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TEAM DIVERSITY AS COMPETITIVE ADVANTAGE

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Abstract

The value-in-diversity hypothesis suggests that organizations should value diversity to enhance organizational effectiveness. Even though empirical results are inconsistent, this hypothesis has high face validity as the theoretical argumentation seems to be sophisticated and highly plausible. Proponents of this approach argue that diverse teams can lead to competitive advantage, skeptics point out that the homogeneity of a team might be more important for success. So the key question is: Are diverse features or common features more important for team success? The full paper develops a model to combine these both views as it seems reasonable to exploit the advantages of “diversity” and “homogeneity”. It additionally helps in reducing the inherent disadvantages of each of these approaches. This model combines the resource based view (RBV) with the value-in-diversity hypothesis and draws on team success research and cultural diversity research to use the chances of diverse teams and to reduce their possible risks.

Key Words: Team diversity; team competence; team performance; resource-based view of the firm; value-in-diversity

Topic Groups: Human resource management and career development, Business strategy

INTRODUCTION

There have been considerable developments in business over the past few years, including the financial crisis which has affected not only the economy but much of the world. This shows again the importance of seeing innovation, change and flexibility as essential components of successful organizations operating in highly dynamic and competitive environments. To meet

these requirements organizations are increasingly dependent on diverse teams for many reasons including changes in the demographics of the workforce, globalisation and changes in organizational structures (Cope & Kalantzis, 1999). The resource-based view of the firm (RBV) has led to an increased acknowledgement of internal resources. It explains the importance of developing valuable and scarce resources and capabilities as the source of sustainable competitive advantage (Barney, 1991; Barney & Wright, 1998; Wright et al., 1994; Collis & Montgomery, 1995). Considering the RBV, due to their high diversity multicultural teams are provided with exceptionally good pre-conditions to generate sustainable competitive advantage.

The value-in-diversity hypothesis (Cox & Blake, 1991: 46) suggests that organizations should value diversity to enhance organizational effectiveness. Even though results have not been consistent across studies (O'Reilly et al., 1998), this hypothesis has high face validity as the theoretical argumentation seems to be sophisticated and highly plausible (Ely & Thomas, 2001; Swann et al., 2004). However there are two views among researchers: proponents of the "value in diversity" hypothesis (e.g., Nemeth, 1986; Jehn et al., 1999; Watson et al., 1993) argue that intra-team diversity improves performance as it e.g. brings more knowledge to a team (Nemeth, 1986), while opponents argue that diversity impairs performance as it e.g. disrupts social integrations (O'Reilly et al., 1989; Tsui et al., 1992; Wagner et al., 1984).

The initial question therefore is whether diverse features or homogeneous features are more important for team success. In this paper we develop an integrated model in which we suggest to combine both views as it seems that neither the mere concentration on value-in-diversity nor the mere concentration on the homogeneity of a team might be sufficient for sustainable team success. The purpose of this paper is to examine how to exploit the advantages of diversity and homogeneity while simultaneously reducing the inherent disadvantages of each of these approaches. To accomplish this, the model is based on the assumptions of the RBV and combines the value-in-diversity hypothesis with the cultural diversity research and team research to exploit the chances of diverse teams and to reduce their possible risks.

THEORY

In this article we develop a theory based model which is based on the findings from the resource-based view, and the fields of team research and cultural diversity research. To derive the model we reviewed the relevant state-of-the-art literature. The basis of our theoretical framework is the RBV, which underlines that internal resources and especially people can be the basis of competitive advantage (Barney, 1995; Wright et al., 2001).

Resource Based View

A basic assumption of the RBV is that a company can fundamentally be seen as a pool of resources and capabilities that establish the basis for its competitive success (Barney, 1995; Wright et al., 2001). According to the RBV, resources constitute a sustainable competitive advantage in case they are valuable, rare and hard to imitate (Barney, 2001) or, as Barney (1995: 50) earlier suggested *VRIO*: '...managers must address four important questions about their resources and capabilities: (1) the question of value, (2) the question of rareness, (3) the question of imitability, and (4) the question of organization'. Barney and Wright (1998) conclude that sustainable competitive advantage comes from firm-specific more than from

general skills; from teams more than from individuals; and from HR systems more than from single HR practices.

This underlines the importance of developing valuable, unique and scarce resources and capabilities in an organization, including its human resources that produce its unique character and create sustainable competitive advantage (Barney, 1991; Barney & Wright, 1998; Collis & Montgomery, 1995; Wright et al., 1994). Wright et al. (2001) point out that the question of imitability is of particular interest as there is a need to recognize, that the inimitability of resources and capabilities may be caused by unobservability due to causal ambiguity, social complexity and / or path dependence. Barney and Wright (1998: 39) argue that “[...] the exploitation of the synergistic value from a large number of individuals who work together is quite costly if not impossible for competitors to imitate. Teams or larger groups, due to causal ambiguity and social complexity, provide greater potential to be a source of sustainable competitive advantage.”

These demanding aspects explicitly invite a more complex, less reductive view of organizations and their system-level, intangible resources (Colbert, 2004; Stacey, 2010). System-level resources (Black & Boal, 1994) are defined as those organizational capabilities that exist only in relationships – in the interactions between persons and / or things. The importance of these system-level, intangible resources has been highlighted throughout the RBV literature (Colbert, 2004).

Organizations are increasingly dependent on diverse teams, particularly in highly dynamic and competitive environments. In such rapidly changing environments, a key competitive asset is a company’s capability to adjust to new requirements. Teece et al. describe this ‘ability to integrate, build, and reconfigure internal and external competences’ (1997: 516) in their dynamic capability approach¹, which focuses on how future valuable resources can be created and how the current stock of valuable resources can be refreshed in changing environments (Ambrosini & Bowman, 2009). Multicultural teams due to their diversity might be able to better adapt to rapidly changing environments.

In summary, the RBV demonstrates the importance of valuable, rare, unique and scarce resources for achieving competitive advantage. It highlights the importance of complex, system-level, intangible resources and the importance of the interactions between persons, inviting to a more complex, less reductive view of organizations and their resources. With this focus on system-level resources, on interactions and on a more complex, less reductive view of organizations, the RBV and its extensions (complex resource based view, Colbert 2004; Dynamic Capabilities, Teece et al., 1997) support our thesis, that diverse teams may be an important factor for achieving sustainable competitive advantage.

Team success research

The question of team effectiveness is a core question in team research. Many authors have tried to identify factors related to team effectiveness (e.g. Hackman, 1987; Campion et al., 1993; Hayatt & Ruddy, 1997). The following model summarizes the outcomes of several

¹ The concept of dynamic capabilities is a dynamic extension of the more static RBV, which focuses on resources or competences as a stable concept. Eisenhardt and Martin (2000) as well as Nelson & Winter (1982) respectively Zollo & Winter (2002) established two other dynamic capability approaches which slightly differ.

studies (Campion et al., 1996; Hyatt & Ruddy, 1997; Cohen & Baily, 1997; Thompson, 2000; Hackman, 2002; Robbins et al., 2010) into a relatively focused model (see figure 1).

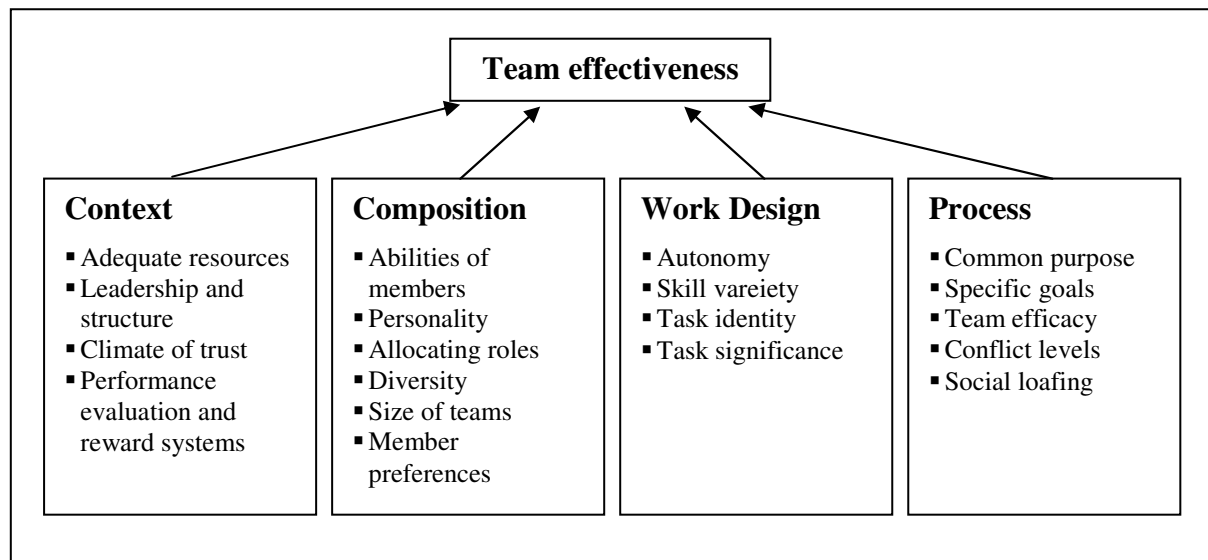


Figure 1: Team effectiveness model (Robbins et al., 2010: 267)

The key factors of effective teams can be subsumed into four general categories. The first category comprises the contextual factors. The variables which appear to be most significantly related to team performance in this first category are the presence of adequate resources, effective leadership, a positive climate of trust and a performance evaluation and reward system that reflects team contributions. The team composition category includes factors that relate to how teams should be staffed. The main factors in this category are the ability and personality of team members, the allocation of roles, the diversity, the size of the team and the members' preference for teamwork. The work design category comprises autonomy and freedom, the opportunity to use different skills and talents (skill variety), the ability to complete a whole and identifiable task or product (task identity), and work on a task or project that has a substantial impact on others (task significance). The fourth category related to team effectiveness is the process. It includes the commitment of the team members to a common purpose, the establishment of specific team goals, the team efficacy, a managed level of conflict and a minimization of social loafing.

For the purpose of this paper we will concentrate on diversity and team homogeneity. Diversity is a variable of the composition category. Team homogeneity refers to all process variables of this model and to two context variables: climate of trust and leadership. A team with high team homogeneity can therefore be defined as a team with successful processes, a high climate of trust and an effective leadership.

Cultural Diversity Research

Geopolitical, social, economic and technological changes have impacted significantly on many firms and created opportunities for managers and employees to interact with culturally diverse populations (Wong-Mingji & Mir, 1997). The development of cultural diversity in the workforce presents substantial and complex challenges for organizations and scholars as they strive to determine the potential implications of cultural diversity for firm effectiveness. Before examining the different views on the impact of diversity on firm effectiveness we will

define our understanding of diversity and briefly consider the relationship between team diversity and task complexity.

In our definition of diversity we follow Harrison & Klein (2007) who state that diversity can be conceptualized as the distribution of differences among the members of a team with respect to a common attribute. Distinctions can be made between not directly task-related, “surface-level” diversity in demographic characteristics such as gender, age, race, and nationality on the one hand, and more directly task-related informational or cognitive diversity such as e.g. educational or functional background on the other hand (e.g., Jackson et al., 2003; Jehn et al., 1999; Kearney et al., 2009). We define (cultural) diversity as real or perceived differences among people with regard to these distinctions.

Higgs et al. (2005) explored the interrelationship between team diversity and task complexity in terms of its impact on performance. In their study they found a clear relationship between team composition (diversity), complexity of task and team performance. Diversity was found to be positively related to performance for complex tasks and negatively related for straightforward tasks. Their findings indicate that there can be benefit in considering the complexity of a task or project before assembling a team. The degree of task complexity could inform the mix of members to be included in the team in terms of diversity.

The results of research on diversity in working groups suggest that diversity offers both a great opportunity for organizations as well as an enormous challenge. Diversity can increase the opportunity for creativity and innovation but also the probability of dissatisfaction among group members and a failure to identify with the group (Milliken & Martins, 1996). There has been ongoing debate about the relationship between diversity and performance but so far there is no consistent argument.

The dysfunctional diversity view proposes that diversity is related to poorer performance outcomes (Richard et al., 2004). It argues that workforce diversity will lead to communication problems and dysfunctional conflict, with negative implications for performance (e.g. Pelled et al., 1999). Research in this field shows, that compared to cultural homogeneous teams, members of diverse teams show less attachment to each other, have less commitment to their respective organizations (Harrison et al., 1998; Tsui et al., 1992), display more communication problems (Hoffman, 1985; Watson et al., 1993; Miroshnik, 2002; Pelled et al., 1999), miss work more often (O’Reilly et al., 1989; Tsui et al., 1992, Wagner et al., 1984), experience more conflict (Jehn et al., 1999; Pelled et al., 1999), and take more time to reach decisions (Hambrick et al., 1996). However, there is also some evidence that diversity is at least as likely to help performance as it is to impair it (e.g., Guzzo & Dickson, 1996; Jehn et al., 1999; Milliken & Martins, 1996; Pelled et al., 1999; for a review, see Williams & O’Reilly, 1998).

The value-in-diversity hypothesis suggests that diversity in work groups will enhance effectiveness (Cox & Blake, 1991; Cox 1993; Miroshnik, 2002). Proponents of this “value-in-diversity” hypothesis (e.g., Jehn et al., 1999; Watson et al., 1993) argue that contact between employees from diverse backgrounds will lead to the development of novel solutions to their tasks. These novel solutions will, in turn, enable them to outperform employees from homogeneous backgrounds. The value-in-diversity research focuses to some extent on adding value by enhancing organizational effectiveness and performance. It suggests that culturally diverse groups, such as multicultural project teams in transnational firms, will generate more

different views and opinions, engage in more thorough critical analysis, and therefore make higher-quality decisions (Shaw & Barret-Power, 1998).

However, there is still the question about performance benefits of diverse teams. Proponents of the value-in-diversity hypotheses propose that differences in the performance of homogenous workgroups and diverse workgroups depend on the period of collaboration. Watson et al. (1993) found that depending on the duration of collaboration diverse teams perform worse, even or better than cultural homogeneous teams. Hence the performance potential of diverse teams increases with the duration of collaboration and the improvement of the regulation of the collaboration.

In their meta-research Cox & Blake (1991) found that organizations which are able to attract, retain, and motivate people with diverse cultural backgrounds can create a competitive advantage in cost structures and through maintaining the highest quality human resources. Furthermore they may gain a competitive advantage due to improved problem solving (leading to a higher quality of decisions), increased creativity and innovation, increased organizational flexibility, improved skill variety in the workforce, and improved marketing (e.g. increased customer base) when capitalizing on the potential benefits of cultural diversity in work groups (Cox & Blake, 1991). Thus a diverse workforce can e.g. better help to understand the different needs and values of the cultural groups that comprise their client base (Friday & Friday, 2003; Wentling, 2000).

Even though there is a considerable amount of research exploring the value-in-diversity there are still many questions unanswered. Recent research has begun to explore the factors that moderate the relationship between diversity and performance in order to bring answers to the question of how to measure this relationship (Richard, 2000; Grimes & Richard, 2003). Richard (2000: 74) concluded that cultural diversity does add value to organizations but the effects of diversity “are likely to be determined by the strategies a firm pursues and by how organization leaders and participants respond to and manage diversity”.

Besides the dysfunctional diversity view and the value-in-diversity view there are also approaches trying to integrate these two opposing views. Richard et al. (2004) developed a theoretical framework based on Blau's (1977) theory of heterogeneity and social identity theory (Tajfel & Turner, 1985), where they hypothesized that cultural diversity in management groups has a U-shaped curvilinear relationship to performance. Although their empirical findings did not fully support it, this hypothesis raised an interesting issue for future exploration.

TEAM-PERFORMANCE: AN INTEGRATED MODEL

The following model suggests an alternative integrated approach considering the combination of the results of team success research and the value-in-diversity research through the lens of the resource based view. Each of the two opposing views regarding the effectiveness of diversity is consistent and plausible. The following model shows that diversity and homogeneity are interdependent and thus the combination of both views is a key success factor for effective high-performance teams.

Performance benefits of diverse teams are often deployed only after a longer period of collaboration (Watson et al., 1993). Therefore specific steps must be taken to increase the

homogeneity of all members of the diverse team. It is for instance necessary for members of diverse teams to have awareness of the attitudinal differences of other members (Cox & Blake, 1991: 50). In addition, to promote coherent actions on organizational goals, the team members must share some common values and norms. Cox and Blake (1991: 51) state that “[t]he need for heterogeneity, to promote problem solving and innovation, must be balanced with the need for organizational coherence and unity of action.” A balance of high diversity of the team members and high homogeneity of the team therefore builds the success factor for high performance teams in complex tasks (Czerny & Steinkellner, 2009).

Figure 2 shows under which conditions diverse teams may generate sustainable competitive advantage. Neither low-diversity teams nor high-diversity teams can be successful in complex tasks if their team homogeneity is low. Low-diversity teams with a high degree of team homogeneity are functioning and therefore have advantages compared to non-functioning teams. In straightforward tasks these teams are effective and achieve a high performance; in complex tasks though they only show medium to low performance. Only if both the team homogeneity as well as the diversity is on a high level a generation of sustainable competitive advantage is possible, as only on this level the benefits of diversity can be enhanced. Teams in the upper right quadrant (high-performance teams) achieve sustainable competitive advantage in complex tasks through maintaining team homogeneity on a high level while simultaneously exploiting the benefits of diversity.

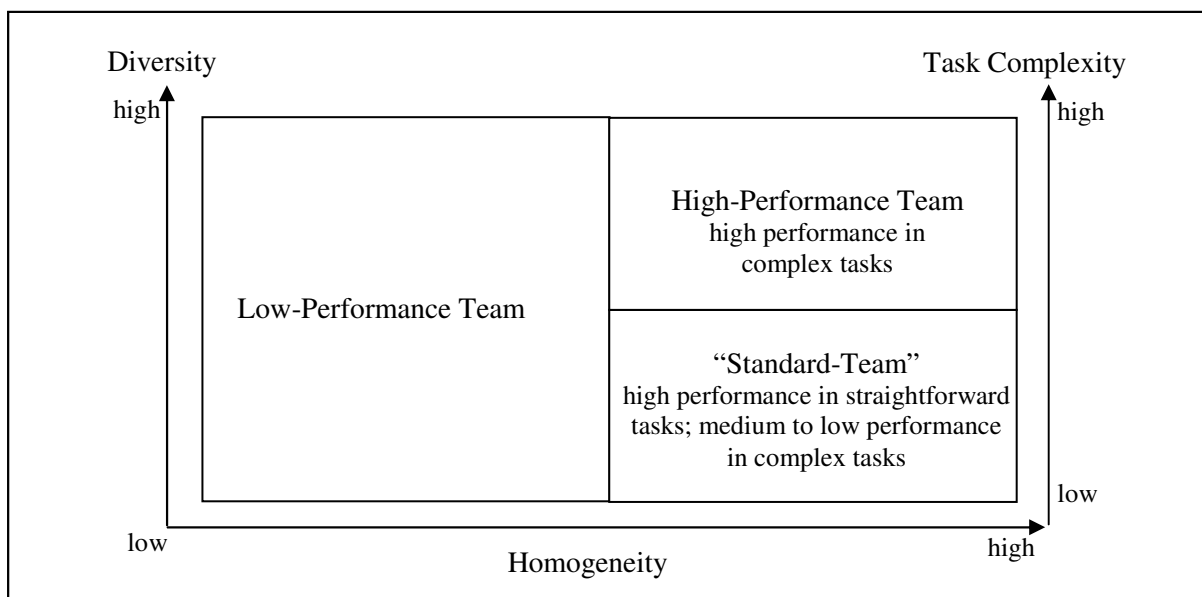


Figure 2: Impact of diversity, team homogeneity, and task complexity on the performance of teams (adapted and extended from Czerny & Steinkellner, 2009)

Having constructed a model of how diversity, team homogeneity, and task complexity impact the performance of teams, we can now turn towards deriving practical implications from the model.

Practical Implications

The purpose of this paper is to examine how to exploit the advantages of diversity and homogeneity while simultaneously reducing the inherent disadvantages of each of these approaches. For this purpose we suggest to combine the results from team success research with the results from value-in-diversity research.

There are two central factors to be considered for high performance-teams: 1) the pre-condition factors for successful team work and 2) factors which can be a result of exploiting the advantages of diversity. The pre-condition factors can be derived from the team effectiveness model (see figure 1). We earlier in this paper defined these pre-condition factors as team homogeneity which includes all process variables of the team effectiveness model and two context variables: climate of trust and leadership. These factors are mainly about reducing the inherent risks which diverse teams are faced with due to their heterogeneity and are an important indicator for the necessity of organizational change. If the pre-condition factors are not established on a high level the advantages of diversity cannot be exploited successfully. The organization therefore has to support the establishment of the relevant pre-condition factors in order to ensure that the team will be able to deploy its full potential. The diversity factors can be derived from the value-in-diversity research and contain factors which can be a result of exploiting the advantages of diversity: a higher decision quality, increased team creativity and innovation and an enhanced organizational flexibility. These factors show the necessity for keeping the team heterogeneous and therefore allow the exploitation of the value-in-diversity. The diversity factors are emergent characteristics on group level and thus cannot be attributed to single members of the team but only to the team as a whole. They are clearly system-level factors and therefore can only be created on group level. The purpose is to exploit the chances and thus the resources of diverse teams to gain sustainable competitive advantage.

The balance of team homogeneity and diversity is central for the exploitation of the value-in-diversity. The performance benefits resulting from the value-in-diversity can only be exploited to a maximum, if the team members share specific values and norms while simultaneously preserve their diversity. The optimum of diversity then depends on the complexity of the team task.

CONCLUSIONS AND IMPLICATIONS

We want to close with a critical reflection on the limits of this work: The significance of this paper is limited as the development of our integrated team-performance model is primarily based on theoretical research. So far there are no empirical studies focusing on the results of this concept, therefore further evidence is needed to underline the proposed improvement of team performance of diverse teams.

The paper however helps to explain some contradictions on the results of the performance of diverse teams as it shows that in complex tasks team homogeneity and diversity are interdependent for achieving outperforming results. Thus both, the value in diversity hypothesis and the dysfunctional diversity hypothesis are consistent and plausible. The paper tries to dissolve this paradox by combining different research fields. To further investigate this obvious paradox would be an interesting starting point for future research.

So far, most research concentrates either on the advantages and disadvantages of diverse teams or on teambuilding in general but does not explicitly pay that attention to the specific characteristics of teambuilding for diverse teams. However, there are peculiarities in team building of diverse teams. This paper shows that a simultaneous concentration on the exploitation of diversity and team homogeneity may help to create high-performance teams which in complex tasks will outperform culturally homogenous teams and hence create

sustainable competitive advantage for the organization. Additionally the paper has identified concrete implications for team-building of diverse teams which show where organizations may focus to exploit the advantages of diversity and homogeneity while simultaneously reducing their inherent disadvantages.

The RBV shows the importance of creating valuable, rare, inimitable resources which needs to be well organized. As Barney & Wright (1998) stated competitive advantage comes firm specific skills more than from general skills, and from teams more than from individuals. The exploitation of diversity is a characteristic on group level and cannot be attributed to single members of the team. The suggested combination of diversity and team homogeneity in this paper leads to such complex system-level resources which build the basis for sustainable competitive advantage. Moreover the organization needs to support the establishment of the necessary pre-conditions that allow the team to deploy its full potential. A high-performance team therefore cannot easily be transferred to another firm and thus represents a central source of competitive advantage.

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