(Skilled) 7											
Operatives(Semi-Skilled) 8											
Laborers (Unskilled) 9											
Service Workers 10											
Total 11											
Total employment reported in previous EEO-1 report 12											