EFFECT OF DIVERSITY ON HUMAN RESOURCE MANAGEMENT AND ORGANIZATIONAL PERFORMANCE

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ABSTRACT

This paper critically reviews the literature on managing diversity through human resource management (HRM). We discuss the major issues and objectives of managing diversity and examine the state of human resource diversity management practices in organizations. Human resource management (HRM) Organizational performance Age diversity Professional tenure diversity Expertise diversity Fashion styling industry Extant research on strategic human resource management (HRM) primarily focuses on manufacturing and large scale service organizations. However, given the significant economic contribution of, and the employment opportunities provided by, Taiwan's fashion styling industry, the effectiveness of the organizations in this industry is a topic worth examining. By employing a resource-based view and taking an information/decision-making perspective, this study investigates (1) the relationship between a firm's HRM system and its performance and (2) the interaction effect of age diversity, professional tenure diversity, and expertise diversity in the fashion styling industry. The study collects data from both managers and front-end professional service employees in the fashion styling industry and uses multiple regression analysis to test the proposed hypotheses. The paper also discusses implications for theory and practice.

Keywords: Human resource management (HRM), Organizational performance, Age diversity, Professional tenure diversity, Expertise diversity, Fashion styling industry

INTRODUCTION

Workforce diversity acknowledges the reality that people differ in many ways, visible or invisible, mainly age, gender, marital status, social status, disability, sexual orientation, religion, personality, ethnicity and culture (Kossek, Lobel and Brown 2005). However, the predominant diversity issues in each country are different. While gender inequality is the oldest and most common diversity issue worldwide, religion and ethnicity separate people in India and Middle East and household status (hukou) differentiates off-farm migrants from urbanites in China. Chinese rural migrants are routinely looked down on by urbanites and mistreated at the workplace and in society. Multiculturalism has always been the most important dimension of diversity in Western countries, including the EU nations, Australia and New Zealand, where there are a large number of international migrants with diverse cultural backgrounds. Racial equality appears to be the predominant issue in both USA and South Africa where there has been a long history of systematic discrimination against blacks and other ethnic minorities. Although researchers have examined several aspects of diversity, no comprehensive model exists. In this paper we review the literature on diversity practices in the area of human

resource management (HRM). We also develop a conceptual framework which will help organizations develop HRM strategies and policies to manage diversity effectively. Our framework will also help researchers identify key areas for future research and guide practitioners to formulate and implement diversity appropriately. A diverse workforce comprises a multitude of beliefs, understandings, values, ways of viewing the world, and unique information. Rapid internationalization and globalization has enhanced the significance of workforce diversity. A cross-cultural and multicultural workforce is a common thread not only in organizations in western economies but also in corporations globally The service industry provides more than 70% of the employment in most industrialized economies (OECD, 2005). Although technology advancements have facilitated a shift from manufacturing to services, the service industry has a much higher turnover rate and requires greater human capital. To succeed in a competitive environmentwith high employee turnover, organizations seek to implement an effective human resource management (HRM) system. Moreover, managements are now leaning toward the implementation of a distinctive set of HRM practices that emphasize the

human side of people management and induce the desired behavior to achieve organizational objectives; this aspect warrants further investigation. Extant research indicates that the effective implementation of an HRM system may be a key impetus for individual and organizational performance (Lepak, Liao, Chung, & Harden, 2006; Subramony, 2009). Most empirical research on the HRM–performance relationship focuses on explaining the intermediate mechanisms of how HRM systems enhance organizational performance (Huselid, 1995; Zacharatos, Barling, & Iverson, 2005). Few studies examine the contingencies in this relationship. A review of the period between 1994 and 2003 indicates that only a fraction of the studies focus on the boundary conditions that may strengthen/weaken the HRM–performance relationship (Boselie, Dietz, & Boon, 2005). To improve understanding, this study seeks to advance the existing literature on strategic HRM in the following ways. First, extant research on the HRM–performance relationship often focuses on workers in manufacturing or large-scale service organizations (Zacharatos et al., 2005). These two sectors have quite distinct characteristics; a prominent difference is the degree of employee–customer contact.

Scholars have called for considering HRM from a service perspective (McClean& Collins, 2011). Therefore, this study examines a set of HRMpractices aligned with the expectations of the organizations and their employees, in small-scale professional services organizations. Second, in addition to the strategic contingencies that may moderate this relationship (Arthur, 1994; Delery& Doty, 1996), this study examines internal contingencies associatedwith collective-level organizational characteristics such as professional tenure diversity and expertise diversity. Therefore, the current paper contrasts with previous research that centered on the interaction relationship with organizational performance at the managerial level (Auh&Menguc, 2006; Dwyer, Richard, & Chadwick, 2003). According to van Knippenberg and Schippers (2007, p. 516), diversity is "a characteristic of social grouping that reflects the degree to which objective or subjective differences exist between group members." Diversity literature often examines performance differences among groups or organizations. This study examines how compositional diversity within organizations may attenuate/strengthen the HRM–performance relationship. Additionally, the paper investigates various aspects of diversity

related to an organization's composition, including age, professional tenure, and expertise, and seeks to understand how they moderate the HRM– performance relationship. Therefore, this study aims to expand strategic HRMand diversity research from a service perspective. This study employs the resourcebased view (RBV) and information/decision-making perspective to justify howage diversity, professional tenure diversity, and expertise diversity may strengthen the HRM–performance relationship. Taiwan's fashion styling industry is flourishing, with high employment demand; however, little research is devoted to this industry. Empirically testing the research framework for this industry provides an opportunity to understand the nuances of professional service firms from the HRM– performance relationship perspective. Managing diversity is one of themain challenges for HRMinmodern organizations. Benschop (2001) noted thatmost strategic HRM(SHRM) models implicitly assumed workforces as generic and homogeneous, without considering internal differences between employees. Therefore, it is necessary to incorporate diversity in SHRM debates (Curtis & Dreachslin, 2008). This study intends to incorporate the impact of

diversity in the HRM–performance relationship.

Major issues and objectives of HR diversity management

Effective diversity management has historically been used to provide a legally defensible position against charges of discrimination. A firm with a diverse workforce could argue in legal proceedings that they were not guilty of discrimination since their workforce demographics represented the local community. However, there has been considerable debate on the areas of difference between equal opportunities and managing diversity in literature. Equal Employment Opportunity (EEO) and Affirmative Action (AA) are to a large extent, a product of the civil rights movement of the 1960s and the liberal political philosophy (Webb 1997). Diversity Management is 'a movement away from or an alternative model to traditional EEO policies and practices or the second generation of EEO' (Thompson 1997, p. 195). In contrast to the negative perspective of discrimination against staff in EEO the emphasis of diversity management is on a positive perspective of differences among all individuals (Maxwell et al. 2001). Diversity management does not only recognize but also values and harnesses workforce differences,

such as individual characteristics, backgrounds, orientations and religious beliefs, so that individual talents are being fully utilized and organizational goals are met. While EEO is primarily driven by legislation, diversity management is driven by the business case (Kandola and Fullerton 1994). Diversity management takes advantage of the growing cultural pluralism that results from the internationalization of business, development of world markets, growing workforce mobility, and the increasing awareness of individual differences (Lawler 1996). Equal employment opportunity starts externally and is enforced through legislation, whereas diversity management starts internally, through the efforts to create an atmosphere of equality and a fully inclusive organizational culture at work (Gordon 1995). These discussions lead to a conclusion that while diversity management includes a commitment to EEO and AA, the actual scope of diversity management is a lot broader (Kossek et al. 2005). First, diversity management seeks to overcome labour market segregation through addressing inequalities based on individual differences, such as race, gender and class (Horwitz, Bowmaker-Falconer and Searll 1996). Second, diversity management emphasizes

valuing and taking advantage of individual differences, mainly cultural pluralism, in order for all people to maximize their potential, which is beyond legal compliance-oriented equal employment opportunity. Through the strategic deployment of a diverse workforce, organizations seek to achieve competitive advantage (Storey 1995). There are a range of objectives organizations wish to achieve through effective HR diversity management. At the top is compliance with legal EEO and AA requirements. Other objectives include mainly creativity, flexibility, employee attraction, employee retention and better marketing capabilities. Through effective diversity management, diverse teams aim at achieving greater innovation and creativity, enabling them to outperform homogenous teams (Cox and Blake 1991; Richard 2000). While there is evidence that short-term progress is affected by conflict and communication problems, by bringing a wider range of perspectives to problem solving, diverse teams foster speed and innovation and produce substantially higher quality solutions over whole development cycles. Moreover, by bringing equality to employment relations, organizations tend to attract and retain an adequate and qualified workforce. Cox and Blake (1991) argued that

the benefits of effective diversity management include reducing turnover, absenteeism and attracting the best candidates as the labour market shrinks. Past research indicates that those individuals who belong to the 'dominant' group within an organization tend to have higher job satisfaction and commitment as they experience higher co-worker support, superior rewards, access to adequate resources, and greater autonomy (Kossek et al. 2005). For those outside the dominant group within an organization, job satisfaction can be lower, particularly where they do not have access to equal rewards or advancement opportunities. In addition, tendencies for people to form in-groups and out-groups can affect job satisfaction, and impinge on supervisor, subordinate and co-worker relations. Furthermore, by making use of workforce diversity, many organizations seek to improve marketing capabilities to reflect and to be more responsive to customer demographic change (Cox and Blake 1991).

HR diversity management practices

HRM is a set of distinctive activities, functions and processes that are aimed attracting, directing and maintaining an organization's human resources (Lado and Wilson 1994). The HR function has grown substantially over the past few decades and now covers the whole gamut of people management processes. There are different views about the nature of HRM and there exists an enormous variety of HR practices adopted by various organizations (Boselie, Dietz and Boon 2005). Nevertheless, it is widely recognized that the key practices of HRM include recruitment and selection, training and development, performance management and pay (Shen and Edwards 2006).

Recruitment and selection

Empirical evidence suggests that many employees and managers regard diversity management as being equal to having an equal opportunity for any person to enter the organization. Many world class organizations have been effective in hiring women and minorities to mirror the increasingly diverse markets and win over new customers (Perlman 1992). Managerial attention to increased work force diversity has been mandated in IBM, Xerox and J. C. Penney (Ted 2005). Digital, Esso and Westpac all set EEO targets in their HR practices (Kramar 1998). Alcoa recruits and retains high calibre people through harnessing the creative capacity of its employees. Alcoa creates a work environment and culture where this creativity will flourish (DIMIA 2002). Allen, Dawson, Wheatley and White (2004)

conducted a survey of 396 employees from a wide variety of companies in Australia to examine 13 separate diversity practices. Ninety-three per cent of the companies reported a zero-tolerance level of workplace discrimination in recruitment. South Africa addresses its past segregation and discrimination policies by way of Affirmative Action programs demanding the appointment sometimes of a black person above a better qualified white candidate (Van Jaarsveld 2000). Before the 1979 amendments to the Industrial Conciliation Act (ICA), recruitment, employment level and access to skilled positions were virtually controlled by established white trade unions in South Africa. Over the past three decades, due to the wide adoption of tripartite negotiations, the percentage of blacks and other minorities in management has been considerably increased (Horwitz et al. 1996). However, despite several decades of equality legislation and declared commitment to equal opportunities, there still exists a systematic discrimination in the recruitment and selection process. Morrison (1992) conducted a survey of managers in 16 'model' US organizations. He found that most organizations introduced just one approach to equality, instead of an array of measures intended to make the organizational climate

more supportive. Organizations need to ensure that employment policies and practices provide developmental opportunities, career planning, reduction of work–family conflict, and mentoring for disadvantaged groups. Morrison (1992) proposed that managing diversity The International Journal of Human Resource Management 239 can complement affirmative action strategies and new employment policies and practices to address the failure of organizations to promote women and racial and ethnic minorities into higher levels of management. Bennington and Wein (2000) found that there is widespread discrimination in employment in Australia. Holly (1998) and the Equal Opportunities Review (1995) presented the evidence of discrimination in recruitment and selection in the UK public sector. Walsh (1995) argued that the increasingly competitive environment makes it difficult for public sector managers to maintain the levels of organizational commitment required for equal employment opportunity to be truly meaningful. Worldwide, only 54% of working-age women are in the workforce compared to 80% of men (Kossek *et al.* 2005).

Training and development

There is anecdotal evidence showing diversity training and management development are receiving considerable attention from organizational management. According to Maxwell et al. (2001), people in the UK public sector normally regard diversity management as giving a fair chance to get ahead for everyone. Horwitz et al. (1996) reported that before 1979 the monopolization of skilled labour by white trade unions effectively denied access to apprenticeship training and skilled and managerial positions for South African black employees. Since the late 1970s, black managers as a proportion of all managers have increased as a result of implementing Affirmative Action programs. Many South African organizations have instituted multicultural value sharing workshops. By 1995, only 7.3% of the managers in the Breakwater Monitor sample involving 137 leading South African organizations and 837,331 employees were black, coloured or Asian. However, there has been a considerable growth of black, coloured, Asian and female mangers in South Africa since then. Past studies, such as Cunha and Marques (1995), showed that nations with a high femininity culture, such as Portugal and the Scandinavian countries, have higher percentages of female managers. In Portuguese public administration the percentage of female managers is twice that of Europe. J. C. Penney set a goal of 46% representation of women on its board of directors. However, many leading corporations have not been successful in training, retaining and promoting women and minorities (Goodman et al. 2003). Managers in organizations where there is a lack of effective HR diversity polices are likely to promote or rate highly subordinates who have similar cultural backgrounds and experience. In the US whites hold 88.4% of managerial positions while comprising only 75% of the population (US Department of Labor 2003). The Executive Leadership Council's Institute for Leadership Development and Research conducted the 2004 census of African Americans on corporate boards. The survey revealed only 8.1% of the board members are African Americans in the 500 largest publicly traded American corporations (Alleyne 2005). A similar study conducted by Fortune magazine reported that people of colour made up only 19% of corporate board rooms and 26% of management in the Fortune 1000 plus the largest privately held companies (Hickman, Tkaczyk, Florian and Stemple 2003). Cited in a CNN report (CNN 2007), Fortune magazine revealed that, in 2006, only 2% of

CEOs in the Fortune 1000 were women. Elsewhere, Allen et al. (2004) argued that the minority representation in middle and senior management positions in Australian organizations is inadequate. There is evidence that training programmes present lower rates of female participation, becoming an obstacle to women's career advancement and access to managerial positions worldwide (Powell and Butterfield 1994). Women are also widely excluded from informal networks and experience difficulties in the establishment of mentoring relationships. These factors prevent them from reaching top positions, a phenomenon known as 'the glass ceiling effect' (Ragins and Scandura 1994). Moreover, most diversity training programmes reinforce norms, values and perspectives of the dominant organizational culture (Tung 1993). Rabobank, a Dutch bank, has employed a relatively higher percentage of ethnic minorities than other organizations in the community in order to attract ethnic minority customers. However, employees in Rabobank with immigrant backgrounds are mostly recruited only for lower positions and promotion for these employees is very difficulty, if not impossible. Also, ethnic minority employees are not allowed to express their culture and religions in the bank

openly (Subeliani and Tsogas 2005). Furthermore, the context of some diversity training may be different enough from the ongoing work context so as to make it difficult for trainees to exhibit behaviours similar to those learned in training (Ford and Fisher 1996).

Performance appraisal

Many organizations, such as Digital, Esso and Westpac, take account of AA and EEO in their performance appraisal systems (Kramar 1998). Australian companies largely draft and implement objective criteria and are fair in the performance appraisal process (Dagher, D'Netto and Sohal 1998). However, appraisal and performance-related pay practices and techniques are often inherently gendered and against women (Rubery 1995). Tsui and Gutek (1999) reported that there is consistent evidence showing that higher demographic similarity between supervisors and subordinates on age, race or gender correlates with HR outcomes, such as higher ratings on performance, organizational citizenship, and lower role ambiguity and conflict. Other mechanisms of discrimination are pointed out in the performance appraisal processes, in which women seemprone to get lower ratings (Ohlott, Ruderman and McCauley 1994). Australian companies usually do not involve culturally diverse

employees in performance appraisal panels (Dagher et al. 1998).

Pay

Pay inequality is a main cause of job dissatisfaction and demotivation, and therefore a major HR diversity issue (McLoughlin and Carr 1997; Van den Bos, Lind, Vermunt and Wilke 1997). EEO and AA have been integrated with compensation practices by many organizations, again, like Digital, Esso and Westpac (Kramar 1998). Kramar has been supported by Dagher et al. (1998) who also reported that diversity practices in remuneration are widely used by Australian organizations. However, Dagher et al. (1998) attributed positive remuneration practices to a 'union effect'. These authors state that a relatively strong trade union movement in Australia has prevented the occurrence of wage discrimination among unionized employees. While the implementation of equal pay has significantly reduced earnings differences between men and women, gender income inequality still remains a global problem (Blau and Kahn 1994; Katz and Autor 1999; Brainerd 2000). Globally, women earn 20% to 30% less than men (Kossek et al. 2005). In France, the gap between men's and women's pay stands at around 22% for those entering the labour market for the first time in the early 1990s,

whereas this difference was 15% for people in the same situation in the late 1970s (INSEE 2002). Gender wage inequality ranged from 10% to 54% in urban industries and from 20% to 45.7% in the rural sector in the 1990s in China (Meng 1998; Gustaffson and Li 2000; Hughes and Maurer-Fazio 2002). The size of gender wage differential in China is similar to that ofRussia and other developed counties (BlauandKahn 1994;Brainerd 2000).

2. Literature review and hypotheses

2.1. HRM system for service organizations

According to Accounting and Statistics of the Executive Yuan in Taiwan (2003), the average personnel cost and turnover rate for the service industry are nearly double those for manufacturing. To succeed in a competitive environment, organizations must implement a distinctive set of HRM practices that emphasize the human side of management and the need to induce the desired service-oriented behavior to achieve organizational objectives. The manufacturing and service sectors have quite distinct work characteristics, especially in the degree of contact between employees and customers. Schlesinger and Heskett (1992) state that front-end workers are crucial in the service industry as they directly influence organizational performance through their

relationships with customers. This also applies to the fashion styling industry. Existing service industries research includes medical and legal offices (McClean& Collins, 2011), fast food restaurants (Leidner, 1993), and banks (Wallace, Chernatony, &Buil, 2013); these studies highlight various HRM practices as predictors to enhance performance. Chebat (2002) suggests that employees' perception of workplace equality is a key predictor of their behavior. Jago and Deery (2002) indicate that innovative training, selective staffing, and team environment favorably influence employees, thereby inducing improved customer service. Previous empirical studies suggest various HRM practices that foster organizational performance. This study presents a set of six HRM practices suitable for the service industry, pertaining to staffing, training, involvement/participation, performance appraisal, compensation/ rewards, and caring. Further, this study verifies whether this set of HRM practices affects performance. 2.2. HRM system and organizational performance Extant research on strategy mainly focuses on howHRMcontributes to firms' competitiveness. According to RBV, organizations equipped with valuable, rare, non-imitable, and non-substitutable resources may possess a sustainable competitive advantage (Barney, 1991). A set of carefully aligned HRM practices, often called a high performance work system (HPWS) or high-commitment work system, may lead to competitive advantage from two standpoints. The behavioral perspective suggests that an effective HRM systemwill acquire, develop, and motivate desirable behaviors that enhance organizational performance; additionally, the system should be consistent with the organization's competitive strategy (Wright & McMahan, 1992). The RBV highlights the attributes required for organizational capabilities to yield competitive advantage. Empirical studies also confirm that HPWS significantly influences organizational performance (Delery& Doty, 1996; Huselid, 1995). Strategic HRM research shows that such a system may be a key impetus for performance (Lepak et al., 2006; Subramony, 2009). HPWS is a set of HRM practices comprising a series of actual programs, processes, and techniques that are established and enforced in accordance with the organization's strategic objectives. The system enhances employees' knowledge, skills, and abilities (KSA), empowers employees to contribute, and boosts employee motivation and efforts (Delery & Shaw, 2001; Lepak et al., 2006), leading to

favorable organizational outcomes. When employees perceive their organizations' HRM practices as conscientious, diligent, and fair, they reciprocate with positive attitudes, resulting in superior performance. This study proposes the following hypothesis: Hypothesis 1. HPWS positively affects organizational performance.

2.3. Age diversity, professional tenure diversity, and expertise diversity as moderators

Diversity refers to differences in individuals' characteristics or attributes that result in the perception that others are different from one self (van Knippenberg & Schippers, 2007). Given the extensive range of diversity types, it is essential to classify diversity for discussing how demographic differences can influence team performance. Harrison and Klein (2007) classified diversity as separation, variety, and disparity; these diversity types differ in their substance, patterns, operationalization and, ultimately, consequences (Bell, Villado, Lukasik, Belau, & Briggs, 2011). Researchers propose various typologies to classify diversity, for example, bio-demographic (age) and task-related diversity (Horwitz&Horwitz, 2007), and highly and less job-related diversity (Webber & Donahue, 2001). Diversity literature examines how differences among members of workgroups or organizations directly affect the group process and performance. The main effect approach yields mixed empirical results regarding the influence of diversity on various performance indicators (Jackson, Joshi, & Erhardt, 2003; Kochan *et al.*, 2003). To better describe their interaction effects on the performance or work outcomes, researchers propose a joint analysis of diversity, different task characteristics, and organizational practices or situations (Van der Vegt, Bunderson, & Oosterhof, 2006; van Knippenberg & Schippers, 2007). This study investigates the moderating effects of the fashion styling industry's employee diversity on the HRM– performance relationship. Professional service organizations are typically small-scale and resemble a team structure. Team diversity research often distinguishes between demographic and task-relevant diversity attributes. Frequently, demographic diversity attributes are observable, cognitively accessible, and immutable; they relate closely to the social categorization processes (van Knippenberg, DeDreu, &Homan, 2004). Age diversity can influence team interdependence and reflects a potentially valuable variety in resources such as styles, insights, experiences, and social network ties. Thus, age diversity may

moderate the HPWS–performance relationship. In contrast, task-related diversities are less noticeable and are associated with skill-based and informational differences. Based on van Knippenberg and Schippers (2007), this study considers both demographic and functional diversity as important boundary conditions for the HPWS–performance relationship. Functional diversity refers to differences in employees' educational background, functional background, professional tenure, and expertise (Dahlin, Weingart, & Hinds, 2005; Van der Vegt et al., 2006). An organization's demographic composition may influence members' communication and cooperation (Chatman & Flynn, 2001). Further, gender diversity is positively associated with firm performance (Dwyer et al., 2003). Functional diversity attributes such as tenure and expertise are related to workplace KSAs. By influencing the range of available task-relevant resources and how well members communicate and cooperate with one another, team composition significantly influences organization performance (Bell, 2007). Scholars suggest that functional diversity positively affects group performance and innovation (Auh & Menguc, 2006). Hence, this study proposes the following hypothesis: Hypothesis 2. Age

diversity moderates the relationship between the HRM system and organizational performance, such that the relationship is stronger under high age diversity and weaker under lowage diversity. Hypothesis 3. Professional tenure diversity moderates the relationship between the HRM system and organizational performance, such that the relationship is stronger under high professional tenure diversity and weaker under low professional tenure diversity. Hypothesis 4. Expertise diversity moderates the relationship between HPWS and organizational performance, such that the relationship is stronger under high expertise diversity and weaker under low expertise diversity.

CONCLUSION

This study contributes to the HRM and diversity literature from a different perspective, showing that demographic diversity positively moderates the HRM–store performance relationship. This finding implies that greater age diversity strengthens the HPWS–performance relationship. HPWS implementation fosters teamautonomy and, consequently, cooperation and communication among team members. Moreover, an organization with diverse age groups can attract diverse customer groups; thus, age diversity enhances an organization's

attractiveness. However, the moderating effects of professional tenure diversity and expertise diversity are insignificant. These findings regarding prominent diversity factors in organizations warrant further investigation. Diversity can be a complicated issue in the organizational context; however, it can be pivotal in strengthening the HPWS–performance relationship. This study has several limitations. First, since this paper is a cross sectional research, one should examine the causal inference of the research results cautiously. Second, the proposed hypotheses may be insignificant because of the relatively small sample size from the decentralized organizational structure of the professional service sector. Additionally, the sample set was limited to fashion styling industry organizations. Therefore, future studies should consider larger sample sizes and other service industries so that the results can be generalizable to other industries. Taiwan is about to experience an aging society. The rise of the workforce's average age will create both opportunities and challenges for employers, bringing an increased availability of labor and necessitating more flexible work arrangements. Introducing diversity management programs can help organizations create a sustainable competitive advantage. Therefore,

organizations should adjust policies for recruitment, training, compensation, and motivation, to accommodate the diverse and heterogeneous workforce. According to Kochan *et al*. (2003), if organizations wish to reap performance benefits from diversity, managers' conceptualizations of the SHRM system would be crucial.

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