

Linking Workplace Diversity To Organizational Performance: A Conceptual Framework

Leon. C. Prieto, Louisiana State University, USA
Simone T. A. Phipps, Louisiana State University, USA
John K. Osiri, Louisiana State University, USA

ABSTRACT

This article investigates the previous research of the influence of workplace diversity on organizational performance. It provides a conceptual framework of the influence of diversity on performance, integrating the literature on the potential performance benefits of diversity and potential problems of diversity. The goal of the article is to provide practitioners and scholars alike with a framework that will allow them to design diversity initiatives based on a needs assessment and empirical research

Keywords: Workplace Diversity; Organizational Performance; Diversity Climate

INTRODUCTION

It is estimated that organizations spend \$8 billion annually on diversity (Hansen, 2003). Firms are seeing the need to hire a workforce that reflects today's diverse society, and a major competitive factor for organizations is attracting and retaining the best available human resource talent in the context of the current workforce demographic trends. As women and non-White men increase in proportional representation in the available labor pools in the United States, Europe, and many other parts of the world, it becomes increasingly important for organizations to be successful in hiring and retaining workers from these groups (Cox, 1993). The question managers often ask is how does diversity and its management affect the bottom-line performance of organizations and whether there is any tangible evidence that there is a relationship between them (Jackson & Joshi, 2004). Employers and management researchers have struggled during the past two decades to improve their understanding of how workforce diversity influences organizations, work teams, and individual employees (Jackson & Joshi, 2004). Numerous empirical studies seem to confirm what employers already know: namely that the potential benefits of workplace diversity do not accrue automatically (Jackson & Joshi, 2004). Some studies (Jackson, Joshi, & Erhardt, 2003; Webber & Donahue, 2001) have found that various forms of diversity are associated with greater innovation, improved strategic decision-making, and organizational performance, and other research shows that various types of team and organizational diversity sometimes increase conflict, reduce social cohesion, and increase turnover (Jackson & Joshi, 2004). Cox (1993) also stated that there is evidence that the existence of diversity may affect certain organizational processes such as communications, creativity, and problem solving, which are closely related to performance. However, Watson et al (1993) stated that the combined impact of ethnic and cultural diversity on group process and performance is somewhat difficult to predict from existing research. Richard (2000) conducted a study to seek a greater understanding into the relationship between cultural diversity and firm effectiveness. The results demonstrated that the positive impact of racial diversity on firm performance has to do with context. In the absence of consideration of context, a negative relationship between cultural diversity and firm outcomes may emerge. In addition to highlighting the importance of context to a positive racial diversity effect, the results also shed light on the organizational contexts in which human resource diversity may impede firm performance. Diversity can increase coordination costs, and the leaders of no growth or negative growth firms should be particularly aware of the performance implications of a clash between diversity and downsizing. In sum, the same resources that offer some firms competitive advantage can be a performance detriment

to others. Developing a business case for diversity is more difficult than for other business issues because evidence of diversity's impact on the bottom line has not been systematically measured and documented for easy retrieval and use (Robinson & Dechant, 1997). Given the uncertainty whether or not diversity initiatives enhance performance there is a need for a comprehensive review to link the different genres of diversity research and provide targeted direction moving forward. Kochan et al. (2003) stated that more work is needed to design and evaluate specific interventions or experiments aimed at creating a positive link between diversity and performance.

A literature review on diversity by Jayne and Diboye (2004) stated that simply having a diverse workforce does not necessarily produce the positive outcomes that are often claimed by some of the more optimistic proponents and they identified four major gaps between diversity rhetoric and research findings and they are, 1) increased diversity does not necessarily improve the talent pool, 2) increased diversity does not necessarily build commitment, improve motivation, and reduce conflict, 3) increased group level diversity does not necessarily lead to higher group performance and 4) diversity does not necessarily improve group performance (Jayne & Diboye, 2004, p. 412). The failure of diversity initiatives may be attributed to organizations lack of attention to the needs assessment process (Roberson, Kulik, & Pepper, 2003). For example, the culture audit proposed by Cox (1993) is one of the most widely recommended methods for needs assessment before diversity training. This audit involves a comprehensive assessment of organizational culture and human resource systems, including recruitment and selection, training and development, performance appraisal, and compensation. The objectives of the audit are to uncover subtle sources of bias and identify ways in which organizational culture is inconsistent with diversity goals. Some researchers argue that the crucial needs assessment issues regarding diversity training involve organizational analysis because diversity training is often viewed as a vehicle for changing organizational culture. Information from organizational analyses can uncover sources of bias and identify ways in which the organizational structures and climate are not meeting the needs of a diverse workforce (Cox, 1993). Such information also ensures that training efforts fit into overall organizational goals and provides a valuable means for evaluating change efforts (Roberson, Kulik, & Pepper, 2003).

In planning this article, we aspired to determine whether there was a link between diversity and organizational performance by examining the diversity literature. It is my attempt to look at the literature to help provide a conceptual framework that can help link diversity to organizational performance that supports the interactional model of the impact of diversity on individual career outcomes and organizational effectiveness.

DIVERSITY IN ORGANIZATIONS

Workforce demographics in the United States and many other nations in the world indicate that managing diversity will be on the agendas of organizational leaders, and leading scholars, and consultants point out that a well managed diverse workforce holds potential competitive advantages for organizations (Cox & Blake, 1991). Managers often wonder if race, gender, ethnicity or anything else improves organizational performance and finding reliable answers to this question is difficult because people define diversity in different even conflicting ways (Dass & Parker, 1999). Diversity also has the potential for competitive advantage through improved problem solving and decision making. The rationale for this statement is similar to that for increased creativity through diversity. The idea is that diverse groups have a broader and richer base of experience from which to approach a problem, and that critical analysis in decision groups is enhanced by member diversity (Cox, 1993).

NEGATIVE EFFECTS OF DIVERSITY

Racial and gender diversity can have negative effects on individual and group outcomes (Richard & Johnson, 2001). For example, group members who differ from the majority tend to have lower levels of psychological commitment, higher levels of turnover intent and absenteeism than do majority members. Also, group coordination costs, such as increased communication time, appear to increase with diversity. However, evidence exists that these effects diminish with time (Watson, Kumar, & Michaelsen, 1993). Organizations need to do their homework before attempting to woo minority jobseekers. This homework consists of performing diversity audits to determine whether their climates are supportive of diversity, developing recruitment messages that coincide with racial conditions and placing them in minority-rich recruitment sources, evaluating recruitment and retention effectiveness, and eliminating workplace characteristics that undermine diversity recruitment and minority retention.

Otherwise organizations will be apt to default on their implied recruitment promises, minority recruits will feel misled, and some form of backlash will be probable (Mckay & Avery, 2005).

Proponents favoring the similarity-attraction paradigm of team composition argue that members' perceptions of others, as frequently inferred on the basis of similarity in demographic attributes, lead to attraction among team members (O'Reilly, Caldwell, & Barnett, 1989; Smith et al., 1994; Wiersema & Bantel, 1992). For example, bio-demographic attributes such as age, gender, and race/ethnicity are immediately observed and categorized by individual members, and differences tend to be negatively associated with team performance and social integration (Milliken & Martins, 1996). According to this paradigm, homogenous teams are likely to be more productive than heterogeneous teams because of mutual attraction of team members with similar characteristics. Heterogeneous groups, in contrast, are hypothesized to be less productive and have lower team cohesion because of inherent tensions and relational conflicts arising from member differences (Horwitz, 2005). Although diverse perspectives within a team can lead to enhanced team functioning through information elaboration, this effect may be reduced or even reversed when informational diversity converges with other diversity dimensions such as gender, personality differences, or attitudes and values (Homan, van Knippenberg, Van Kleef, & De Dreu, 2007). When different dimensions of diversity converge, the covariation of differences creates a diversity fault-line that may elicit subgroup categorization or an "us-them" distinction (Homan, et al., 2007). Homan et al (2007) argues that such subgroup categorizations can disrupt group processes by rendering group members less trusting of and motivated to cooperate with other group members and less committed to the group, increasing interpersonal tensions and conflict, and lowering communication. Although diversity may stimulate group performance through information elaboration, it also undermines group performance through social categorization process (William & O'Reilly, 1998). Pelled, Eisenhardt, and Xin, (1999) found that diversity variables can influence conflict and yet, with the exception of functional background diversity, do not necessarily have much bearing on work group performance; that is while, race, tenure, and age diversity influenced emotional conflict, they lacked substantial ties to performance.

POSITIVE EFFECTS OF DIVERSITY

Different types of people see the world in different ways. Having divergent perspectives can be helpful when groups are trying to come up with creative ideas or solve complex problems. In fact, research on top management teams has typically found that firm performance increases when the senior management group is more diverse (Kravitz, 2003). Gender diversity might help performance while a lack of gender diversity might cause problems (Kravitz, 2003). Indeed, firms with few women especially in senior management ranks are more likely to embrace stereotypical gender roles, and women in such firms typically have less power (Kravitz, 2003). As a consequence, these firms may be less attractive to women, costing firms access to the resources that female employees could have brought to the table (Kravitz, 2003). Based on these arguments, Frink, Robinson, Reithel, Arthur, Ammeter, Ferris, Kaplan and Morrisette (2003) predicted that gender diversity would have a positive impact on firm performance. Specifically, they predicted that performance would be maximized when women comprised about half of a firm's workforce. Departures from a 50-50 split in either direction would decrease diversity and, as a result, lead to lower firm performance. Frink and his colleagues (2003) tested this prediction in two studies. In the first study, personnel officers from 291 U.S. companies reported on their firms' gender distribution, size, and sector (services vs. goods). They also rated their firms' market performance on several dimensions, such as profitability and growth in sales. On average, these companies had 624 employees, 49 % of whom were women. As predicted, there was an overall positive effect of female participation on firm performance. More importantly, firm performance increased with female participation up to a maximum at 50 per cent, after which it decreased. These results were not affected by organization size or industry sector. The second study involved a random sample of 410 publicly traded firms in five industry sectors and covered the period from 1978 through 1992. Frink et al (2003) used a variety of reports and databases to obtain workforce and financial information about these firms, which were much larger than the companies included in Study 1. On average, the Study 2 firms had total assets of \$534 million and nearly 28,000 employees. Female participation was lower than in Study 1, with women comprising about 32 per cent of the workforce on average in Study 2 firms. Productivity (total revenue per employee) and profitability (net income before interest and taxes) were used to gauge firm performance in Study 2. Frink and his colleagues found that productivity was unrelated to gender diversity. But they did find a direct relationship between the per cent of female employees and firm profitability. As the percentage of women in

the company increased, so did profitability. Indeed, profitability was highest at intermediate levels of female representation. In essence, these results are consistent with the pattern found in Study 1 (Frink et al, 2003).

Organizations increasingly rely on cross functional work groups and project teams in an attempt to stimulate innovation, solve problems and make decisions. Often, informational diversity within such teams comes hand in hand with differences, such as demographic characteristics and deeply held values and beliefs (Harrison, Price, & Bell, 1998). Informational diversity is defined as differences in knowledge bases and perspectives that members bring to the group (Jehn, Northcraft & Neale, 1999). According to Homan et al 2007, diverse information and perspectives on work groups can potentially boost performance, but diverse groups are often unable to benefit from their diversity. Addressing this issue, (Homan et al, 2007) proposed that groups are more likely to effectively use their informational resources when group members believe in the value of diversity; in support of their proposition, diversity beliefs moderated the relationship between informational diversity and performance, such that informationally diverse groups performed better when they held pro-diversity beliefs rather than pro-similarity beliefs (Homan et al, 2007).

Using the theoretical argument of cognitive resource diversity, researchers in this area have argued that diversity has a positive impact on performance because of unique cognitive resources that members bring to the team (Cox & Blake, 1991; Hambrick, Cho & Chen, 1996). The underlying assumption is that teams consisting of heterogeneous members promote creativity, innovation, and problem solving, hence generating more informed decisions (Horwitz, 2005). Nemeth (1986) found that heterogeneous teams that included minority members were more creative in generating ideas and non-obvious alternatives than homogenous ones. The results indicated that the heterogeneous teams were more creative in problem solutions than the homogenous when controlling for ability levels. In another study, Simon, Pelled, and Smith, (1999) observed that member diversity in education and company tenure influenced the quality of debates and thus, positively impacted the decision making process in a team of top managers.

Roberson and Jeong Park, (2007) found that there was a relationship between diversity reputation and book-to-market equity, which suggests that diversity reputation may signal investors about companies' future performance. More specifically, capital market participants may view Fortune's list of the 50 best companies for minorities as a quality diversity reputation signal, or may view such a designation as relevant to the valuation of a company's expected stock returns (Roberson & Jeong, 2007). The results of their study also showed a positive relationship between top management team diversity and revenue growth such that organizations with greater ethnic minority representation in top management tended to experience larger increases in annual revenues (Roberson & Jeong, 2007). According to Weigand (2007) a large body of theoretical literature suggests that cultivating a diverse workforce and developing relationships with other diverse stakeholders lead to improved decision-making, problem-solving, innovation and creativity, which provides firms with a strategic and competitive advantage. Weigand (2007) investigated whether these advantages were discernible in firms' financial performance and also compared firms recognized for exemplary diversity practices by Diversity Inc and Fortune magazines in 2004 to matched samples of peer firms, using a wide variety of accounting, financial, and market-based metrics. Firms listed on the respective diversity honor rolls have a performance advantage over the matching firms during the years immediately preceding publication of the lists, particularly in accounting- based profitability measures. These firms were larger than the matching firms in terms of market capitalization, assets and sales. The study observed superior performance based on metrics directly correlated with firm size, such as net operating profit after tax and market value-added. Over most of the years of the study Weigand (2007) found that both sets of diversity-award winners also have higher profit margins, return on assets, return on equity and economic value-added compared to the matching firms. These advantages, however, did not directly translate into benefits to shareholders (Weigand, 2007). Over the five years of their study, the risk-adjusted excess returns of the diversity and matching portfolios are identical, and insignificantly different from zero. The higher profitability of the diversity award winners is consistent with the idea that diversity initiatives provide firms with a strategic and competitive advantage, and is unresponsive of the view that corporate diversity initiatives are merely another aspect of firms' commitment to social responsibility (Weigand, 2007).

In a recent study McKay et al (2008) assessed whether diversity climate moderated whether mean racial-ethnic differences in employee sales performance. One of the study's hypothesis predicted diversity climate to moderate mean racial-ethnic differences in sales performance such that (a) Black-White and (b) Hispanic-White

mean differences in sales performance would be largest in stores with less supportive diversity climates and smallest with highly pro-diversity climates. The study found that diversity climate was related to greater increases in sales per hour among blacks and Hispanics, relative to whites, whose sales performance was relatively impervious to store level diversity climate. According to the study black-white differences in mean sales per hour, disfavoring blacks were larger in stores with lower pro-diversity climates. However, blacks sales per hour exceeded those of white personnel in highly pro-diversity stores.

CONCEPTUAL FRAMEWORK

The goal of the diversity and performance literature review was to develop a framework that can help link diversity to organizational performance that supports the interactional model of the impact of diversity on individual career outcomes and organizational effectiveness. The conceptual framework that we propose supports the idea of a needs analysis that assesses the diversity climate before there are any attempts to roll out a diversity initiative and training. The framework provided was derived from the literature review that was conducted and the goal of the model is to provide practitioners and scholars alike with a framework that will allow them to design diversity initiatives based on a needs assessment and empirical research.

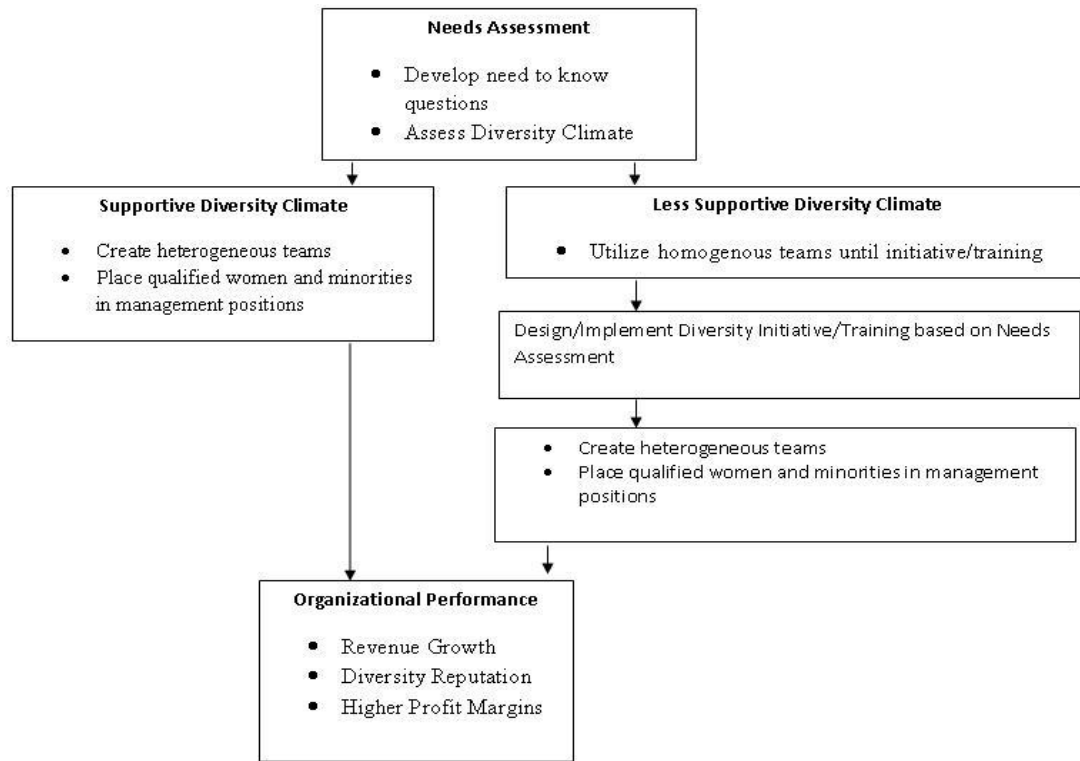


Figure 1: Conceptual Framework Linking Diversity to Performance

For diversity training to be successful there needs to be a needs assessment that makes use of an instrument to examine the organization’s diversity climate. Such an instrument could be used to evaluate the existing diversity climate in an organization. Once the climate is assessed, managers can, if necessary, develop, implement, and assess a customized training program to improve their institution’s diversity-management practices (Dahm, et al., 2009).

Proposition 1: A needs assessment that assesses the diversity climate of an organization will better aid practitioners in designing, developing and assessing a diversity training program.

In a recent study it was found that Blacks' diversity climate perceptions significantly were more associated with turnover intentions. Apparently, Black managers' diversity climate perceptions related to their level of commitment to the organization, which, in turn, correlated with their intentions to exit or remain with the company. (McKay, et al., 2007).

Proposition 2: Organizations with a less supportive diversity climate should design a diversity training/initiative based on a needs assessment.

Nemeth (1986) found that heterogeneous teams that included minority members were more creative in generating ideas and non-obvious alternatives than homogenous ones.

Proposition 3: Organizations with a supportive diversity climate that utilize heterogeneous teams would be more innovative and creative.

Proposition 4: Organizations with a less supportive diversity climate that utilize heterogeneous teams would be less innovative and creative.

A study found a direct relationship between the per cent of female employees and firm profitability. As the percentage of women in the company increased, so did profitability. Indeed, profitability was highest at intermediate levels of female representation. (Frink et al, 2003).

Proposition 5: Organizations that have a supportive diversity climate will result in higher organizational performance than organizations with a less supportive diversity climate.

FUTURE DIRECTION

Some researchers suggested that in order to remedy the shortcomings of past diversity research and the inconsistency in results, further developments of alternative ways in which group diversity can be conceptualized and operationalized are needed (Jehn & Bezrukova 2004). One of the most intriguing advancements along these lines comes from a theory of group faultlines. Group faultlines occur in groups when a group splits into two subgroups based on the alignment of one or more demographic attributes (e.g., race and gender) (Jehn & Bezrukova 2004). Past diversity studies have often ignored individuals' multiple demographic characteristics (e.g., gender, race, age) and the alignment of these characteristics across group members, which can be crucial for understanding the effects of group composition on workgroup context and outcomes (Jehn & Bezrukova, 2004).

Horwitz (2005) suggested that a single theoretical lens proposing a uniform effect of team diversity on performance should be replaced with more process-driven, contingent paradigms of team diversity. According to Horwitz (2005) many researchers profess to study group dynamics, they do so statically and, in essence, provide only a one-dimensional snapshot of teamwork (Jehn & Bezrukova, 2004; Webber & Donahue, 2001). This static view of teamwork cannot accurately capture the dynamics of team process, the complex and changing nature of interactions, and relationships among diverse members throughout time. The length of time team members worked together, for example, may weaken the effects of surface-level diversity and strengthen the effects of deep-level diversity because group members had the opportunity to engage in meaningful interactions (Harrison et al., 1998). Therefore, longitudinal experimentation and narrative observation of teamwork are much needed to uncover the dynamic relationship between team diversity and associated outcomes. There should also be a refinement of the process model of team diversity, particularly with respect to moderators that may influence the relationship between team diversity and team performance (Hrowitz, 2005). Some potential moderators can be derived from the positive organizational behavior literature, in which constructs such as hope, optimism, and resilience (Youssef & Luthans, 2007) can be examined to determine if it influences the relationship between diversity and performance.

CONCLUSION

In conclusion, it can be said that diversity is often portrayed as a “double-edged sword” in contemporary organizational theory. At one end of the spectrum, proponents of diversity stress positive effects of member heterogeneity on team outcomes whereas others counter that many irreconcilable divisions among heterogeneous members lead to dysfunctional team interaction and suboptimal performance. In the realm of managerial research, these competing assessments of diversity have also been manifested with mixed empirical findings, hence perpetuating a lack of consensus on how members’ compositional variables influence team processes and outcomes (Horwitz & Horwitz, 2007). Considering the conflicting findings in the current team literature, it is not surprising that some contend that there are no consistent main effects of team diversity on organizational performance (Williams & O’Reilly, 1998). The effects of diversity on performance is highly complex and very powerful thus the understanding of these effects should be a high priority for practitioners and scholars alike, and there is a great need for additional learning in this field (Cox, 1993). Diversity initiatives and training can be a very useful tool in developing a workforce that is creative and skilled at problem solving and focused on achieving the bottom-line of an organization, however, there must be some form of analysis to audit the climate of the organization to assess and determine the type of diversity initiative or training that is needed for an organization. One size doesn’t fit all when it comes to diversity training and initiatives and it is essential to base it on empirical research and tailor it to the organization in order to link diversity to performance.

AUTHOR INFORMATION

Leon C. Prieto, M.B.A., is a doctoral candidate at Louisiana State University majoring in Human Resource and Leadership Development. His primary areas of research are diversity, proactive personality, leadership development and social entrepreneurship.

Simone T. A. Phipps, M.B.A., is a doctoral student at Louisiana State University majoring in Human Resource and Leadership Development. Her primary areas of research are leadership development, organizational behavior, diversity and personality.

John K. Osiri is a doctoral candidate at Louisiana State University majoring in Bio-Analytical Chemistry. He is interested in forging new research efforts on how to quickly and effectively transfer scientific research breakthroughs from academic laboratories into the markets.

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NOTES