Effect of diversity on human resource management and organizational performance ☆

Chia-Mei Lu [a,b], Shyh-Jer Chen [b], Pei-Chi Huang [b,*], Jui-Ching Chien [b,c]

[a] Tainan University of Technology, Department of Styling and Cosmetology, 71002 Tainan, Taiwan
[b] Institute of Human Resource Management, National Sun Yat-Sen University, 80424, Kaohsiung, Taiwan
[c] Department of Senior Citizen Service Management, Yuhing Junior College of Health Care & Management, 80785 Kaohsiung, Taiwan

ARTICLE INFO

ABSTRACT

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.

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1. Introduction

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 environment with 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 HRM practices 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 associated with 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 HRM and diversity research from a service perspective. This study employs the resource-based view (RBV) and information/decision-making perspective to justify how age 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 the main challenges for HRM in modern organizations. Benschop (2001) noted that most 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.

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 how HRM contributes 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 system will 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 oneself (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, De Dreu, & 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 &