Effect of diversity on human resource management and organizational performance ☆

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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 &

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 low age 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.

3. Methodology

3.1. Sample and data collection

This study collects data from fashion styling industry organizations (e.g., hair, beauty, and nail salons/spas) in the northern, central, and southern regions of Taiwan. To enhance the response rate and improve the questionnaires' validity, the research team trained research assistants to call and visit salons to inquire about survey participation. The present study collects data from two sources—shop owners/managers and their respective customer service employees. To determine the survey sample, the study conducts random sampling based on the industry's regional distribution. The research team distributes a set of questionnaires to owners and employees at each salon/spa. Storeowners rate three to five customer service employees (e.g., hair hairdressers, beauticians, and nail artists) working at their respective stores. A total of 80 shop owners and 320 customer service employees provided valid responses, resulting in a response rate of 74.07% and 58.93%, respectively. Regarding the sample structure, on average, each salon employs 22.15 employees with a store age of 11.19 years. Store employees are mostly female (90.1%), single (77.7%), relatively young (with an average age of 28.56 years), and with high school (42%) or university (36.7%) degree. On average, the store employees' professional tenure and store tenure are 7.85 years and 4.92 years, respectively.

3.2. Analytical method

Data regarding the HRM system and organizational performance are from store managers, while diversity related information are collected from customer–service employees. The present study utilizes hierarchical linear regression (multiple regressions) to examine the proposed hypotheses (Aiken, West, & Reno, 1991).

3.2.1. HRM system

Based on Lepak and Snell (2002) and Chuang and Liao (2010), the paper conceptualizes HPWS along six dimensions, with a total of 35 items stated on a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). The practices are: staffing, training, involvement/participation, performance appraisal, compensation/ rewards, and caring.

Fashion styling enterprises are examples of professional service organizations characterized by fewer employees, flatter/simpler organizational structures, and frequent interactions among employees. Since store managers regularly handle daily administrative and decision-making functions, it is appropriate for them to respond to this section of the questionnaire.

This paper regards the HRM practice scores as a continuum, from low to high, thereby indicating the different HRM system types; a low score implies a control oriented HRM system, while a high score implies a high performance/commitment work system (Arthur, 1994; Bae, Chen, & Lawler, 1998). Given the relatively small sample size (80 fashion styling stores/shops), this research uses Wold's partial least squares (PLS) method to conduct a confirmatory factor analysis (CFA). This method helps avoid (1) the various restrictions of maximum likelihood techniques regarding measurement scales, distribution of the residual, and sample size, and (2) incorrect solutions and factor indeterminacy.

Six factors emerged after conducting the CFA for validating HPWS—staffing ($\alpha = .80$), training ($\alpha = .88$), involvement and participation ($\alpha = .70$), performance appraisal ($\alpha = .77$), compensation and reward ($\alpha = .82$), and caring ($\alpha = .84$).

3.2.2. Store performance

Store managers scored their stores compared with competitors, that is, they ranked their perceived store performance relative to their competitors in terms of their ability to attract and retain qualified employees.

3.2.3. Age diversity

This study measures age diversity (in years) as the standard deviation (SD) of the demographic age of the employees (for example, hairdressers/beauticians) in each shop (Harrison & Klein, 2007; Joshi, Liao, & Roh, 2011).

3.2.4. Professional tenure diversity

Professional tenure diversity (in months) captures the dispersion or variance in members' continuous demographic characteristics. This study measures it as the SD of the professional tenure of employees (for example, hairdressers/beauticians) in each shop (Harrison & Klein, 2007; Joshi et al., 2011).

3.2.5. Expertise diversity

The front-end professional employees fill out a checklist of their professional licenses and certifications such as a professional manicure certificate, beauty therapy certificate, introductory hairstylist certificate, and advanced hairstyling certificate. This diversity type refers

Table 1
Descriptive statistics and correlations.

Variables	Mean	SD	1	2	3	4	5	6	7
1. Store size	22.15	69.55	–						
2. Age of store	134.26	132.52	.49**						
3. HPWS	4.17	.37	−.07	−.08					
4. Age diversity	5.17	4.61	−.03	.13	−.03				
5. Professional tenure diversity	51.02	40.25	.07	.18	−.13	.39**			
6. Expertise diversity	.77	.42	−.08	.06	.07	.07	.08		
7. Store performance	4.01	.51	−.08	−.13	.55**	−.17	−.01	.08	–

Note: age of store is stated in months.

Table 2
Summary of hierarchical regression of HPWS on diversity to store performance.

	Store performance		
	M1	M2	M3
Variables			
Store size	.00	.04	.02
Age of store	−.15	−.12	−.15
Main effect			
HPWS		.57***	.57***
Age diversity		−.14	−.23*
Professional age diversity		.10	.22*
Expertise diversity		−.00	−.01
Interaction terms			
HPWS × age diversity			.31*
HPWS × professional tenure diversity			−.02
HPWS × expertise diversity			.11
R^2		.04	.37	.45
F		.93	5.98	5.53

Note.
* $p < .05$.
** $p < .01$.
*** $p < .001$.

to differences in demographic backgrounds, information, knowledge, or experience among unit members (Harrison & Klein, 2007). This study measures it using Blau's (1977) index, as $(1 − \Sigma Pi^2)$, where P is the proportion of individuals in a particular category.

3.2.6. Control variables

This study includes store age and size as control variables. Past empirical evidence indicates two important predictors of organizational performance—firm size and firm age (Huselid, 1995). Firm size is likely to capture the firm value as well as superior productivity (Datta, Guthrie, & Wright, 2005). Firm age can justify organizations' usage of slack resources and their slow learning curve (Guthrie, 2001).

4. Empirical results

4.1. Descriptive statistics

Table 1 presents the means, standard deviations, and correlations among this study's variables. The zero order correlation between the high performance HRM practices set and store performance is .55** ($p < .01$). The correlations with age and professional tenure diversity are significant at .39** ($p < .01$), while the correlation with expertise diversity is insignificant at .07 ($p > .10$).

4.2. Hierarchical regression analysis

This study uses multiple regression analysis to test the four hypotheses (Aiken et al., 1991). We use hierarchical multiple regressions to test Hypothesis 1 and hierarchical moderated regressions to test Hypotheses 2, 3, and 4. Additionally, we use two control variables for all the analyses.

Hypothesis 1 predicts the direct effect of HPWS on store performance. Table 2 shows the regression results for the main effect. Model 1 indicates the effect of control variables on store performance. Model 2 indicates that the main effect of HPWS on performance is significant ($\beta = 0.57$, $p < 0.001$). The results support Hypothesis 1.

Hypotheses 2, 3, and 4 state that the different diversity types moderate the HPWS–performance relationship. Model 3 in Table 2 indicates a significant moderating effect of age diversity on the HPWS–store performance relationship ($\beta = 0.31$, $p < 0.05$); thus, the result supports Hypothesis 2. Fig. 1 demonstrates the moderating effect of age diversity on the HPWS–store performance relationship, showing that HPWS has significantly different impacts on store performance at different levels of age diversity. In contrast, the moderating effects of both professional tenure diversity and expertise diversity are insignificant ($\beta = −0.02$, $p > 0.10$; $\beta = 0.11$, $p > 0.10$, respectively) and do not support Hypotheses 3 and 4.

5. 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 team autonomy 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
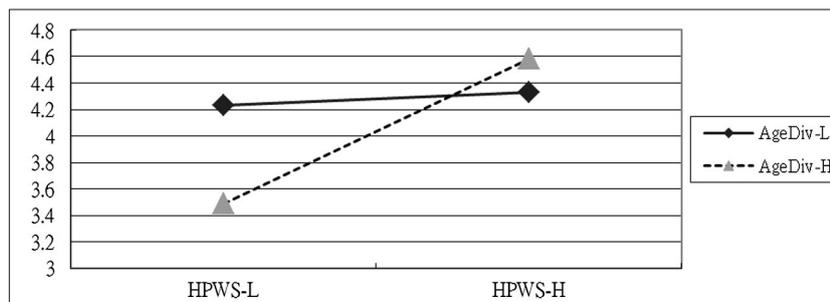

Fig. 1. Interaction effect of age diversity and HPWS on store performance.

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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