

Chapter 2

Theories and Literature Review

2.1 Literature Reviews

Culture is a universal phenomenon as there is no society in history without a culture, but it varies from one society to another (Aluko). A number of authors believe that culture plays a rather important role on organization performance (T. J. Cox, 1994). In doing so, the term cultural diversity, or multiculturalism arises. Multiculturalism focuses on the aspects of multiple cultures and narrowly speaking, it focuses on being open to the positive aspects of all cultures and using this information to create new and meaningful ways of interacting (Connerley & Pedersen, 2005). Lee Raymond (Connerley & Pedersen, 2005), CEO and Chairman of Exxon Mobile Corporation, wrote the following in a letter to employees about the company's diversity goals:

“Having a workforce that is as diverse as your business is a key competitive advantage. Our success is a direct reflection of the quality of our employees. We strive to attract the best people and to provide them with the best career opportunities in our industry. In doing so, we've built a diverse global workforce that is focused on producing superior business results.”

Cox (1994, p.6) points out that cultural diversity is the “representation, in one social system, of people with distinctly different group affiliations of cultural significance” . Regardless of how diversity is defined, the adjustments that employees will make an organization depends on the organization's tolerance for ambiguity, the demand for conformity, and the value placed on diversity, cultural fit, and acculturation (Connerley & Pedersen, 2005).

Although a number of studies have introduced the implications of culture in organizational performance, when talking about organizational workforce and diversity, several researchers, for example, Cox (1993), Thomas (2001), Kirton and Greene (Kirton & Greene, 2005) agreed upon the fact that diversity can bring positive outcomes to the overall organizational performance. When everyone thinks alike, assumes alike, have similar values and assumptions, there is little “outside-the-box” thinking. That applies to R&D, problem solving, and even acquiring access to new market segments.

Customer satisfaction is now expected to increase because employee will be able to communicate with clients or customers in a more effective way, without so many languages, expectations, and values differing from his or her own (D. A. Thomas & Ely, 2001). Similarly, companies could be able to have access to the best resources since they now have a workforce that relates to suppliers, in any cultural way imaginable (Gomez-Mejia & Palich, 1997). Problem solving could be conducted in a much more effective means since there are employees coming from different backgrounds which could bring up singular plans and suggestions, and the equal process could happen with innovation. Studies have shown that corporations with heterogeneous workforces have created many more innovative products and services than those companies with homogeneous workgroups (Cox, 1994).

Although researchers and institutions in the fields of international business, applied sociology, and anthropology have investigated the subject of diversity and have proposed common denotations of diversity, they have not organized the identifiable characteristics or variables of diversity into a systematic, universal structure, which can be used for empirical analysis and contextual comparisons across and within societies (Choy, 2007).

According to a study facilitated by the Society for Human Resource Management (SHRM) and Fortune magazine, more than 75% of surveyed organizations have engaged in some type of diversity activity or initiative (Holmes, 2005). Although some researchers contradictorily found that diversity has not always positively impact on the organizational performance (Gomez-Mejia & Palich, 1997), many managers and scholars agree that diversity is a positive factor that leads to competitive economic advantage for organizations (Von Bergen, Soper, & Parnell, 2005). The previous scholars including Von (2005) also argue that although there is a broad assumption that diversity generally has positive effects on organizations and society, the notion of an economic imperative for diversity remains largely untested. In other words, does increased diversity have a positive influence, a negative influence, or no influence on firm financial performance? If a relationship exists, what factors influence the nature of the nexus?

Accordingly to Holmes (2005), in order to better systematically connect diversity initiatives with organizational performance, a firm must consider five main steps, which include: clarify the benefits of the diversity program, identify smart goals, develop action plans, define performance expectations, and evaluate impact on performance. Each one of these five steps clarifies diversity as a whole and brings understanding of the innumerable impacts it has. It is not advisable to proceed with diversity initiatives until the benefits that will be gained and the value that it will provide to the organization have been clearly defined.

Holmes (2005), Cox (1994) and innumerable other researchers and scholars say that the benefits of such diversity might bring improved individual and organizational performance in terms of employee productivity and work quality, enhanced customer service, enhanced team performance, improved organizational processes, enhanced workforce quality, as well as an increased ability on the part of the organization to recruit and retain the best human resources available. Today, a number of diversity proponents argue that a culturally diverse work force leads to sustainable competitive advantage and ultimately superior performance (Von Bergen et al., 2005). As such, companies today increasingly strive for racial, ethnic, and sexual workforce balance, not necessarily for legal or ethical reasons, but as a matter of enlightened economic self-interest (Von Bergen et al., 2005). Von Bergen says that more and more employers believe that they have to tap changing demographics if they want to take advantage of the contributions that a diverse workforce may make toward customer goodwill, marketing, and other functional areas.

In recent years, customers, employees, suppliers, community groups, governments and shareholders have encouraged firms to undertake additional investments in diversity (Weigand, 2007). After all, as multinational corporations (MNCs) operate across transnational borders, business managers have acknowledged that the increasing globalization of the world economy has allowed MNCs greater access to wider consumer markets and distribution networks, as well as coordinate production and business transactions within economic clusters or networks involving cross border internal and external relationships (M. Miller et al., 2000). Lockwood (2005) also argues that diversity-embracing organizations will likely enjoy larger market share since they will have access to a potentially larger customer base, as well as the tendency that cultural diverse teams tend to produce more decisions alternatives and provide a wider range of creative solutions than a homogeneous team. Over the course of time, such beneficial outcomes will presumably translate into increased levels of employee productivity and organizational profitability. Thus, Choy estates that MNCs are in a better position to capitalize on other new specialized resources such as capital, technological competences, information and tactic knowledge, and production capabilities required to enhance future product and services development. Among these resources is the human capital. Human capital includes all of skills and knowledge possessed by individuals who will help them perform more effectively and efficiently within the organization they work for. Such capital is a very important force that organizations have, since its employees are the core that will make business work. In order for an organization to perform any task, create or sell any product, personnel will have to be hired. These personnel, in other words, employees, will be the connection between every organizational level, organizational development, and headquarters-subsidiary communication. The greater the connection, or communication, the greater will be the outcome. Wise firms recognize that talent shortages can be addressed by embracing a willingness to actively recruit, hire, and

train minorities and cultural diverse staff. Firms that intentionally discriminate are, in effect, reducing the size of the talent pool from which they can recruit (Street & Street, 2006). Therefore, it is an imperative for companies not only to employ those who are most capable of communicating effectively, but also who are extremely capable of adapting to new scenarios. As we can see, the same variables appear over and over again when mentioning the impacts cultural diversity workforces have on organizational performance.

Miller (2000) argues that teams made up of members with differing cultural, ethnic and corporate backgrounds can be significantly superior to homogeneous teams if properly managed. As a result, the outcome will be more effective. Laquihon (2007) also agrees with him when she says that by integrating workers from culturally diverse backgrounds into the workforce, organizations can tap into their specialized skills and knowledge about the marketplace. This happens because in today's global markets, companies must interact with different cultures and clients, if they want to put their hands into the entire stake. Diversity in the workplace enables organizations to develop more innovative and effective programs and services for the diverse clients it serves. The results are more business, more sales, more targeted and satisfied customers which can mean more dollars on the company's bottom line (Laquihon, 2007). A great example of the direct link between heterogeneous groups and an increase in the company's customer base is given by Lockwood (2005, p.15):

“Organizations that expand their customer base most effectively do so with a workforce that is reflective of their clients. DuPont, for example, considers diversity a business imperative vital to ongoing renewal and competitiveness in the 21st century. This philosophy was illustrated when the company learned how one small change could directly translate into significant profits. At DuPont Merck, the sales of an anticoagulant drug in the Hispanic markets were low. When a Hispanic manager noticed that the drug was only labeled in English and consequently translated the instructions into Spanish, sales improved significantly. Now, educational materials for the drug are translated into 15 languages and bring in millions of dollars in new business”.

Although heterogeneity might be more effective, as the collaboration of cultures, ideas and different perspectives is now considered an organizational asset-bringing forth greater creativity and innovation (Street & Street, 2006), there's a fear of difference. As humans, we like and are more comfortable around those who are very similar to us (Smith, 2008). Landis, Bakir, and Noguchi (Landis, Bakir, & Noguchi, 1995) claim that heterogeneity seemed to increase creativity, while homogeneity decreased it. They ask if it the impending of heterogeneity of work groups represent a threat to cohesiveness and thus to productivity? Perhaps yes, and in fact, O'Reilly, Caldwell, and Barnett (Landis et al., 1995) have shown that heterogeneous groups are

more likely to exhibit less cohesion, more conflict, and greater communication problems.

Moving along, a multicultural workforce will be more flexible because of its nature. Flexibility will modify expectations, readjust the norms, try new approaches and force patience. Employees will need to adapt to their work environment while maintaining their individuality. The system will be more accommodating of uncertainty, and also, the tolerance of different point of view will lead to more openness to new ideas in general. Even though every person is unique and should always be treated as an individual, it is important to remember that his self-concept has been formed to some degree by the group with which he is affiliated (M. Miller et al., 2000).

In order to best address the issue, it is important to mention here the market I will be taking into consideration, therefore Thailand. By being a member of the Asia-Pacific Economic Cooperation (APEC), Thailand has been promoting open trade and economic cooperation. The region is considered to be one of the most dynamic and fastest growing economic sectors in the world, incorporating 42 per cent of world trade, according to APEC. Among the multiple reasons for that growth are the extensive infrastructure improvement, rising industrial and technological sophistication, greater national commitment towards establishing a free trade region, in and outflow of direct foreign investment, and high quality human capital (M. Miller et al., 2000). As a consequence, this region has become very attractive to foreign investors, with promising economic, financial, and cultural gains. A good example of such scenario is the investment of a German company in Chiang Mai, a province located in Northern Thailand. Bluechips Microhouse Co., Ltd. was founded in 1999. The company is a medium-sized business with 100% German stake and German management. Supported by the Thailand Board of Investment it does not only feel obliged towards its capital providers but also towards its employees and the whole business environment. As manufacturer of customer-specific circuit boards and LCD modules the company is a constantly growing corporation in the electronics supplier industry with 230 employees at the moment, including both Thai nationals and foreigners (Mohler, 2009). The company came to Thailand after carefully studying location proposals from China, Singapore, and Malaysia, but the Thai government was the one offering better benefits at the end. This example clearly shows the motivation of the Thai government towards supporting foreign investment. German nationals are one of the most prominent foreigner groups in Thailand.

2.2 Multiculturalism

According to the theory of multiculturalism (Ho, 1997) groups can be divided into:

- a) Homogeneous groups, where members have similar backgrounds and generally take events in similar ways.
- b) Token groups, where all members but one have the same background.
- c) Bicultural groups, in which two or more members represent two distinct cultures. And,
- d) Multicultural groups, in which there are individuals from three or more different ethnic background.

2.2.1 The need for Multicultural Organizations

Organizational viability depends increasingly upon the knowledge, skills, abilities, and attitudes of all workers (Connerley & Pedersen, 2005). Developing multicultural awareness, knowledge, and skills increases a person's intentional and purposive decision making ability by accounting for the many ways that culture influences different perceptions of the same person (Connerley & Pedersen, 2005). Therefore, leaders should develop such multicultural consciousness in order to be able to respond appropriately to the problems and opportunities of the company. The positive side of the multicultural perspective includes that culture continues to be one of the most important build in an organization. Connerly & Pedersen (2005, p.29) mentioned in "Leadership in a Diverse and Multicultural Environment" the value of diversity in the workplace:

"Diversity is valuable. Science has long accepted genetic diversity as essential to the survival of a species. Some persons are able to tolerate complexity better than others. These people are either better at differentiating and perceiving several dimensions in a range of alternatives or at integrating and seeing complex connections between different sources. People who are more complex are able to see many different dimensions, classifications, theories, or alternatives to explain a situation. Because reality tends to be complex, those who are able to identify more alternatives are more likely to see correctly and make more appropriate decisions, although this process requires a high tolerance for ambiguity."

2.2.2 Assumptions of Cultural Heterogeneity – What is behind the Problem?

According to Greene & Kirton (2005), considerable attention should be placed on recruitment, selection, rewards, training, appraisal and goal setting so that high quality staff are attracted and retained. Therefore, if the organization has a reputation of high quality treatment of the workforce, this will have a positive impact on the future recruitment of staff and customer choice (Greene & Kirton, 2005). The authors (Greene & Kirton, 2005) also agree that this relates to the business case for diversity and the ways in which a focus on developing and retaining quality staff can aid organizational competitiveness. Finney and von Glinow (Finney & Glinow, 1990) recommend that intercultural managers have contextual competence to complement their technical competence (Jacob, 2003). Contextual competence refers to the capacity to understand the value orientations of different cultures, linguistic skills, climate, politics, and social norms, and capacity to introduce change (Jacob, 2003). The authors also argue that managers should have certain attributes for inclusion in a global management style (Jacob, 2003) and these attributes can show in a clear way the base of a high performance heterogeneous organization. The attributes include: use 'multiple solution models' rather than 'one best way' approach of management style; ability to perceive the behavior and thinking patterns associated with differing value orientations; act as an interpreter between home and host countries about technical and sociocultural issues; and finally, the ability of internalize multiple worldviews and value orientations (Jacob, 2003).

2.2.3 Economical and Labor Force Globalization: Reduction of Barriers, Emergence of Strategic Alliances, and Labor Force Diversity

The last decade has witnessed innumerable changes in both the external and internal environments of a company. These changes include economic boost, technological advancements, legal and socio-political alterations, and last but not least, demographic changes. Demographic changes have, together with the other transformations, provided a major challenge to managers and employers, by increasing the cultural diversity in the workplace (Ho, 1998). Today understanding and managing the impact of these changes and cultural differences are vital concerns of most international organizations (Wederspahn, 2002). Cox (1994) argues that the most frequently asked question by executives regarding workforce diversity involves how it affects the performance of organizations. As multinationals corporations (MNCs) operate across transnational borders, business managers have acknowledged that the increasing globalization of the world economy has allowed MNCs greater access to wider consumers markets and distribution networks, as well as coordinate production and business transactions within economic clusters or networks involving cross border internal and external relationships (W. Choy, 2007).

The world as a whole is increasingly becoming a big heterogeneous group. “Not only are we going to have a relatively small workforce, but also one that's more diverse” says William Frey, demographer at the Brookings Institution in Washington (Bazar & Overberg, 2008). Accordingly to Frey, in 2050, the American working-age population will be 30% Hispanic, 12% non-Hispanic black and 8% non-Hispanic Asian. Today, the breakdown is 15% Hispanic, 12% black and 5% Asian. In Thailand, the boost in travel, economic trade and activities, intellectual exchange, political movements, and new technologies – in other words known by the globalization process - has united the different clusters of diversity and has made possible the emerging of a wider community. For example, accordingly to the U.S. Census Bureau (Bureau, 2009) the USA-Thailand trade increased from \$8,336.4 million (2007) to \$9,066.6 million (2008). Imports also increased, from \$22,754.7 million to \$23,538.3 millions of dollars (Bureau, 2009). Organizations are becoming increasingly heterogeneous in terms of race, gender, ethnicity, and other diverse groups of employees, and that raises important questions for managers and their organizations as we move further into the twenty-first century (Street & Street, 2006).

As the number of employees from different backgrounds keeps increasing in the workplace, managers are definitely seeing the benefits cultural diversity. They notice that, by integrating workers from different environments into their workforce, the company can hit specialized skills and knowledge from the employee and about the external environment. In today's global markets, as companies face themselves interacting with a pile of different cultures and clients, they seek the need to have a better understating of their internal diversity, which will direct the organization to create more innovative and effective programs and services, benefiting this way both its internal and external customers, ultimately affecting its performance. Companies must now ask themselves what they can do to boost the number of customers for which they supply while determining the needs of these customers. This business process makes diversity a crucial part of a company's growth and operation, or in other words, a company's performance. Hiring and retaining employees with cross-cultural backgrounds to meet the demands of the global marketplace is the first step to meeting these new challenges. And what happens when you can satisfy, or meet even more the needs of your customers? The answer is simple: more targeted satisfied customers, improved access to new market segments, more sales, therefore, more profit. At the end, it is all about knowing how to manage cross-cultural employees and making the most of it.

This research aims to present how cultural diverse workforces in Chiang Mai are affecting the performance of the organization. The initiative takes into consideration the different impacts of the cross-cultural work environment in organizational performance. It is important to point out that numerous studies have focused on the impacts of diversity as a whole in organization performance. This study, however, has

as its main objective to come across the impacts of cultural diversity in organizational performance.

2.2.4 The Linkage between Cultural Diversity and Workforce

Part of the problem in recognizing the impact of culture on management consists on the fact that there are multiple definitions of the subject (Schneider & Barsoux, 2003). Anthropologists, it seems, disagree about the precise meaning of culture, and they have proposed 164 different definitions; some of them embrace everything from law and religion to art, while others focus on specific 'value orientations' such as individualism/collectivism.

Globalization has on a global scale touch everyone and everywhere of everyday life. International trading and economic relations have led to formation of regional economic and trading groups in different parts of the world, such as the Association of South East Asian Nation (ASEAN) for example (Swe, 2010). Global economic powers have changed recently. Thailand has a major role to play in the role of internationalization (Swe, 2010). Swe (2010) also argues that Thailand has become the focal point for regional trade and development and therefore has great potential. As a part of the Greater Mekong Subregion, the country has seen the impact of globalization, where the WTO has prompted the country to play a more active role regionally and internationally. Swe also argues that while traditional lifestyles and deep-rooted customs and beliefs have been scarcely altered by time, there are is now undergoing greater change than ever before.

2.2.5 Types of Organizations According to Multicultural Researchers

Connerley & Pedersen (2005) mention on page 83 of "Leadership in a Diverse and Multicultural Environment" that multicultural researchers have identified three types of organizations in terms of multiculturalism implementation. These three types are: monocultural organizations, nondiscriminatory organizations, and multicultural organizations. Monocultural organizations are primarily Eurocentric and ethnocentric, in which there is a strong belief in the concept of the melting pot, where culture is believed to have minimal impact on management, and everyone should be treated exactly the same. Nondiscriminatory organizations are ones that become more culturally relevant and receptive. Here, the changes that are made to address multicultural issues are often superficial and made for public relations purposes, and there are inconsistent policies and practices regarding multicultural issues. The third and last type of organization, the multicultural one, values diversity and attempts to accommodate continuing cultural change; these organizations work with a vision that reflects multiculturalism, reflects the contributions of diverse cultural groups in their mission, operations, products, and services, and value multiculturalism and see it as an asset.

2.2.6 The Drawbacks of Cultural Diversity in the Workplace

Accordingly to Connerley & Pedersen (2005), after decades of debate over whether or not diversity was “good” for organizations, a comprehensive review of 63 studies found mixed results. Some studies found positive effects on performance, while others found that international diversity was related to poorer performance over time. Also, most organizations have codes of ethics by which their employees are expected to act. However, there is usually plenty of gray area for personal codes of ethics and uncertainty to play into decision making (Connerley & Pedersen, 2005).

The problems associated with the individualistic focus of the diversity approach relate to the movement towards individual commitment to the organization which weakens the ties relating to other commitments and identities that people have through common expertise (Greene & Kirton, 2005). This can have negative implications, denying the similarity between people’s experiences in the workplace and the importance of the collective (Greene & Kirton, 2005).

Greene & Kirton (2005) also believe that an emphasis on the differences between individuals could reinforce stereotypes and segregation within the labor market, which is not helpful for the promotion of equality.

In *Intercultural Management* (Jacob, 2003, p.206), Jacob summarizes the issue of disadvantages that may arise from having a cultural heterogeneous workforce:

“Intercultural organizations often have to operate in environments that are turbulent and conflict-ridden. Local residents may have their own interpretations of conflict and its resolution. International organizations are advised to assume a neutral and non-judgmental stance towards the external conflict. They should focus on performing the tasks they are mandated to do. This implies that they earn the respect of all the important constituents of their external environment through the quality of the work they do and the services they offer. It also requires international organizations to be extremely circumspect and not make cultural gaffes. International organizations may face culturally induced conflict situations from within. This is an issue separate from operating in conflict-ridden external environments. Where internal conflict situations are concerned, international organizations should play a proactive role in preventing them as well as resolving them when they surface.”

2.2.7 Definition of Workplace Heterogeneity

Workplace diversity refers to the variety of differences between people in an organization (Greenberg, 2005). Diversity encompasses race, culture, gender, ethnic group, age, personality, cognitive style, tenure, organizational function, education, background and more. This study focuses on culture differences within the workplace, and here culture is referred to the socio-cultural environment in it's entirely. Greenberg (2005) believes that:

“Diversity not only involves how people perceive themselves, but how they perceive others. Those perceptions affect their interactions. For a wide assortment of employees to function effectively as an organization, human resource professionals need to deal effectively with issues such as communication, adaptability and change. Diversity will increase significantly in the coming years. Successful organizations recognize the need for immediate action and are ready and willing to spend resources on managing diversity in the workplace now.”

Accordingly to anthropologist Margaret Mead, culture is the ‘shared patterns of behavior’. However, just observing behavior is not enough: what is really important is the meaning of that behavior, as the same behavior can have different meanings and different behaviors can have the same meaning (Schneider & Barsoux, 2003). Schneider and Barsoux (2003, p.21) give an example:

“...maintaining eye contact in Western cultures signifies paying attention, being open and honest... In Asia and in Latin America, maintaining eye contact may be taken as a sign of disrespect and aggression, particularly between people from different status level. Therefore, Asians are quite uncomfortable when Europeans seem to insist on direct eye contact.”

2.3 Cultural Dimensions

Broadly defined, cultural diversity embraces 6 main characteristics, which are: Values, Beliefs, Language, Assumptions, Attitudes, Behaviors, and Expectations. When bringing all of these characteristics together, we have an individual with his/her own background. The point of focus of this study is how these concepts influence the organizational performance. The discussion is presented in the figure below.

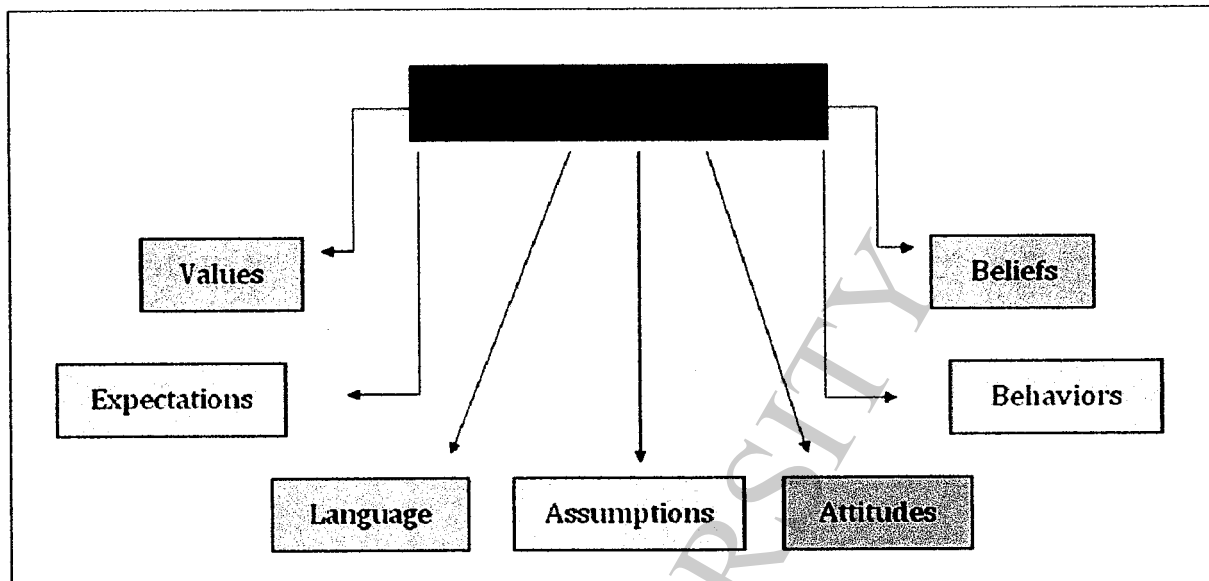


Figure 2 - Dimensions of Culture

Note: This figure was adapted from Kotabe & Helsen (2008)

Language can be divided into 2 main groups, being (1) spoken language and (2) written language. Greenberg states that a diverse collection of skills and experiences (e.g. languages, cultural understanding) allows a company to provide service to customers on a global basis, therefore increasing performance. Mistranslations can convey the image that the company does not care about its customers abroad (Kotabe & Helsen, 2008).

Assumptions are statements or points of view that individuals assumed to be true and from which a conclusion can be drawn. A diverse workforce that feels comfortable communicating varying points of view provides a larger pool of ideas and experiences. The organization can draw from that pool to meet business strategy needs and the needs of customers more effectively (Greenberg, 2005).

Attitudes and Behaviors are talents, actions or reactions of a person in response to external or internal stimuli. Greenberg (Greenberg, 2005), along with many other scholars and researchers argue that:

“Organizations employing a diverse workforce can supply a greater variety of solutions to problems in service, sourcing, and allocation of resources. Employees from diverse backgrounds bring individual talents and experiences in suggesting ideas that are flexible in adapting to fluctuating markets and customer demands.”

Values consist of intangible assets that a person has. This includes personal and group ethics, and important and enduring beliefs or ideals shared by the members of a culture of what is good or desirable and what is not. Values exert major influence on the behavior of an individual and serve as broad guidelines in all situations. Values and beliefs will affect organizational performance since the more diverse a workgroup is in terms of values and beliefs, the more employees will generate innovative ideas

(McMillan, 2006). Also, customer satisfaction will be greater because employees will share the same values and beliefs that the customers have.

Expectations are what people anticipate to get when accomplishing a task. Employees from different backgrounds have different expectations and motivators.

2.3.1 The Impacts of Cultural Diversity on Organization Performance

There have been quite a lot of studies determining both positive and negative relationships between diversity and organizational performance. To say whether cultural diversity does have direct impacts on performance is relative. Cox (1994) states that the most frequently asked question by executives regarding workforce diversity involves how it affects the performance of organizations and that in order to manage the growing diversity of the workforce, organizations need to implement systems and practices so that the potential advantages of diversity are maximized and the potential disadvantages are minimized (McMillan, 2006). Therefore, this explains the importance of understanding that heterogeneous workforces don't boost organizational performance. There is a need for managers to balance potential gains and losses. In order to increase organizational performance, it is a must that managers employ a cooperation based attitude towards the individual instead of a repression based attitude, which will only inhibit the employee's potential. For example, in an adhocracy culture, which emphasizes individuality, risk taking, and teamwork, will promote creativity, entrepreneurship, and responsiveness, which ultimately will result in an increase in organizational performance. Research also suggests that there is not a simple, direct relationship between diversity and performance (Robinson & Stern, 1997). According to Jackson, (McMillan, 2006) "the understanding of diversity within organizations requires taking into account business strategies, organizational culture, and human resource management (HRM) systems (McMillan, 2006).

Richard and colleagues have examined the effects of cultural diversity on firm performance from a contingency perspective. So far it is clear that the effects of racial diversity on firm performance may be determined, at least in part, by the strategy a firm pursues (McMillan, 2006).

2.4 Theory underpinning the study

This research attempts to answer the question of how cultural diverse workforces in Chiang Mai are affecting the performance of selected exporting organizations. To answer the question, this research will be done from the perspectives of Human Resource Managers of the 03 companies. These 03 companies are companies with at least 1 employee being from a country other than Thailand. Cultural Diversity in Organizations developed by Cox (1994) will be used to guide this research.

Cox (1994) points out that "Cultural diversity means the representation, in one social system, of people with distinctly different group affiliation of cultural significance". According to Greenberg, there are many benefits from workplace diversity. An organization's success and competitiveness depends upon its ability to embrace diversity and realize the benefits. When organizations actively assess their handling of

workplace diversity issues, develop and implement diversity plans, multiple benefits are reported such as: increased adaptability (organizations employing a diverse workforce can supply a greater variety of solutions to problems in service, sourcing, and allocation of resources. Employees from diverse backgrounds bring individual talents and experiences in suggesting ideas that are flexible in adapting to fluctuating markets and customer demands); broader service range (a diverse collection of skills and experiences, e.g. languages, cultural understanding, allows a company to provide service to customers on a global basis); variety of viewpoints (a diverse workforce that feels comfortable communicating varying points of view provides a larger pool of ideas and experiences. The organization can draw from that pool to meet business strategy needs and the needs of customers more effectively); more effective execution (companies that encourage workplace diversity inspire all of their employees to perform to their highest ability. Company-wide strategies can then be executed; resulting in higher productivity, profit, and return on investment).

According to Greenberg (2005), challenges of Workplace Diversity include taking full advantage of the benefits of diversity in the workplace is not without its challenges. Some of those challenges are: Communication - perceptual, cultural and language barriers need to be overcome for diversity programs to succeed. Ineffective communication of key objectives results in confusion, lack of teamwork, and low morale. Resistance to change - There are always employees who will refuse to accept the fact that the social and cultural makeup of their workplace is changing. The "we've always done it this way" mentality silences new ideas and inhibits progress. Implementation of diversity in the workplace policies - This can be the overriding challenge to all diversity advocates. Armed with the results of employee assessments and research data, they must build and implement a customized strategy to maximize the effects of workplace diversity for their particular organization.

The concept of culture as it applies to organizations has gone through various stages since its rediscovery in the early 1980s (Sackmann, 2003). Sackmann (2003) also suggests that culture in organizations settings is much more complex, pluralistic, diverse, and more contradictory than previously assumed. This vision is also shared by Miller, Fields, Kumar, and Ortiz, when they say that members of an organization with differing cultural, ethnic, and corporate backgrounds and of different genders can be significantly superior to homogeneous teams when properly managed.

Within the organizational level, which will include suppliers, internal and external customers, contractors, and subsidiaries, we can find that organizations will transit between four stages. Choy (2007) proposes these four stages to be the 1) domestic stage; 2) multidomestic stage; 3) multinational stage; and 4) global or transnational stage. The initial period is characterized by an ethnocentric perspective and here we do not see the appearance of cultural diversity yet as the product or service is exclusively made within the domestic scope and limited to such area. The next stage, the multidomestic stage, illustrates the acknowledgement by firms that cultural sensitivity is critical to implementing effective business strategies. Companies here will recognize that culturally appropriate policies have to be designed to manage staff of the different foreign subsidiaries. Moving along, we come to the third phase, or the multinational stage. Here, the main focus of the business operation is on complete

standardization of product and services, and not the creation of culture awareness of the different foreign market segmentation. The fourth and last stage is the global or transnational stage, and this is where cultural diverse workforces are more outstanding. With this regard, there is recognition that a more effective managerial practice is to develop the best staff in the firm, as such, there is greater need for management to realign current organizational development towards a more culturally responsive orientation to enhance effective international human resource management as more staff from different nationalities and cultures is engaged to meet local and worldwide organizational objectives (W. Choy, 2007). Sackmann argues that in addition to the multiple cultural levels of a given global organization, we can see the existence the subcultural levels. Therefore, the concept of cultural complexity goes beyond existing conceptualizations.

2.4.1 Linking the Characteristics of Cultural Diversity and Organizational Performance

Even though there have been several studies on the impacts of diversity and organizational and work team performance, there hasn't been a systematic understanding of the impact of cultural diversity in organizational performance. In order for one to understand the definition of culture, we will go back to the basics of cultural characteristics mentioned by Cox (1994).

2.4.2 Defining the Variables

Here, a definition of each variable will be presented, with the variables being named as: (I) cultural diversity and (II) performance, which includes sub-variables. Although there are innumerable measurements of organizational performance, this study will take into consideration six of them, which are problem solving, flexibility, resource acquisition, creativity & innovation, service level & customer satisfaction, and access to new markets. Also, a definition of the broad term "cultural" should be cited, as this term is the main linkage between variables. Table 5 introduces the performance dimensions as a summary of the innumerable literature reviews while table 6 shows the measurements of organizational performance and scholars who believe they have a close and positive relationship to organizational performance.

I. Cultural Diversity: different books, scholars and researchers give different meaning to diversity. The basis for workforce diversity in terms of orientations (e.g: Hofstede's and Cox's) are based on the book definition that cultural diversity embraces language, beliefs, assumptions, values, expectations and attitudes. Diverse groups of people embrace an affiliation of people who collectively share certain norms, values, or traditions that are different from those of other groups, which means that cultural diversity is the representation, in one social system, of people with distinctly different group affiliations of cultural significance (Cox, 1991; T. J. Cox, 1994) . Members of a culturally diverse group share a subjective culture (McMillan, 2006) which according to Triandis (1995) represents their worldview. Individual worldviews include beliefs, values, norms, and attitudes (T. J. Cox, 1994). Also, accordingly to Cox, it is crucial

to have an understanding of the importance of micro-cultures within the macro-culture of a nation in order to develop the competencies of work groups.

Unlike gender and racioethnic identities, the cultural importance of nationality is rarely questioned, and for many people, cultural difference is always interpreted in terms of nationality, which is too narrow (T. J. Cox, 1994). In relevance to organizations, Cox (1994) cites 6 characteristics of culture. These six characteristics are:

1. Time and space orientation: may manifest themselves in things such as perception of comfortable office sizes and layout, and requirements of privacy in work stations. Workplace architecture needs to have an appreciation of cultural differences, especially in multinational companies. Regarding time, individuals will vary in terms of preoccupation of meeting deadlines (linear time) in contrast to circular time orientations.
2. Leadership styles orientation: men and women may take different approaches to leading workgroups based on their cultural backgrounds, which suggests that difficulties may arise for women in male-dominated organizations. Usually the preferred and expected styles of leadership will tend to be defined by men, which may cause pressure for women to change their natural style.
3. Individualism versus Collectivism: organizations are increasingly supporting the idea of teamwork, but organizational reward systems often are not aligned with this goal and continue to foster individualism. Employees may react differently to compensation plans and promotion criteria of organizations due partly to cultural differences.
4. Competitive versus cooperative behavior: an example of how cultural differences in competitive/cooperative orientations may affect organizational behavior is the use of ranking systems for production. Cox (1994) argues that members from cultural backgrounds that are less competition oriented are likely to be specially uncomfortable with ranking systems.
5. Locus of control: members of out-groups may experience frustration and disillusionment due to their belief that their accomplishments are influenced by factors other than their ability and effort. Locus of control differences may affect behavior in organizations by creating differences in work outcome expectancies.
6. Communication styles: direct and indirect communication, eye contact, body language and speech tone will influence the perceptions employees have from one another and may or may not cause misunderstandings.

As seen here, cultural differences potentially explain a great deal about the less than fully satisfactory experiences of employees in diverse workforces (T. J. Cox, 1994). Wederspahn (2002) argues that there are over 20 characteristics, but since this study is focusing on organizational performance, the theory of Cox (1994) is more appropriated in terms of relationship with organizational performance and therefore is the chosen one to define cultural diversity.

Along with these variables mentioned above, this study takes into consideration the characteristics of culture which were mentioned on chapter one. Table 4 summarizes

the research variables, and also mentions the characteristics of cultural diversity, in accordance with figure 2.

Table 4 - Summary of the Research Variables

<u>Research Variables</u>	Independent Variables:	
	Measurements of Organizational Performance	Characteristics of Cultural Diversity
Dependent Variable: Organizational Performance	Problem Solving	Values
	Creativity and Innovation	Expectations
	Access to New Markets	Language
	Customer Satisfaction	Believes
	Flexibility	Assumptions
	Resource Acquisition	Attitudes & Behaviors

As mentioned before, these are cultural characteristics based on the definition of culture. Geerk Hofstede (2001) also mentions cultural characteristics which impact a organization's performance. These cultural dimensions by Hofstede are:

1. Power Distance Index (PDI) which is the extent to which the less powerful members of organizations and institutions believe and expect that power is distributed unequally. This represents inequality (more versus less. It suggests that a society's level of inequality is endorsed by the followers as much as by the leaders. Power and inequality, of course, are extremely fundamental facts of any society and anybody with some international experience will be aware that 'all societies are unequal, but some are more unequal than others'.

2. Individualism (IDV) on the one side versus its opposite, collectivism, that is the degree to which individuals are integrated into groups. On the individualist side we find societies in which the ties between individuals are loose: everyone is expected to look after him/herself and his/her immediate family. On the collectivist side, we find

societies in which people from birth onwards are integrated into strong, cohesive in-groups, often extended families.

3. Masculinity (MAS) versus its opposite, femininity refers to the distribution of roles between the genders which is another fundamental issue for any society to which a range of solutions are found. The IBM studies revealed that (a) women's values differ less among societies than men's values; (b) men's values from one country to another contain a dimension from very assertive and competitive and maximally different from women's values on the one side, to modest and caring and similar to women's values on the other. The assertive pole has been called 'masculine' and the modest, caring pole 'feminine'. The women in feminine countries have the same modest, caring values as the men; in the masculine countries they are somewhat assertive and competitive, but not as much as the men, so that these countries show a gap between men's values and women's values.

4. Uncertainty Avoidance Index (UAI) deals with a society's tolerance for uncertainty and ambiguity; it ultimately refers to man's search for Truth. It indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations. Unstructured situations are novel, unknown, surprising, and different from usual. Uncertainty avoiding cultures try to minimize the possibility of such situations by strict laws and rules, safety and security measures, and on the philosophical and religious level by a belief in absolute Truth; 'there can only be one Truth and we have it'. People in uncertainty avoiding countries are also more emotional, and motivated by inner nervous energy. The opposite type, uncertainty accepting cultures, are more tolerant of opinions different from what they are used to; they try to have as few rules as possible, and on the philosophical and religious level they are relativist and allow many currents to flow side by side.

5. Long-Term Orientation (LTO) versus short-term orientation: this fifth dimension was found in a study among students in 23 countries around the world, using a questionnaire designed by Chinese scholars. It can be said to deal with Virtue regardless of Truth. Values associated with Long Term Orientation are thrift and perseverance; values associated with Short Term Orientation are respect for tradition, fulfilling social obligations, and protecting one's 'face'. Both the positively and the negatively rated values of this dimension are found in the teachings of Confucius, the most influential Chinese philosopher who lived around 500 B.C.; however, the dimension also applies to countries without a Confucian heritage.

II. Organizational Performance: Organizational performance is a broad term which captures what agencies, in this case businesses, do, produce, and accomplish for the various communities with which they interact. In other words, organization performance measures output against input. Extensively, organization performance embraces six dimensions which can be divided as the following: output (sometimes referred to as productivity), employee satisfaction, client satisfaction, client impact, service quality, and resource acquisition (Ezzel, 2005). Although these are the major key dimensions, performance can also be measured through other factors, which can

include problem solving, flexibility, creativity and innovation, and access to new markets.

Output is the quantity of services or products measured against inputs (e.g. money), delivered without regard to results. This is also a measure of effort, and it is usually expressed in units. Efficiency is concerned with the relationship between output and input, and this leads ultimately to measuring performance. Employee satisfaction is the extent to which workers are satisfied with their work and conditions in the company, and examples include work conditions and relationship with colleagues and superiors. Client, or customer satisfaction, is the extent to which clients are satisfied with the accessibility, costs, methods, practices, vision, and results of the products or services delivered. Client impact is achieving objectives with imposed by clients, as well as having an impact on problems. Finally, service quality is the extent to which service techniques and methods are competently delivered accordingly to previously specified conditions. Quality is usually established by comparing the characteristics of products or services delivered to standards. Standards are based on what is believed to result in satisfactory outcomes. Considerations regarding this dimension include timeliness of service delivery, training & qualifications of staff, accessibility of services, among others. All of these conclusions are summarized on Table 5.

With that being said, to gain competitive advantage, corporations must link the strategic resource of people to business objectives and recognize the unique and individual differences that diversity may bring to the workplace (Ho, 1998). Organizations must learn to adopt equitable management systems, which accordingly to Ho (1997) will increase the level of productivity among employees. Figure 3, from Bazile-Jones & Lynn (Bazile-Jones, 1996) shows the relationship between individual and organizational performance.

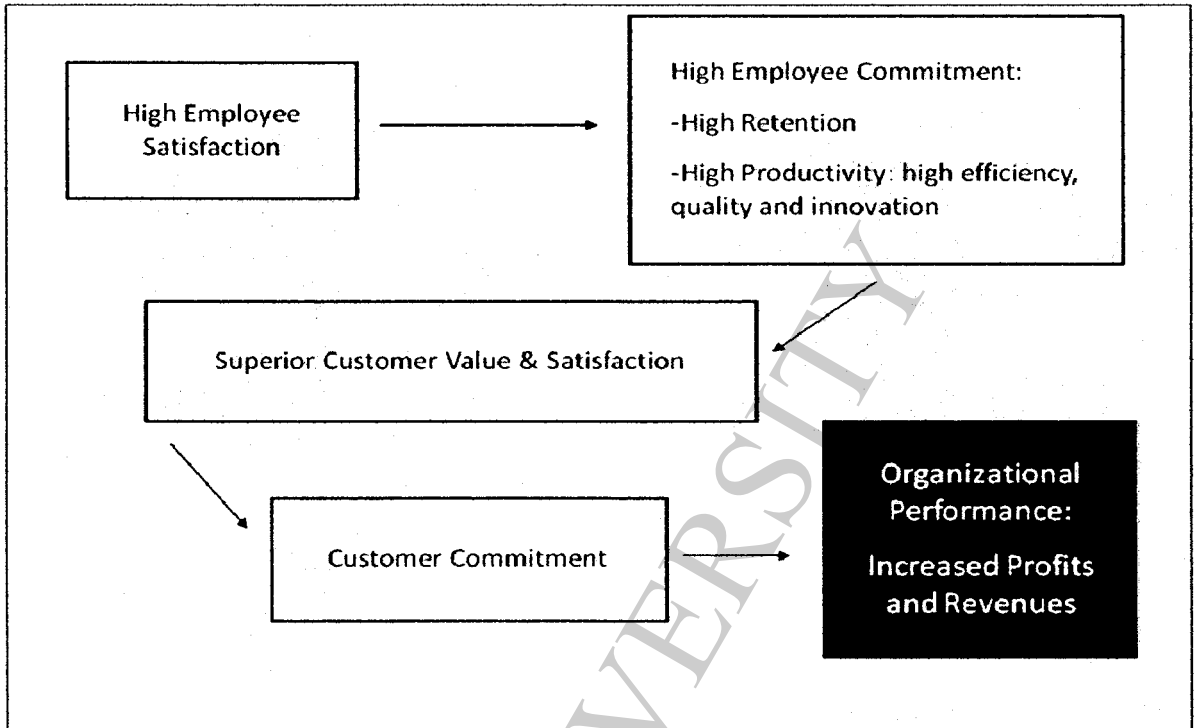


Figure 3 - Relationship between Individual and Organizational Performance
Adapted from Bazile-Jones & Lynn (Bazile-Jones, 1996)

2.5 Performance Dimensions

Although there are innumerable measurements of organizational performance, this study takes into consideration only six of them, which are problem solving, flexibility, resource acquisition, creativity & innovation, service level & customer satisfaction, and access to new markets. According to the innumerable literature reviews, these categories follow under three main performance dimensions (Table 5).

Table 5 - Performance Dimensions

Dimension	Indicator
(1) Efficiency	Degree to which a team accomplishes its predetermined objectives and goals within a prescribed time frame.
(2) Quality	Degree to which a team's solutions/results match expectations, requirements, and specifications.
(3) Innovation	Ability to formulate new, better and more functional products and services, technology and new managerial systems.

The following table (Table 6) indicates the measurements of organizational performance according to different authors.

Table 6 - Measurements of Organizational Performance from Different Authors

Author	Year	Measurement of Organizational Performance
Amy McMillan	2006	<ul style="list-style-type: none"> - cost - resource acquisition - marketing - creativity - problem solving - systems flexibility
Beena Saji	2004	<ul style="list-style-type: none"> - time perception - time orientation
Carole Spies	2008	<ul style="list-style-type: none"> - service level - customer satisfaction
The XEROX Research Centre	2007	<ul style="list-style-type: none"> - innovation - problem solving
Linda S. Hartenian	2000	<ul style="list-style-type: none"> - financial performance - economic performance

2.5.1 Problem Solving

The standard theory of problem solving was presented by Newell, Shaw, and Simon in 1958. The theory defines problem solving as how humans respond when presented with unfamiliar tasks or situations and defines a framework for cognitive science. It involves the mental inspection and manipulation of list structures. The five guiding principles of the theory are as follows:

- a) Problem solving occurs in a physical context (visual aspect of inspection).
- b) Problem solving abstracts away from physical details yet must return to them to implement the solution.
- c) Problem solving is seldom a purely mental activity, but rather interleaves reasoning with execution.
- d) Eager execution of partial plans can lead the problem solver into physical dead ends that require restarting the task.
- e) Learning from successful solutions transforms backward chaining search into informed skill execution.

2.5.2 Flexibility

Kirton and Anne-Marie (2005, p.234) pointed out that the ability of managers to implement an integrated strategy requires a capacity to adapt and respond to pressures from both inside and outside and organization. Therefore the organization must avoid rigid bureaucratic structures, and enforce flexibility so that employees can adapt and respond to changes in production and demand and therefore gain the competitive advantage.

2.5.3 Resource Acquisition

Hayles and Russell (Hayles, 1997) highlight that the resources required (e.g., time, money, and organizational commitment) for a successful diversity program will vary from one organization to the next (Holmes, 2005). Holmes suggests that organizations that proactively identify opportunities (i.e., specific benefits such as enhanced customer service or improved bottom-line), develop goals, devise a strategy to achieve those goals, and create quantifiable indicators of success will be more successful at managing diversity program costs and reducing the occurrence of these problems.

2.5.4 Creativity and Innovation

Creativity is the act of producing new ideas, approaches or actions, while innovation is the process of both generating and applying such creative ideas in some specific context. In the context of an organization, therefore, the term innovation is often used to refer to the entire process by which an organization generates creative new ideas and converts them into novel, useful and viable commercial products, services, and business practices. Joseph Schumpeter (Schumpeter, 1934) defined economic innovation in *The Theory of Economic Development*, 1934, Harvard University Press by having the following characteristics:

- a) The introduction of a new good — that is one with which consumers are not yet familiar — or of a new quality of a good.
- b) The introduction of a new method of production, which need by no means be founded upon a discovery scientifically new, and can also exist in a new way of handling a commodity commercially.
- c) The opening of a new market that is a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before.
- d) The conquest of a new source of supply of raw materials or half-manufactured goods, again irrespective of whether this source already exists or whether it has first to be created.
- e) The carrying out of the new organization of any industry, like the creation of a monopoly position (for example through fructification) or the breaking up of a monopoly position.

A survey across a large number of manufacturing and services organizations found, ranked in decreasing order of popularity, that systematic programs of organizational innovation are most frequently driven by improved quality, creation of new markets, extension of the product range, reduced labor costs, improved production processes, reduced materials, reduced environmental damage, replacement of products/services, reduced energy consumption, and conformance to regulations.

2.5.5 Service Level and Customer Satisfaction

Cox (1994) argues that enhanced customer service refers to an increased ability to connect with and successfully serve a diverse customer base. This can be reflected in improved sales in multicultural markets, reduced customer complaints, and increased market share (Holmes, 2005). It also applies to internal customers, such as employees, and can be reflected in terms of improved attitude and morale. Holmes (1994) also

suggests that this is of particular importance in culturally diverse organizations, where there can be vast differences in employee perceptions and satisfaction levels.

“The Kano Model of Customer Satisfaction classifies product attributes based on how they are perceived by customers and their effect on customer satisfaction” (William, 2007). They guide company decisions of expected quality standards and indicate when improvement is needed. The four main activities when the Kano model is used are:

- a) Identifying the customer needs
- b) Determining functional requirements
- c) Concept development
- d) Analyzing competitive products.

2.5.6 Access to New Markets

Creating new opportunities is a key task to keeping a company strong and competitive in the changing global market. The five key elements of the Market Access Partnership (Trade, 2010):

- a) Action-oriented cooperation.
- b) Prioritization of resources.
- c) Better use of resources presented by negotiations.
- d) Tougher focus in the enforcement of global and bilateral rules.
- e) Efficient and transparent service to businesses.

Table 7 - The Relationship of Variables and Organizational Performance

Variable	Scholar's Name	Relationship
Creativity & Innovation	McMillan (2006)	Heterogeneous work teams promote creativity in all aspects of organizational process.
Enhanced Service Level and Customer Satisfaction	Spiers (2008)	Diversity enables organizations to develop more innovative and effective programs and services for the diverse clients it serves.
Flexibility	Miller (2000)	Diversity results in less standardization and more flexibility.
Improved Access to New Market Segments	Lockwood (2005)	Diversity-embracing organizations will likely enjoy larger market share, since they will have access to a potentially larger customer base.
Problem Solving	McMillan (2006)	Diversity can result in a competitive advantage through enhanced problem solving.
Resource Acquisition	Smith (2008)	Companies that have the best reputations for managing diversity will attract the best personnel.

2.6 Conceptual Framework

