UNRAVELING THE EFFECTS OF WORKFORCE DIVERSITY ON
FIRM PERFORMANCE: THE ROLE OF HRM PRACTICES IN LARGE U.S. CORPORATE
LAW FIRMS

BY

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DISSERTATION

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ABSTRACT

Past research on the effects of diversity in the workplace was contradictory and empirical evidence has been inconclusive. This phenomenon is particularly true for explaining the association between workforce diversity and organization-level performance outcomes. The purpose of this study is to help reconcile the conflicting theoretical perspectives as well as mixed findings of prior research regarding the performance effect of diversity by incorporating an important organization level moderating condition – the use of human resource management (HRM) practices. This study examines *when (under which conditions)* and *how* the salience of positive or negative diversity effects may be affected (be either enhanced or limited) and in turn manifest in overall performance outcomes when an organization chooses to implement certain HRM practices. I argue that depending on the characteristics and impacts of HRM practices, diverse employees may cooperate with or compete against each other and these social processes would be reflected in organization's performance outcomes.

In this study, the effects of two demographic differences in the workplace, race/ethnicity and gender diversity, on firm performance outcomes (workforce productivity and profitability) were examined in the context of U.S. law firms. Moderating influences of HRM practices in this relationship were also tested and these practices include: 1) a compensation structure (hierarchical versus compressed pay dispersion within an organization), 2) a promotion policy (reliance on internal promotions or lateral hiring), and 3) developmental programs such as mentoring and training. Based on the panel data analyses of 224 law firms (1984-2008), findings revealed that the effects of both race/ethnicity and gender diversity on firm performance were significantly influenced by the use of certain types of HRM practices. While the direct effect of race/ethnicity diversity was positive for both performance measures, I found that the relationship

became non-significant or even negative when an organization adopted a more hierarchical pay structure (high level of vertical pay dispersion). This relationship was positive and stronger under a more egalitarian and compressed reward practice (low level of vertical pay dispersion). However, contrary to the prediction, the effect of gender diversity on performance was positive under a more hierarchical pay scheme while the link became non-significant under a compressed reward structure. Results also indicated that an internal promotion policy significantly moderated the diversity effects within an organization. Supporting the hypothesis proposed in this study, for both for race/ethnicity and gender diversity, the diversity-performance relationship became positive when a law firm relied more on internal promotions; however, this relationship was negative when organizations recruited more external hires rather than internally developed partners. Unlike the prediction, developmental opportunities (mentoring and training opportunities for associates) did not work as a moderator in the relationship between diversity and firm performance. Theoretical, empirical, and managerial implications of these findings were discussed in the later sections of this dissertation study.

to Lija and Adina

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CHAPTER 1

INTRODUCTION

Increasing diversity in the workplace is now a reality that organizations are facing. Beyond compliance with governmental requirements and legislations, today's organizations seek to embrace and leverage differences in workplaces and focus on how to reap the benefits from their diverse employees for business success, often called the business case for diversity (Kochan et al., 2003; Thomas & Ely, 1996). Recent studies by the *Conference Board* (2006) reported that most top executives at leading global organizations recognize the importance of workforce diversity and consider diversity as crucial organizational assets that lead to organizational effectiveness and sustained competitiveness. Nearly all human resource practitioners in large U.S. corporations (98% of 325 survey respondents in a recent study by the *Society for Human Resource Management* [SHRM]) also agreed with statement that "leveraging differences and similarities in the workforce for the strategic advantage of the organization is very important" for their organizations (SHRM, 2008). On the academic front, research on workplace diversity has also grown exponentially in the past decades (Jackson, Joshi, & Erhardt, 2003; Harrison & Klein, 2007). The volume of such research has nearly doubled every five years, with a search of ABI-Inform and PsycINFO databases, yielding 19 diversity-related studies in 1988, 45 in 1993, 66 in 1998, and 134 studies in 2003 (Harrison & Klein, 2007).

Despite significant academic interests as well as practitioner zeal in this topic, one could still ask a question, "Does workforce diversity really add value to the organization's bottom line after all?" The answer is a more tentative "maybe." Indeed organizations often report that they are struggling to embrace and leverage diverse employees successfully (SHRM, 2008; Thomas

& Ely, 1996). Empirical evidence from academic research examining the effect of demographic diversity on work group performance as well as overall firm performance has been discouraging. Comprehensive reviews on this topic have noted that the general pattern of findings in this area is unclear because past studies reported either positive, negative, or non-significant effects of diversity on performance outcomes (Jackson et al., 2003; Joshi & Roh, 2007; Milliken & Martin, 1996; van Knippenberg & Schippers, 2007; Williams & O'Reilly, 1998). This mixed evidence led Milliken and Martins to dub diversity as "a double edged sword" (1996: 403). At an organization level of analysis, only a few studies have been conducted and the results are also mixed (e.g., Richard, 2000; Richard, McMillan, Chadwick, & Dwyer, 2004; Richard, Murthi, & Ismail, 2007; Sacco & Schmitt, 2005). Regarding this phenomenon, Kochan and colleagues (2003) concluded that so far there is no justification for the assertion that organizations with diverse demographic makeup perform better on overall financial measures such as the return on investment, revenue, or profits and the diversity-performance link is not yet theoretically well understood.

Current theoretical perspectives framing diversity research, such as social categorization theory and information/decision making perspective, often suggest differing effects of diversity on performance outcomes. For example, while the social categorization theory predicts negative effects of diversity such as intergroup bias and conflict, the information processing/decision making view suggests positive aspects such as more cognitive resources and creativity (Williams & O'Reilly, 1998). In order to clarify these mixed implications on performance, researchers have recently proposed to identify the moderating conditions under which either positive or negative effects of diversity are more likely to prevail (Joshi & Roh, 2009; van Knippenberg, De Dreu, & Homan, 2004). Van Knippenberg and colleagues (2004) declared that the "main effects" approach that has characterized much of diversity research appears to be insufficient and argued that it is impossible to understand the effects of diversity without taking moderators into account (also see Pelled, Eisenhardt, & Xin, 1999). Researchers have also proposed that beyond a traditional debate regarding the potential benefits or costs of diversity, a more nuanced understanding of when, where, and how diversity dynamics unfold in workplaces can enrich our understanding of the relationship between diversity and performance (Joshi & Roh, 2009; van Knippenberg et al., 2004).

A primary goal of this study is to examine the effects of workforce diversity on firm performance by incorporating an important organization-level moderating condition. I propose an organization's use of human resource management (HRM) practices – specifically, the influences of HRM practices on cognitive processes and social relations among employees – as an important organizational level condition that shapes diversity dynamics within an organization. Specifically, this study examines *when (under which conditions)* and *how* the salience of positive or negative diversity effects may change (be either activated or limited) and in turn manifest in overall performance outcomes when an organization chooses to implement certain HRM practices. I argue that depending on the characteristics and impacts of HRM practices, diverse employees may cooperate with or compete against each other and these social processes would be reflected in organization's performance outcomes. Despite some research attention examining moderating factors such as environmental characteristics (e.g., Frink et al., 2003; Richard et al., 2007; Sacco & Schmitt, 2005) and business strategy (e.g., Richard, 2000; Richard et al., 2004), the role of HRM practices in diversity dynamics with implications on performance was not systemically theorized nor empirically tested in past literature. This study addresses this important gap in the literature. Moreover, the present study also aims at answering a more practical question – what organizations need to do, by implementing certain HRM practices, to reap the benefits from diverse workforce (SHRM, 2008). Indeed, HRM practices are the important strategic choices that managers make to affect the performance outcomes of workforce diversity by promoting the benefits while simultaneously minimizing any potential downside (SHRM, 2008). Simply having a diverse workforce is not enough to harness the benefits; organizations that effectively manage and cultivate their diverse employees through HRM practices can gain competitive advantage (Jackson, 1999; Richard, 2000).

The empirical context of this study is the sample of large U.S. corporate law firms. A law firm context offers an ideal empirical setting to test the theoretical ideas proposed in this study. Law firms used to be less diverse in terms of gender and racioethnicity compositions within the workforce but, like other organizations, have undergone significant demographic changes for past few decades. Recent statistics reported that in a U.S. legal service sector, the proportion of female employees increased significantly (from 14.4 percent in 1975 to 40.3 percent in 2002); ethnic minorities also increased dramatically from 3.5 percent in 1975 to 12.6 percent in 2002 (*U.S. Equal Employment Opportunity Commission* [EEOC], 2003). These changes are crucial for law firms because they rely heavily on intellectual human capital for organizational success and invest significantly in retaining and motivating highly skilled employees (EEOC, 2003; *Minority Law Journal*, 2008). Among large law firms in the U.S., the business impact of diverse workforce as well as the effective human resource management have been an enduring interest and challenge (Wilkins, 2004). Despite these circumstances and needs, these issues regarding diversity management and its performance implications have not yet been systematically theorized nor empirically tested in a law firm context. Moreover, on a practical note, a richness of the archival data available for multiple years as well as a comparable HRM structure across law firms also enable a more reliable and comprehensive empirical test in this study.

Contributions of the Study

This dissertation attempts to contribute to the extant workforce diversity literature in several important ways. First, as discussed earlier, this study can clarify an unclear picture of the diversity effect on performance from the past literature by incorporating an important organization-level moderating factor, the use of HRM practices. While past theoretical perspectives focus on explaining *why* diversity leads to certain types of outcomes, this moderating approach enhances and refines our understanding of specific mechanisms of *how* and *under which conditions* workforce diversity matters to group performance by exerting either positive or negative influences (Joshi & Roh, 2009; van Knippenberg et al., 2004). Moreover, HRM practices, although often suggested having direct influences on employee perceptions and behaviors (e.g., Bowen & Ostroff, 2004), have not been systematically examined in past diversity literature with relations to diversity dynamics within an organization and its performance implications (c.f., Jehn & Bezrukova, 2004). To my knowledge, this study is a first attempt to conduct a comprehensive empirical test regarding the moderating role of HRM practices on the workforce diversity-firm performance relationship.

Second, despite significant demands from academics as well as practitioners in the field, to date there has been a lack of research examining organization level consequences of workforce diversity, perhaps due to the difficulty in obtaining access to usable data from field settings. Unlike past studies that used small work groups or top management teams, this study encompasses the diversity of all employees within an organization (e.g., associate attorneys and partners in a law firm) and investigates its effect on organization-level performance outcomes such as workforce productivity and profitability. I analyze longitudinal datasets of 224 U.S. corporate law firms spanning from 1984 to 2008, available from a third party research organization, which enables a more comprehensive and reliable empirical test of the theoretical hypotheses proposed in this study.

Finally, by focusing on a single industry (law firms) rather than including across-industry samples (c.f., Richard et al., 2007), I attempt to develop a context-specific theory of the workforce diversity, HRM practices, and firm performance relationship with rich theoretical and practical implications for law firms as well as other professional organizations such as consulting firms, R&D organizations, or universities. While this approach narrows the scope of the study and generalizability of findings, as Roberts and colleagues suggested, a general understanding of behavior in an of organizations is "being beyond our abilities" and it is often better to concentrate research efforts on observing and explaining behavior within particular, specific contexts, leaving the search for cross-context patterns and regularities for later (Roberts, Hulin, & Rousseau, 1978). Rousseau and Fried (2001: 2) also suggested, context-specific approach "makes our models more accurate and our interpretation of results more robust" and allows the consumers of such research to better assess the applicability of the theory or findings (Bamberger, 2008). This market-orientation is vital for applied research in general and specifically for further theory building in the area of workforce diversity (Joshi & Roh, 2007; c.f., Dubin, 1976).

Plan of the Study

This dissertation investigates the moderating role of HRM practices on the workforce diversity-firm performance relationship in a U.S. law firm context. The present chapter (Chapter

1) offered an overview and summarized goals and potential contributions of this dissertation research. Chapter 2 provides a review of the literature relevant to this dissertation study. It also develops the theoretical framework to be tested and introduces the hypotheses. Chapter 3 presents the research sample, data collection, measures, and analysis techniques. The results of the data analysis will be presented in Chapter 4. Finally, Chapter 5 will discuss important findings from the study, theoretical and managerial implications, limitations of the present study, and recommendations for future research.

CHAPTER 2

THEORETICAL BACKGROUND AND HYPOTHESES

This chapter begins with a literature review of past workforce diversity research. Specifically, past theoretical ideas regarding the effects of diversity in the workplace as well as empirical findings (especially with regard to firm performance) are reviewed and summarized. More recent approaches in this topic, such as integrative and contingency views, are also discussed. Then, to unravel the mixed evidence from the past research, the possible moderating role of HRM practices in diversity dynamics, especially in the context of law firms, is suggested and discussed in later sections. Finally, based on new theoretical ideas suggested in this study as well as understanding of law firm context, a theoretical framework with three specific moderating hypotheses is proposed and discussed in greater detail.

Workforce Diversity Research

Workforce diversity refers to the composition of work units (e.g., work group, organization, occupation) in terms of the demographic or cultural characteristics that are salient and symbolically meaningful in the relationship among group members (DiTomaso, Post, & Park-Yancy, 2007; Harrison & Klein, 2007). Much research on workforce diversity has focused on work groups, but the concept applies to other social units, for example, to an organization level of analysis. In general, workforce diversity research refers to studies that address demographic or cultural characteristics of the labor force, especially within organizations, and their impacts on various work outcomes (DiTomaso et al., 2007). This research addresses a range of diversity attributes, for example, race/ethnicity (Reskin, McBrier, & Kmec, 1999;

Richard et al., 2007), gender (Chatman & O'Reilly, 2004; Reskin, 1993), age (Zenger & Lawrence, 1989), education (Halaby, 2003), tenure (Regans & Zuckerman, 2001), or functional background (Cunningham & Chelladurai, 2005). Other differences among workers were also examined such as sexual orientation (Ragins, Cornwell, & Miller, 2003) or religion (Islam & Hewstone, 1993), but much research attention has been given to certain types of demographic variables, especially gender and race/ethnicity diversity due to its practical and theoretical importance as well as the visibility in the workplace (Reskin et al., 1999). Gender and race/ethnicity diversity are often considered as cultural diversity in the workplace because these attributes represent subgroup culture of people belonging to distinct social groups, which forms own worldview including beliefs, values, norms, and attitudes (Cox, 1994; Richard et al., 2004; Triandis, 1976). Among many other attributes, the present study particularly focuses on these two demographic and cultural differences in the workplace, gender and race/ethnicity diversity, in the context of large U.S. corporate law firms.

Diversity within an organization and its impact on work outcomes have been received considerable amount of research attention since the introduction of the seminal article on *organizational demography* by Pfeffer (1983). In his work, Pfeffer stated that "it is the relative proportions of [groups] which condition the form and nature of social interaction and group process which occurs, with subsequent impacts on psychological well-being, attitudes, and even job performance" (1983: 303-304). Specifically, Pfeffer (1983) argued that the distribution of demographics such as date of hire, age, gender, and race/ethnicity within an organizational unit impacts the amount of conflict, which in turn can lead to integration among members, turnover, power distribution, innovation, and unit performance. Researchers have subsequently examined the effects of workforce diversity on various work outcomes, for example, individual level outcomes such as stereotype and biases (Heilman, 1980), satisfaction (Wharton & Bird, 1996), organizational attachment (Tsui, Egan, & O'Reilly, 1992) or turnover (Wagner, Pfeffer, & O'Reilly, 1984) and group-level processes such as intergroup conflict or cohesion (O'Reilly, Caldwell, & Barnett, 1989; Pelled, 1996; Wharton & Baron, 1991) and communication (Zenger & Lawrence, 1989).

While much research attention so far has been given to work group or individual level consequences, relatively little attention has been devoted to organization level consequences of workforce diversity such as organization's overall performance (Reskin et al., 1999). This lack of organization-level research is particularly true for gender and race/ethnicity diversity in the entire workforce of an organization in past diversity research. Although numerous studies have examined the top management group's diversity effects on firm performance outcomes, these studies have been concerned with a relatively small group of managers at an organization's upper echelon and particularly focused on a limited set of diversity attributes such as functional and education background, tenure, and age (see Carpenter, Geletkanycz, & Sanders, 2004; Certo, Lester, Dalton, & Dalton, 2006 for a recent review). From a practitioner standpoint, this phenomenon also appears to be problematic considering the fact that managers are interested primarily in firm performance outcomes, which is more than the aggregation of individual level factors and top management team functioning. Indeed, the performance of law firms depends, at least in part, on the firm's capacity to leverage associates' skills and backgrounds into superior service and thus firm revenue and profits (Wilkins, 2004). Like all other organizations, diversity initiatives and policies at law firms are considered and implemented at the organization level of analysis and span individual practice areas and geographical locations. Therefore, to fill the void in the existing literature as well as to offer more practical implications to the field, in this study, I focus on the effects of gender and race/ethnicity diversity in the entire workforce (associates and partner attorneys in law firms) on firm-level performance outcomes such as workforce productivity and profitability.

Workforce Diversity and Firm Performance

To date, only about a dozen of studies have examined the effect of workforce diversity (especially, gender and race/ethnicity) on overall firm-level performance outcomes and the pattern of findings is far from being clear (see Table 1 for a summary of past empirical studies). For example, in some studies, researchers have found that workforce diversity is related to higher performance (Bergen, Soper, & Parnell, 2005; Dwyer, Richard, & Chadwick, 2003; Richard, 2000; Richard, McMillan, Chadwick, & Dwyer, 2003; Richard et al., 2007; Wright, Ferris, Hiller, & Kroll, 1995). In their study of 69 firms in the U.S., Wright and colleagues (1995) found that effective management of diversity (i.e., award-winning affirmative action programs) positively influenced stock market performance; however, organizations found guilty of discrimination lawsuits experienced negative stock returns. Drawing on the resource-based view of the firm, Richard (2000) argued that cultural diversity in human capital serves as a source of sustained competitive advantage for firms because it creates value that is both difficult to imitate and rare. Supporting this argument, in a study of the U.S. banking industry, he found a positive linear association between racial diversity in the workforce and some of financial performance measures (e.g., productivity, return on equity, market performance) when banks adopted a growth-oriented business strategy (Richard, 2000). Using the same sample of U.S. banks, Richard and colleagues also found similar patterns – that is, the relationship between gender or racial diversity in management groups and performance became positive when banks had certain types of business strategy (e.g., high versus low level of innovativeness) or organizational culture (e.g., levels of emphasis on team-oriented culture) (Dwyer et al., 03; Richard et al., 2003).

In another set of studies, however, the effects of diversity on firm performance have been reported unclear (non-significant) or even negative (e.g., Allmendinger & Hackman, 1995; Sacco & Schmitt, 2005). For example, Allmendinger and Hackman (1995) found that in symphony orchestras, the percentage of women in an orchestra hurt overall group functioning due to emotional conflict that gender-heterogeneous group may experience. In a study of fast food restaurants, Sacco and Schmitt (2005) also reported that workforce racial diversity was negatively related to a restaurant's profitability measure. In the same study, however, the authors did not find any significant associations of other demographic attributes such as gender and age diversity with the same unit profitability measure (Sacco & Schmitt, 2005). Among the studies that reported positive associations in the past, the direct relationships between race or gender diversity and performance measures were mainly non-significant before taking into account certain moderating conditions such as types of business strategy and organizational culture (Dwyer et al., 2003; Richard, 2000; Richard et al., 2003).

Table 1. A Summary of Past Empirical Studies.

Author(s)	Diversity Variables	Sample	Key Findings
Allmendinger & Hackman (1995)	Gender	N = 78 professional symphony orchestra in the U.S., U.K., and Germany	As female representation increases, overall group functioning hurts; however, when the proportion goes beyond 50%, the downward trend becomes less evident.
Bergen et al. (2005)	Race/ethnicity	N = 76 firms from the *Fortune* list of "America's 50 Best Companies for Minorities" from 1998 to 2002	Minority-friendly firms (top 50 listed firms) significantly outperformed the market when compared to performance at other firms within the same industry.
Dwyer et al. (2003)	Gender	N = 177 banks in the U.S.	No direct relationships with performance measures (productivity, ROE) were found. When interacting with grow orientation and clan type organization culture (high on both), the relationships became positive.
Frink et al. (2003)	Gender	Study 1: N = 291 organizations from the National Organization Survey; Study 2: N = 410 randomly selected organizations	Study 1: The relationship between percent female participation and market performance had an inverted U-shaped pattern; Study 2: This curvilinear pattern held only for the service/wholesale/retail industry sectors.
Richard (2000)	Race/ethnicity	N = 63 banks in the U.S.	No direct relationship between race diversity and firm performance was found. But the relationship became positive when an organization adopted a growth-oriented business strategy.
Richard et al. (2003)	Race/ethnicity	N = 177 banks in the U.S.	No direct relationship was found. But the relationship became positive when an organization adopted a high innovation business strategy.

Table 1 (Cont.)

Author(s)	Diversity Variables	Sample	Key Findings
Richard et al. (2004)	Race, gender	N = 153 banks in the U.S.	No direct relationships between race and gender diversity and performance were found. The association of race diversity with productivity was U-shaped when banks had high innovativeness; the gender diversity-productivity relationship showed an inverted U-shaped pattern when banks had high risk taking orientation.
Richard et al. (2007)	Race/ethnicity	Large U.S. firms that participated in Fortune magazine's diversity survey, which was used to select the 50 best companies for minorities' for the period that included fiscal years 1997-2002	For a short-term performance outcomes (productivity), the relationship between race diversity and performance had a U-shaped pattern. The relationship was stronger in service-oriented industries than manufacturing industries and in more stable environment and volatile settings. For a long-term performance (Tobin's Q), there was a positive linear relationship. This effect was more evident in munificent environmental settings than in resource-scare environment.
Sacco & Schmitt (2005)	Gender, race, age	N = 2,373 quick-service restaurants in the U.S.	Race diversity was negatively related to profitability; gender and age diversity were unrelated. No interaction (or fit) effects with community demographics were found.
Wright et al. (1995)	Announcements of U.S. Labor of Department awards for exemplary affirmative action programs	N = 34 award winning firms and 35 firms found guilty of discriminatory practices during 1986-1992	Award winning firms experienced positive stock returns; firms found guilty of discrimination had negative stock returns.

More recently, limited numbers of studies have explored a curvilinear relationship between diversity and firm performance but results are less clear (see also Table 1 for a summary). For example, in two longitudinal studies using the nationally represented samples, Frink and colleagues (2003) found an *inverted* U-shaped relationship between gender diversity and organization's market performance (Study 1) and profitability (Study 2). They argued that organizations perform better when workforce gender heterogeneity is at an optimal level (i.e., around 50-60% of the female representation in the workforce) rather than when an organization is too homogeneous (either male- or female-dominated) (Frink et al., 2003). But these results were only found to be significant in certain industrial settings such as service, wholesale, and retail sectors. In a series of studies (Richard et al., 2004; Richard et al., 2007), in contrast, Richard and colleagues found limited evidence of a U-shaped association between racial diversity and organization's financial performance (especially, productivity). Drawing on Blau's (1977) theory of heterogeneity, they argued that organizations may perform worse as workforce diversity increases from low to moderate levels because of increased social categorizations and in-group/out-group biases prevalent within an organization; however, as diversity increases further, these categorizations and biases diminish and thus organizations perform better (Richard et al., 2004). They found some support of this U-shaped curvilinear argument for racial diversity under certain circumstances such as organizations with high innovative orientation (Richard et al., 2004) and in stable or service-oriented industry environment (Richard et al., 2007), but no clear pattern was found for gender diversity (Richard et al., 2004).

In sum, reviewing past empirical studies that examined the performance effects of workforce diversity revealed unclear patterns – either positive, negative, curvilinear, or just non-significant. Patterns were unclear across diversity attributes, outcome types, or research context.

Even the majority of significant relationships reported was only apparent in certain circumstances (e.g., high growth and innovativeness, service industry), but not in general conditions, and research samples used in the past studies were also limited (e.g., banking, firms from the *Fortune*'s diversity lists). Curvilinear relationships reported so far were also inconsistent across studies (either U-shaped or inverted U-shaped) and may be less realistic in some cases considering the actual range restrictions of the samples used (e.g., Frink et al., 2003; Richard et al., 2004). Thus, while these research efforts seem valuable in understanding the performance implications of diversity, considering limited scopes of past research as well as the lack of research evidence cumulated so far, it appears to be premature to draw any conclusion yet.

In order to resolve this mixed evidence and to better understand the workforce diversity-firm performance relationship, a theoretical refinement of past theories seems necessary (Kochan et al., 2003). In doing so, in the subsequent sections, I review past theoretical perspectives that have framed diversity research but provided conflicting predictions regarding the performance effects of workforce diversity. Although these perspectives have often been developed in the area of work group level diversity research, they seem also relevant and offer important implications for organization level workforce diversity research (c.f., Richard et al., 2004; Richard et al., 2007; Sacco & Schmitt, 2005). I also discuss recent approaches to reconcile these conflicting views and offer an additional theoretical suggestion to develop a finer-grained theory of the workforce diversity and firm performance relationship.

Past Theoretical Perspectives: Conflicting Implications

Past empirical studies have been guided by the varied theoretical perspectives that often suggest contradictory consequences of diversity (Williams & O'Reilly, 1998). This makes the understanding and synthesis of past research efforts examining the performance effect of workforce diversity often difficult (Harrison & Klein, 2007; van Knippenberg et al., 2004). In general, there are two broad theoretical camps that suggest either positive or negative effects of diversity on various work outcomes in past diversity research (Williams & O'Reilly, 1998).

Drawing on the information and decision making theory (Tziner & Eden, 1985) or the "value-in-diversity" hypothesis (Cox, Lobel, & McLeod, 1991), one group of scholars has suggested the positive effects of diversity on performance. Proponents of this view maintain that because diverse groups are more likely to possess a broader range of task-relevant knowledge, skills, and abilities as well as greater access to informational networks outside the group, this added information can enhance group performance (Williams & O'Reilly, 1998). Diverse knowledge and perspectives constitute a cognitive resource pool of a work group, which can lead to more comprehensive analysis of issues and thus result in better decision making results (Hambrick, Cho, & Chen, 1996; Jackson, 1992). In order to fully utilize these cognitive resources available within a group, members in a diverse group may need to more thoroughly process task-relevant information which leads to an elaboration of diverging and often surprising perspectives, resulting in more creative and innovative ideas and solutions (van Knippenberg et al., 2004). This perspective has gained some empirical support from past research mostly in laboratory settings (e.g., Watson, Kumar, & Michaelsen, 1993) as well as in some field studies, especially in top management team settings with regard to functional background, tenure, or age diversity (e.g., Bantel & Jackson, 1989; Hambrick et al., 1996).

Related to the "value-in-diversity" hypothesis (Cox et al., 1991), some researchers also suggested a positive impact of having diverse human resources within an organization on performance outcomes as a source of sustained competitive advantage (McMahan, Bell, &

Virick, 1998; Richard, 2000). Drawing on the resource-based view of the firm (Barney, 1991), researchers argued that diverse human resources with different knowledge and perspectives and their interactions within an organization can have unique value to an organization because these cognitive resources as well as socially complex dynamics in organizations are not easily transferable across organizations, benefiting only the organization in which diverse human resources exit and such relationships develop (McMahan et al., 1998). This resource-based reasoning of the diversity effects has been applied in a few organization-level studies in past literature and has gained limited support (Frink et al., 2003; Richard, 2000; Wright et al., 1995).

Another group of scholars, mainly drawing on the social categorization theory (Tajfel, 1982; Turner, 1987) as well as the similarity/attraction paradigm (Byrne, 1971), have suggested negative effects of diversity on performance. The social categorization perspective holds that similarities and differences are used as a basis for categorizing self and others into groups, with ensuing categorizations distinguishing between one's own in-group and one or more out-groups. People tend to like and trust in-group members more than out-group members and thus generally tend to favor in-groups over out-groups (Brewer, 1979; Tajfel & Turner, 1986). Consistent with research on similarity/attraction, this signifies that work group members are more positively inclined toward their group and the people within it if fellow group members are similar rather than dissimilar to the self (Williams & O'Reilly, 1998). Moreover, categorization processes may produce subgroups within the work group (i.e., "us" and "them"), and give rise to problematic inter-subgroup relations. As a result, the more heterogeneous the work group, the lower member commitment (Riordan & Shore, 1997; Tsui et al., 1992) and group cohesion (O'Reilly et al., 1989) will be, the greater relational conflicts will occur (Jehn, Northcraft, & Neale, 1999; Pelled et al., 1999), and the more likely membership will be to turn over (Wagner et al., 1984).

Together, these processes are proposed to result in lower overall group performance when groups are heterogeneous rather than homogeneous (Jehn et al., 1999; Simons, Pelled, & Smith, 1999). These perspectives in general have been applied and gained support from small group research with regard to demographic attributes such as gender, race/ethnicity, or age (e.g., Jehn et al., 1999; Pelled et al., 1999) but have rarely been considered in the organization level diversity research in the past (see Richard et al., 2004 and Richard et al., 2007 for notable exceptions).

In sum, the varied theoretical perspectives discussed above have yielded the mixed implications of diversity on performance outcomes. While each perspective has been useful in explaining why diversity effects manifest in specific types of attitudinal or behavioral outcomes or certain aspects of group outcomes, in isolation, these perspectives do not seem to be sufficient to explain the effect of diversity on organization's overall performance outcomes. Rather than viewing that one perspective is more relevant than the others, it would be more appropriate to consider that two broad processes, such as information/decision processes and social categorization-based processes, simultaneously exist within a diverse organization and exert influences on different types of proximal work outcomes (Harrison & Klein, 2007; van Knippenberg et al., 2004). Exclusive focus on one over the other process may make the understanding of the diversity-performance link less clear.

An Integrative Approach

As briefly introduced earlier, what is missing in past diversity literature is a more integrative approach that incorporates different, often conflicting, theoretical perspectives (Williams & O'Reilly, 1998; van Knippenberg et al., 2004). Integrating both information/decision making and social categorization-based processes, van Knippenberg and colleagues (2004) proposed that rather than each process occurs in isolation, these processes may simultaneously exist within an organization and work group performance is determined by the interplay between these two processes. Specifically, van Knippenberg and colleagues argued that intergroup bias elicited by social categorization among diverse members may render individuals less open to communication with dissimilar others and disrupt group information processing; thus it stands in the way of realizing the potential benefits of diversity (van Knippenberg, 1999; van Knippenberg et al., 2004). Consistent with this proposition, Jehn et al. (1999) found that higher perceived value diversity and demographic diversity were associated with less positive relationship between informational diversity and indicators of group performance. Thus, what determines the actual effects of diversity on group performance is the relative salience of each diversity-related process and when one becomes more salient than the other (for example, social categorization effects are prevalent enough to disrupt information processing within a group or vice versa), either positive or negative effect of diversity becomes more reflected in overall performance outcomes (van Knippenberg et al., 2004).

A Contingency View

In order to determine the relative salience of diversity-related processes, van Knippenberg and colleagues (2004) also noted that it is important to consider the moderating conditions that may affect diversity effects within an organization. Drawing on a contingency view, they argued that depending on the characteristics of a situational condition, diversity effects can differ because these characteristics can either activate or hinder the effects of information processing or social categorization processes (van Knippenberg et al., 2004). For example, when social categorization is primed under certain conditions and it gives rise to intergroup bias, information/decision making processes are hindered and thus the negative effects of categorization-based processes are more likely to be reflected in overall performance (van Knippenberg et al., 2004). When situations elicit information/decision making processes while suppressing categorization-based processes, the positive effects of information/decision making processes are more likely to manifest in group performance (van Knippenberg et al., 2004). Thus, focusing on main effects while ignoring potential moderating effects of situational characteristics cannot explain the inconsistent effects of diversity and fails to elucidate the underlying processes that are responsible for the effects of diversity on overall performance, which may differ depending on the characteristics of a situation (van Knippenberg et al., 2004).

In a recent study, Joshi and Roh (2009) highlighted this issue of contingency (contextual) approaches in work team diversity research by conducting a comprehensive meta-analysis. They suggested that a careful examination of situational conditions is pertinent for reconciling the mixed findings from past research and a more nuanced understanding of when, where, and how diversity dynamics unfold in workplaces can enrich our understanding of the relationship between diversity and performance (Joshi & Roh, 2009). Using data from 39 field studies that examined the diversity-performance relationship, the authors found that contextual factors embedded at multiple levels, including occupational demography, industry type, and team interdependence, significantly moderated the effects of information processing and social categorization-based processes and thus influenced overall performance outcomes (for more detailed findings see Joshi & Roh, 2009).

Taken together, these integrative and contingency approaches can offer a new, important avenue for researchers to clarify the performance effects of workforce diversity. However, in current diversity literature, not much research attention has yet been devoted toward this direction (Joshi & Roh, 2009). At an organization-level of analysis, only a handful of studies have attempted to incorporate moderators in examining the diversity-performance link such as business strategy (Richard, 2000; Richard et al., 2003; Richard et al., 2004), organizational culture (Dwyer et al., 2003), industrial and environmental characteristics (Frink et al., 2003; Richard et al., 2007), and community demographics (Sacco & Schmitt, 2005) and found some empirical support. Beyond a traditional debate regarding potential benefits or costs of diversity on organizational functioning, more research efforts incorporating possible moderators in the research design and examining its effect on diversity dynamics seems necessary.

The Role of HRM Practices in Diversity Dynamics

In this study, I consider an organization's use of HRM practices as an important organizational level moderating condition that can shape diversity dynamics within an organization with implications on firm performance. According to Jackson (1999: 202), "the understanding of diversity within organizations requires taking into account business strategies, organizational culture, and *human resource management systems* (*italics added*)." Researchers suggested that HRM practices are associated with organizational outcomes through their influence on employee attitudes and behaviors (e.g., Huselid, 1995). The effects of HRM practices on attitudes and behaviors depend on cognitive signals or messages engendered by the HRM practices implemented (Bowen & Ostroff, 2004; Nishii, Lepak, & Schneider, 2008). Specifically, research from psychology and sociology suggests that HRM practices can affect diversity dynamics within an organization by eliciting cognitive biases and stereotypes against dissimilar others (Bielby, 2000; Reskin, 2000) and identity orientations (Brickson, 2000).

Despite these theoretical perspectives, the possibility of the moderating role of HRM practices in the diversity-performance link was not often examined in past research.

Scholars have noted that the use of certain HRM practices can have significant impacts on diversity dynamics within an organization such as stereotyping, in-group/out-group biases, or integration in the workplace (e.g., Baron & Bielby, 1980; Reskin, 2000). For example, in a series of studies of California state agencies and establishments, Baron and colleagues argued and found evidence that organizations' internal factors, especially HRM practices such as the rates of new hiring and internal promotion, affect gender integration in the workplace by influencing inherent discrimination within organizational structures (Baron, Mittman, & Newman, 1991; Bielby & Baron, 1986). Reskin (2000) also proposed that HRM practices can be a proximate cause of discrimination in workplaces depending on whether and how these practices constrain cognitive biases and stereotypes among employees, especially with dissimilar others. She argued that HRM practices that fail to constrain the automatic cognitive processes inherent within people, such as categorization, ingroup preference, or propensity toward power, often cause discrimination in the workplace (Reskin, 2000). However, HRM practices that foster intergroup contact, adopt formalized evaluation systems, and hold accountable for managers to make unbiased decision making can constrain the effects of these automatic cognitive processes and thus reduce potential discrimination in the workplace (Dencker, 2008; Reskin, 2000).

Researchers also suggest that HRM practices can influence the salience of diversity effects in organizations by fostering or discouraging collective goals or relational identity orientations among diverse employees (Brickson, 2000; Homan et al., 2008). Brickson (2000) argued that when organization's reward and network structures emphasize interpersonal contact and cooperation, a relational identity orientation occurs among employees, which results in trust and cooperation that lead to deeper cognitive understanding and more positive affective and behavioral outcomes (e.g., Batson, 1998). Homan and colleagues (2008) also suggested that reward practices that set a group-based goal and thus impose a superordinate group identity can decrease the likelihood of negative effects of diversity because these practices obscure the salience of differences among diverse members.

Drawing on the theoretical perspectives described above, I propose that HRM practices serve as a critical work condition that can affect the salience of diversity effects (either positive or negative) with implications on firm performance. I argue that certain HRM practices can incur negative effects of diversity by unleashing inherent cognitive biases against dissimilar others such as in-group/out-group biases; HRM practices also emphasize positive consequences of diversity by fostering more relational or organization-based identities among dissimilar others and facilitating intergroup contact. Once activated, either positive or negative aspect of diversity would be more reflected in performance outcomes and these interactions between HRM practices and diversity effects determine the actual influence of gender and race/ethnicity diversity in the workforce on firm performance.

HRM Practices in Law Firms

Leveraging human assets for better business results, or the effective use of own human capital, is perhaps the most fundamental business imperative for law firms as well as for other professional service organizations (Malos & Campion, 1995; Sherer, 1995; von Nordenflycht, 2010). Managing diverse human resources is of critical importance in today's law firms because of significant demographic changes – i.e., increasing proportions of female and ethnic minority attorneys in the U.S. legal sector (EEOC, 2003; Wilkins, 2004). Despite prevailing needs and importance, these HRM concerns – how to motivate, develop, and engage diverse attorneys to work together for superior performance – remain as an enduring interest and challenge (*Minority Law Journal*, 2008; Wilkins, 2004).

According to a number of authors (e.g., Galanter & Palay, 1991; Gilson & Mnookin, 1988; Malos & Campion, 1995; Sherer, 1995; von Nordenflycht, 2010), one of the most distinctive features of HRM practices of law firms is "up-to-partner or out-of-the firm" or simply "up-or-out" career and reward structures. Career structures in law firms are generally organized into two distinct career ladders – partners and associate attorneys. Partners are often regarded as owners, managers, and lawyers in the firm. Partners sell or create demand for legal services and lead own practice groups involving many associate attorneys. They have ownership of the firm and share firm's profits based on group-based profit sharing plan or individual shares (Galanter & Palay, 1991).[1] Associate attorneys are new employees, generally recruited straight from law schools and work for clients under guidance of partners. Once hired, associates are placed on a "partner track" and work for six years or so toward promoting to a partner ladder.[2] As an employee, associates receive their compensation largely as a guaranteed salary and it increases primarily based on the seniority until they are promoted to a partnership ladder. After six or more years, only a selected few are able to move up to the position of partner; those who cannot make this promotion need to leave the firm (Galanter & Palay, 1991). New partners who won the competition are entitled to a significant pay increases as well as firm's profits and ownership

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[1] In some law firms, there are also non-traditional partners, i.e., senior attorneys or non-equity partners who did not make partners but stay within an organization as continuing salaried employees because of unique skills or experiences in the market that can still provide valued service (Sherer & Lee, 2002). They often play similar roles as equity partners (such as leading practice areas, selling business, and managing associates) but do not share firm's profits and shares. Since late 1980's, some firms have adopted this new career track for associate attorneys (Sherer & Lee, 2002).

[2] Law firms also hire non-partner track employees such as staff attorneys, clerks, or temporary employees. These employees are often hired on renewable yearly employment contracts and are not considered as candidates for partner promotions (Orey, 1987; Sherer & Lee, 2002). These types of employees in law firms were not considered and thus excluded in this study.

shares and these rewards are far in excess of that typically received as an associate (Malos & Campion, 1995). Therefore, the possibility of upward promotion to a partner ladder, accompanied with significant monetary and non-monetary rewards (often considered as a deferred compensation; c.f., Malos & Campion, 1995), serves as a major motivation among associates and thus competition to win this tournament tends to be fierce (e.g., Galanter & Palay, 1991; Sherer, 1995). As part of up-or-out systems, law firms have relied more on the use of promotions from within (internal labor pools) to recruit new partners, which creates more promotion opportunities for associates, but in some cases firms also hired lateral partners (Sherer, 1995).[3]

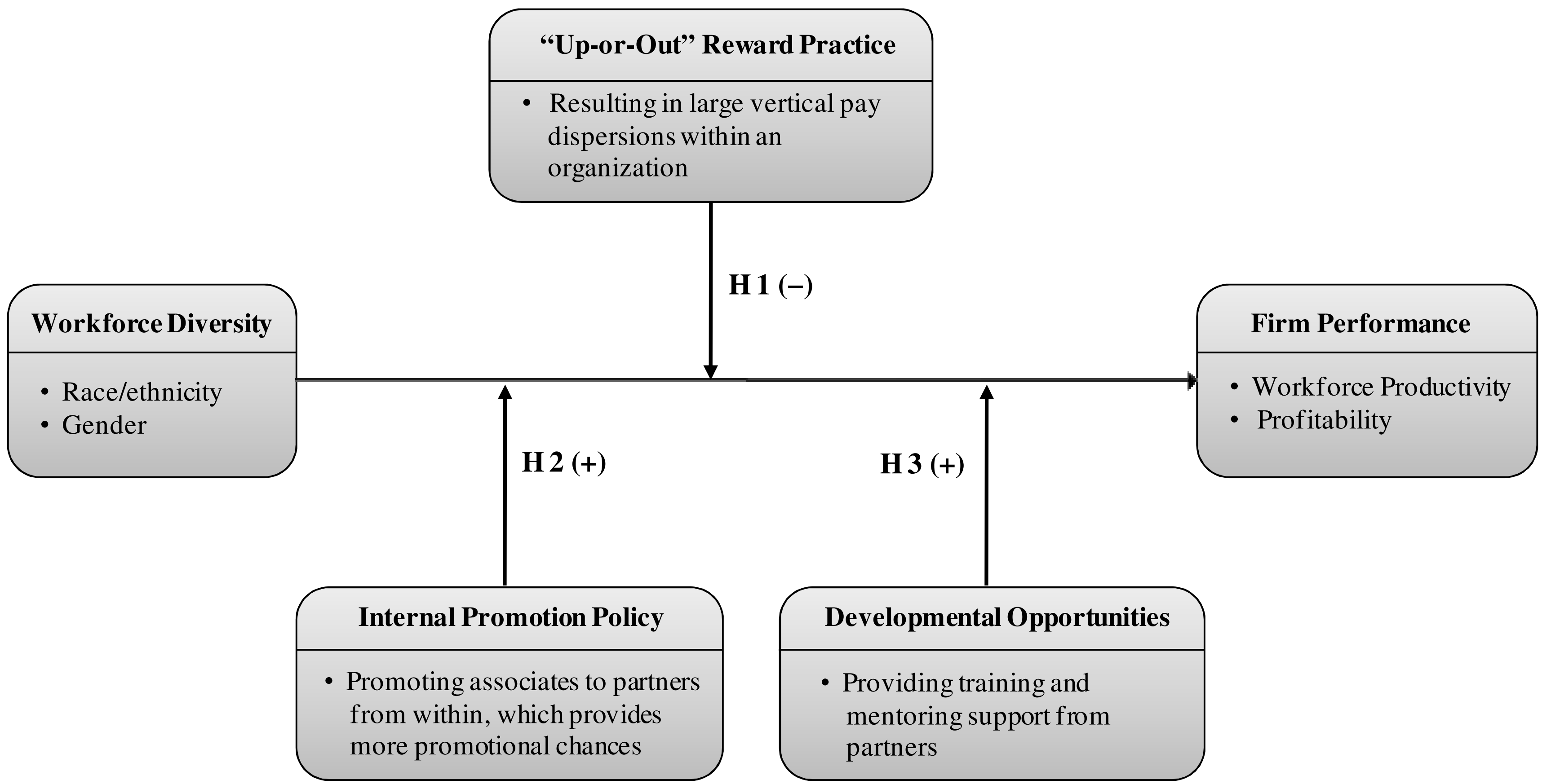
Another key feature and challenge of HRM practices in law firms pertains to how to develop and retain highly skilled, intellectual workforce (Malos & Campion, 1995; Newman, 2008; Sherer, 1995; Smith, 2004; von Nordenflycht, 2010). Because of law firms' heavy reliance on intellectual capital for business success and lack of qualified workforce in the labor market as firms grow and practice areas diversify (Sherer & Lee, 2002), retaining and developing good talents within an organization has become a critical management concern for law firms (Malos & Campion, 1995; Sherer, 1995; von Nordenflycht, 2010). In addition to promotion opportunities and rewards, developmental opportunities such as training and mentoring provide incentives for associates to remain within their organizations while their professional acumen increases, as does their corresponding ability to make partner (Gilson & Mnookin, 1989). The guidance, feedback, and knowledge about the firm that come with higher levels of mentoring from partners provide a vehicle for developing firm-specific human capital such as knowledge of

[3] Although internal promotions have been a dominant form of partner hiring, since the 1980s law firms hired lateral partners and associates with experience in other firms to augment or diversify their practice portfolio (Sherer, 1995). In some cases, hiring several lateral partners from a smaller law firm quite literally meant a firm had been acquired and a new branch had been established (Brill, 1982).

firm practice specialties, relationships with partners or clients, and shared firm reputation (Carr & Mathewson, 1990; Wholey, 1985). The nontransferable nature of such capital provides constraints on leaving the firm to which it is specific (Gilson & Mnookin, 1989; Siow, 1994), reducing the odds that associates will depart prior to partnership consideration. Thus, this apprenticeship-based training and mentoring practice has been considered as an important tool for developing, bonding, and retaining associates in law firms (Malos & Campion, 1995; Newman, 2008; Smith, 2004; von Nordenflycht, 2010).

Based on this understanding of a law firm context, I specifically examine the influence of the following key aspects of HRM practices on diversity dynamics in law firms: (1) a reward practice closely tied to a promotion-to-partner or "up-or-out" career structure, which pays significant promotion increases and thus results in large vertical pay dispersions within an organization, (2) an internal promotion practice, or a firm's policy that promotes associates to partners from within rather than hires new partners externally, which provides greater promotional opportunities for associates, and (3) developmental opportunities through the apprenticeship-based training and mentoring. Although not comprehensive, these HRM practices are often considered as major components of the HRM system across organizations in general (e.g., Bamberger & Meshoulam, 2000; Huselid, 1995) and also have particular relevance in a law firm setting (e.g., Galanter & Palay, 1991; Gilson & Mnookin, 1988; Malos & Campion, 1995; Sherer, 1995; von Nordenflycht, 2010). Below I discuss in greater detail regarding the moderating roles of these practices in the diversity effects with relation to firm performance outcomes. Figure 1 presents a theoretical framework proposed and tested in this study.

Figure 1. A Proposed Theoretical Framework.



"Up-or-Out" Reward Practice

As mentioned earlier, a reward practice in law firms is closely linked to an "up-or-out" promotion and career structure (Galanter & Palay, 1991). In general, associate attorneys graduated from prestigious law schools in the same year receive the same salary and it increases primarily based on the seniority until they are promoted to a partnership ladder.[4] All associates in a partner track are involved in individual competition toward a partnership and, after six or more years, only a few who make partners are entitled to significant pay increases as well as firm's profits and ownership shares; those who fail competition are often forced to leave. This zero-sum or "winner-take-all" pay scheme often creates wide pay dispersion between those at the top versus the bottom (Frank & Cook, 1995) and this is a key incentive to induce individualized efforts that may have positive effects on organizational outcomes (Lazear, 1995; Milgrom & Roberts, 1992). In some organizations (e.g., *Fortune* 500 companies) the pay ratios of highest-to-lowest paid employees can exceed 200:1 (Reingold, 1997); in professional service firms like law firms and accounting firms, the ratio is closer to 12:1 (White & Associates, 1995).

The term pay dispersion or pay distribution within an organization refers to the "array of compensation levels paid for differences in work responsibilities, human capital, or individual performance within a single organization" (Milkovich & Newman, 1996:45). Although there seems to be agreement that pay distribution influences individual motivation, behaviors, and resulting performance, there is little agreement over how or why it matters (Gerhart & Milkovich, 1992). In fact, there has been disagreement in the compensation literature about the proper distribution of pay for some time: Should pay distribution be compressed and egalitarian, or should it be hierarchical and consecutively increasing like prizes in a golf tournament (Lazear &

[4] A predominant approach for associate compensation in large U.S. law firms is a lockstep compensation approach (Galanter & Palay, 1991; *National Association of Women Lawyers*, 2008). Recently, some firms are adopting a more "merit-based" pay structure as a cost-cutting method, but in general it is still rare in the field (Neil, 2009).

Rosen, 1981; Mahoney, 1979)? Contemporary theoretical models – hierarchical versus compressed pay models – offer divergent explanations for this question. For example, in the hierarchical model, pay dispersion is viewed as an incentive to motivate individualized efforts to earn greater rewards (Milkovich & Newman, 1996). Hierarchical pay distribution is expected to create a positive pay-performance link, motivate individual-based efforts and competition, and thus induce higher individual performance (Milgrom & Roberts, 1992). On the contrary, the compressed model focuses on how pay dispersion affects collaborative work and cooperation (Bloom, 1999). From this perspective, hierarchical pay distribution creates "disincentives" for cooperation, instill feelings of inequity, promote dissatisfaction, and diminish performance (Pfeffer, 1994). When large dispersion exists between pay levels, people in a lower rank often develop negative feelings or attitudes such as relative deprivation or feeling of unfairness through social comparisons (Martin, 1981) and thus hierarchical pay dispersion demotivates most employees in an organization except those at the top (Kochan & Osterman, 1994; Pfeffer, 1994). Thus, researchers suggested that compressed pay distribution can be beneficial for group-based performance because they inculcate feelings of fairness and common purpose, foster cooperative, team-oriented behavior, and support common goal orientations (Cowherd & Levine, 1992; Lazear, 1995; Pfeffer, 1994).

With regard to diversity dynamics and performance implications, despite significant impact on employee motivation and behaviors, the effects of pay dispersion, or an organization's HRM choice of creating a more hierarchical or a more compressed pay distribution by paying relatively more or less for top talent (e.g., partners in law firms), have not been examined in past research. In this study, I propose that an "up-or-out" reward structure – that is, a hierarchical pay scheme that induces more individualized efforts and results in large pay dispersion within an organization – can be detrimental to harness positive benefits of diverse workforce. Because increased pay dispersion often elicits relative deprivation and negative feelings against others (Martin, 1981) and excessive individual competition discourages cooperation and interdependence that is a critical condition for reducing stereotyping and intergroup biases in organizations (Allport, 1954; Gaertner & Dovidio, 2000), I expect that in these settings categorization against dissimilar others would be prevalent and more reflected in performance outcomes. Cooperation and elaboration of diverse information with other members are likely to be limited because intergroup biases elicited by social categorization may render individuals less open to communication with dissimilar others and disrupt group information processing (van Knippenberg et al., 2004). On the contrary, because a compressed pay structure with less pay dispersion can promote an atmosphere of fairness and trust, and reinforces active participation and cooperation among employees (Bloom, 1999; Cowherd & Levine, 1992; Kochan & Osterman, 1994; Lazear, 1995; Pfeffer, 1994), I would expect that under this condition the positive effects of information processing aspect of diversity are more likely to be activated and reflected in firm performance outcomes while the effects of categorization-based processes are limited.

Drawing on psychological research on the formation of identity orientations, I also argue that, under a hierarchical pay structure, a reward practice also creates barriers to cooperate and prevents realization of the benefits of diversity by emphasizing an individual-based identity orientation among diverse employees (Brickson, 2000; Homan et al., 2008). When an individual-based identity is primed, people conceive of themselves primarily in terms of own traits and characteristics (such as demographic attributes) and utilize comparisons with other individuals as a frame of reference, which inhibits intergroup contact and cooperation (Brickson, 2000). According to Kanter's observation, this setting represents segmentalist organizations, in which "structural barriers are matched by attitudes that confine people to the category in which they have been placed, that assume they are defined by that category" (1983: 31), leading to the confirmation and reinforcement of preexisting perceptions and attitudes (including biases and stereotypes) associated with social categories such as gender or race (Kanter, 1983). Conversely, under a relatively compressed and egalitarian pay structure which imposes less individual-based competition, a reward structure fosters cooperation and motivates diverse people to form relation-based identities (Brickson, 2000). When a relational identity orientation is primed, a frame of reference shifts from own characteristics and traits to more collective goals and values, and individuals are motivated to procure benefits of others and the overall group (Brickson, 2000; Homan et al., 2008). Kanter's idea of integrated organizations, whose flow charts resemble a "plate of spaghetti" (1983: 133), can be achieved by forming relational identity orientation among employees that promote interpersonal cooperation, communication, and other-oriented motivation state (Brickson, 2000; Granovetter, 1992).

Accordingly, combining these theoretical perspectives discussed above, I predict that when large pay dispersion exits within an organization (i.e., between partner and associate groups), due to increased competition and resulting intergroup biases, the negative effects of categorization processes are likely to be reflected in firm performance. In a more egalitarian and compressed pay structure, on the contrary, positive aspects of diversity such as elaborating diverse knowledge and perspectives are more likely to manifest through participation and cooperation by forming more relational identity orientations among diverse employees.

Hypothesis 1: When a law firm adopts a more hierarchical reward practice (large vertical pay dispersion within an organization), the effects of race/ethnicity and gender *diversity on firm performance will be negative. However, under a more egalitarian and compressed reward structure with less pay dispersion, the diversity-firm performance relationships will be positive.*

Internal Promotion Policy

In an "up-or-out" career system like law firms, mobility to an upper level career ladder through promotions serves as a key motivation to affect employee attitudes, behaviors, and social relations (Galanter & Palay, 1991; Malos & Campion, 1995; von Nordenflycht, 2010). Upward mobility is one of organizational rewards that encourages and reinforces desirable attitudes and behaviors such as commitment to the organization, organizational citizenship behavior, and improved job performance (Leana & van Buren, 1999; Peterson & Spilerman, 1990). Promotion opportunities available within an organization, often accompanied with significant pay increases, responsibilities, and recognition inside and outside the organization, are also considered as deferred compensation for employees and help retain key talents within an organization (Malos & Campion, 1995; von Nordenflycht, 2010). As part of up-or-out systems, law firms have relied on these internal promotions to recruit new partners, which create greater career opportunities for associates, but in some cases firms also hired lateral partners with relevant expertise and experience from the external labor market (Sherer, 1995).

Internal promotion practice, or a firm's HRM policy to promote partners from existing associate pools rather than hire lateral partners from the external market, creates more career opportunities for internal job candidates, induces less competition, and thus enhances chances of upward mobility of individuals (Malos & Campion, 1995; Super & Hall, 1978). Internal promotions allow a longitudinal career planning, potential job stability, and career flexibility for employees and thus develops organization-based identity and commitment (Super & Hall, 1978). Increased possibility of promotion may also help shape employees' referents, causing them to identify more with organization-based interests and to reduce the tendency of identification with own social groups (Peterson & Spilerman, 1990). For organization's decision makers, it is related to a HRM choice of a 'make-or-buy' decision – that is, whether to make own partners by developing and promoting internal human resources with a long-term focus or to buy relevant skills and experiences from the market (Malos & Campion, 1995). In this study, I propose that an organization's promotion policy – relying more on internal promotions or external hiring – can create unique work context that affect diversity dynamics within an organization. Despite significant impacts on employee attitudes and behaviors, the effects of promotion practice on diversity dynamics have not been examined in past studies. In a nutshell, in this study, I argue that enhanced career opportunities (thus less competition) as well as positive attitudes and behaviors created by internal promotions can affect the salience of information processing and social categorization-based processes and in turn determine performance effects of workforce diversity.

Researchers suggest that when career opportunities are limited within an organization, increased competition for promotion enhances the likelihood of categorization and intergroup biases (Baron et al., 1991; Reskin, 2000). In order to obtain sparse organizational resources, people tend to consider other members as competitors, develop individual-based identity orientations, and reduce intergroup contact and communication (c.f., Brickson, 2000). For instance, when organizations are restructuring (e.g., large scale reduction in forces) which reduces rates of upward mobility (Stewman, 1988), employees experience increased competition, rely more on own background and characteristics in social interactions, and thus develop biases toward in-groups versus out-groups (Dencker, 2008; Reskin & Roos, 1990). On the contrary, when enough opportunities of upward mobility are available within an organization (e.g., through internal promotions), less competition for promotion can reduce intergroup biases and segregation while facilitating intergroup contact and cooperation (Baron et al., 1991; Reskin, 2000). Baron and colleagues (1991) argued that when organizations provide greater opportunities of staffing chances by hiring more employees, it can remedy past segregation in the workforce. When greater career opportunities are visible at an upper job hierarchy, it is less likely that employees consider others as competitors and develop out-group biases against dissimilar others to obtain organizational resources; rather, people tend to experience more integration in the workplace and cooperate with each other (Baron et al., 1991).

Therefore, drawing on these arguments, I propose that when there are greater career and promotion opportunities available within an organization due to an organization's focus on internal promotions, diversity effects on performance outcomes will become positive. Because internal promotions are also one of the rewards that reinforce desired behaviors such as increased job satisfaction, improved commitment, and lower intention to leave an organization (Peterson & Spilerman, 1990), I also argue that these positive attitudes and behaviors may facilitate cooperation and interaction with other organizational members while mitigating negative feelings against out-group members. However, when internal career opportunities are limited, at least partially due to an organization's focus on lateral hiring, people are more likely to consider others as competitors for the position and thus negative consequences such as categorization and intergroup biases would be more prevalent and reflected in overall firm performance outcomes.

Hypothesis 2: When a law firm relies more on internal promotions rather than external hiring when recruiting new partners, the relationships between race/ethnicity and gender *diversity and firm performance will be positive. When a law firm relies more on lateral partner hiring, the diversity-performance relationships will be negative.*

Developmental Opportunities

Developmental opportunities such as apprenticeship-based training and mentoring provide a long-term incentive for associates to remain within an organization while they increase their professional acumen (Gilson & Mnookin, 1989). The guidance, feedback, and knowledge about the firm and partnership through higher levels of mentoring and training from partners provide a vehicle for developing firm-specific human capital such as knowledge of firm practices, relationships with partners and clients, and shared firm reputation (Carr & Mathewson, 1990; Wholey, 1985). Recipients of mentoring and developmental work experiences through apprenticeship practices are more likely to be promoted, owing to the greater opportunity to achieve positive relationship with mentoring partners and other colleagues and the professional skill needed to fulfill a partner role (Malos & Campion, 19995). These accumulated professional acumen as well as enhanced possibility of promotion can reduce the odds that associates will depart prematurely; rather, they lead to a greater likelihood of associates remaining within an organization, working closely with partners and colleagues, and thus developing a bonding mechanism within an organization (Gilson & Mnookin, 1989; Malos & Campion, 1995).

Researchers suggest that mentoring and training practices promote interpersonal cooperation in the workplace by developing relational identity orientations between people (Brickson, 2000). Relational identities emerge within the context of "small, face to face groups that are essentially networks of such dyadic relationships" (Brewer & Gardner, 1996: 83), so organizational practices encouraging interpersonal communication and cooperation such as apprenticeship-based mentoring and training practices may also evoke a relational orientation among people. These relational orientations increase the likelihood of individuals viewing themselves as relational partners, developing dense and integrated networks of relationships, and thus promoting interpersonal communication and cooperation, rather than competition (Batson, 1998; Brickson, 2000). These tendencies also result in reducing categorizations and biases because they will make it less likely that individuals see themselves as members of distinct social groups but lead to deeper cognitive and affective understanding of others (Batson, 1998; Brickson, 2000; Lanzetta & Englis, 1989).

With regard to its effects on in diverse organizational settings, socio-psychological research suggests that mentoring programs and apprenticeship-based training are especially beneficial for non-majority employees in the workplace because they can level the playing field, giving women and minorities the kinds of relationship that white men get through the old-boy network (Kalev, Dobbin, & Kelly, 2006). Using these networks, once available only for majority members, minority employees can also improve own support relationships, information channels, and firm-specific knowledge, which can help their career success (Moore, 2001). These improved networks can reduce "social closure," a key mechanism by which inequality is perpetuated in organizations (Ibarra, 1993; 1995; Kanter, 1977), by allowing access to important organizational resources and support such as positive relations with partners and knowledge about partnerships and practices (Malos & Campion, 1995). Training programs in general also provide opportunities for employees to share their experiences while acquiring various job-related skills and then creating an atmosphere where employees are more likely to process new information (Campbell, Dunnette, Lawler, & Weick, 1970). As a result, there might be a reduction of bias and tensions (Brewer & Brown, 1998) arising from demographic differences and also a change in employee views toward greater acceptance of these differences (Nemetz & Christensen, 1996).

Building on these theoretical perspectives, I propose that more use of mentoring and training programs for associates would positively affect the diversity dynamics within an organization. When associates receive higher levels of mentoring and training support from partners, it can form relational identity orientations, develop dense internal networks, and thus promote interpersonal cooperation rather than competition. In this setting, I expect that the salience of information processing aspects of diversity effects is more likely to be stressed and thus will be more reflected in performance outcomes. Relational identities and enhanced internal networks may constrain the negative effects of social categorization processes by shifting a frame of references and leading deeper understanding of others; thus categorization-based consequences of diversity are not likely to manifest in firm performance under this work context. Therefore, I propose the following hypothesis:

Hypothesis 3: When a law firm provides high levels of mentoring and training for associates, the effects of race/ethnicity and gender diversity on firm performance will be positive. When lower levels of mentoring and training from partners are offered for associates, the diversity-performance relationships will be negative.

CHAPTER 3

RESEARCH SAMPLE AND METHODS

This chapter consists of three subsections: 1) sample and data collection, 2) measures, and 3) analysis techniques. The sample and data collection section describes the organizations (corporate law firms) selected and included in the analysis, archival data sources and surveys used for this study, and the procedures to obtain these datasets and to code additional variables from various sources. Details about the measures used in the study as well as analytical methods adopted to test the hypotheses are provided in the subsequent sections.

Sample and Data Collection

The research sample included in this study involves a set of large U.S.-based corporate law firms that appeared in the *American Lawyer*'s list of the 200 largest law firms based on total revenue (*Am Law 200* list) for the period of 1984-2008. Unlike small law firms or small partnerships that handle the legal problems of individuals and small businesses, corporate law firms typically employ ranging from approximately thirty to more than a thousand lawyers and serve the needs of large corporations, in fields such as banking, tax, and securities law (Gorman & Kmec, 2009). These law firms hire and promote lawyers on a more regular basis and have more standardized structures. In recent decades, corporate law firms have experienced rapid growth and most now have multiple offices located in various cities in the U.S. and abroad (Gorman & Kmec, 2009). Although the research sample used in this study can be biased toward large firms in major metropolitan areas (e.g., top ten big legal markets in the U.S.; c.f., EEOC, 2003), larger firms have a substantial influence on the practice of law in the U.S. (Wholey, 1985) and they hold an increasing share of the industry's market (Curran & Carson, 1991; Sherer & Lee, 2002), factors that support the study's relevance.

The *American Lawyer*, the largest and most well-known law related trade journal in the U.S., selects top 200 corporate law firms every year and publishes detailed information (*Am Law 200*) including financial performance (e.g., revenue, profitability), compensation (average partner compensation), and other key characteristics of these law firms (e.g., headquarter location, headcounts of attorneys). The *American Lawyer* also collects data directly from each law firm and publishes several other databases such as *Diversity Scorecard, National Law Journal (NLJ) 250*, and *NLJ Staffing Survey* which contain demographic compositions of the workforce (gender and race/ethnicity), associates' compensation (first year salary), and staffing information (e.g., numbers of newly promoted partners, numbers of lateral hiring), which are useful and necessary for this dissertation research. The availability of these datasets varies – for example, some date back to as early as 1984 (e.g., *Am Law 200*, *Diversity Scorecard*) but some have relatively recent data since 2000 (e.g., *NLJ Staffing Survey*). All data from the *American Lawyers* rely on the self-reported measures. While recognizing the potential bias in any self-reported data, the *American Lawyers* attempts to minimize any biases by monitoring the reported figures carefully and verifying them with a source (usually a current or recently retired partner) at each firm (Hitt, Bierman, Uhlenbruck, & Shimizu, 2006). These archival data sources from the *American Lawyers* have also been used in other published academic research on different topics (e.g., Hitt et al., 2006; Malos & Campion, 2000; Sherer & Lee, 2002).

In addition to these objective datasets, the *American Lawyers* has conducted the *Midlevel Associates Survey* and investigated perceptions of third- and fourth-year associates regarding their workplace experiences and related matters since 1986. Questionnaires sent to the country's largest law firms ask associates to report on how interesting their work is and on feedback from partners, training and guidance, relations with other associates and partners, intentions to stay, and other related matters. Each survey reports aggregated data for firms from which responses are received from at least half the eligible associates, or from which at least ten responses are received. Response rates of 47-50 percent have been typical. Although these data were not available at an individual level, they appear to have been carefully collected on behalf of a respected professional publication and to assess a large number of relevant items, represent a large sample, and permit examination of reliability over time. The same datasets have been verified and used in other published academic studies as well (Malos & Campion, 2000). Surveys from 2004 through 2008 were chosen for the purpose of the present study because of the lack of data availability as well as some inconsistencies of survey items in earlier surveys.

This study used a combination of multiple archival datasets described above as well as the survey from midlevel associates. Most key variables such as workforce diversity, firm performance, and HRM practice measures were coded from these data sources. To obtain access to the datasets, I submitted a research proposal to the *Law Firm Working Group* (a research organization jointly supported by the American Bar Foundation and the Indiana University's Maurer School of Law) who owns the formal access to the datasets. After thorough review processes, the *Law Firm Working Group* accepted my research proposal and generously granted full access to these datasets. For additional measures such as important control variables like firm age, practice areas, and office locations, I searched other archival data sources that collect relevant data from law firms (e.g., the *Martindale-Hubbell Law Directory*, the *National Association for Law Placement* [NALP]) as well as coded variables directly from the websites of all law firms included in the analysis. Supplemental interview with an industry expert (a minority partner at a large law firm) was also conducted to check the reliability of data and the feasibility of overall idea proposed in this study.

Measures

Workforce diversity. Using data reported in the *Diversity Scorecard*, I assessed the racial and gender heterogeneity of each firm's associate attorney group. In this study, I focus on the diversity of general workforce (associate attorneys) and its effect on firm performance while controlling for the effect of diversity in an upper-level management group (partners). Blau's (1977) index of heterogeneity was used to develop the measure of race/ethnicity and gender diversity among associate attorneys. This procedure is consistent with previous measurements of diversity (e.g., Richard et al., 2004; Richard et al., 2007). The Blau index is calculated as follows:

$$\text{Diversity index} = (1 - \sum P_i^2),$$

where P is the proportion of individuals in a category and i is the number of categories. Because there are five categories of race/ethnicity available in the *Diversity Scorecard*'s datasets (i.e., white, black, Hispanic, Asian, and American Indian), the index can theoretically range from 0 to .80. In the sample, Blau index values for race/ethnicity ranged from 0 to .66. Two categories are available for gender diversity (i.e., male and female) and I observed index values from .04 to .50, reflecting the almost entire feasible range (a theoretical range can be from 0 to .50). While racial diversity data are available from 1984 through 2008, gender composition data have been collected and available only after 2000.

Firm performance. The dependent variable in the model is firm performance. Two different types of firm performance measures were used in the analysis – workforce productivity and firm profitability. Workforce productivity, an intermediate output measure, is an important performance indicator in a law firm (Wilkins, 2004). Productivity was measured as the logarithm of gross revenue per attorneys and this measure reflects employee efforts disassociated from variations in other factors such as products and capital markets (Bartel, 1994; Huselid, 1995; Richard et al., 2007). Firm profitability, operationalized as the logarithm of net income per attorneys, is a bottom-line measure of firm performance and reflects controllable actual profits of each law firm (Sacco & Schmitt, 2005). Law firms also consider profitability of business as an important performance indicator (Hitt et al., 2006; Malos & Campion, 2000). All financial performance data were derived from the *American Lawyers' Am Law 200* lists, available from 1984 through 2008.

"Up-or-out" reward practice: Pay dispersion. More or less use of an "up-or-out" reward practice in a law firm was operationalized as the degree of vertical pay dispersion within an organization. Using the compensation data available at the *Am Law 200* (for partners) and *NLJ 250* (for associates) lists, available since 1984, vertical pay dispersion was measured as the difference between the average compensation of all partners and the starting salary of first-year associates. While individual-level compensation data were not available from the archival datasets (which makes the use of other dispersion measures impossible such as a *gini* coefficient), this measure focusing on pay differentials between different levels in organizations, including those between the lowest and highest levels (c.f., Cowherd & Levine, 1992), may be most appropriate for assessing relative deprivation and competition effects among employees (Gerhart & Rynes, 2003).

Internal promotion policy. An organization's promotion policy to focus on either internal promotions or external hiring, when recruiting new partners, was measured as the proportion of new partners promoted from within among all new partners recruited in a given year. This measure reflects an organization's HRM choice of a 'make-or-buy' decision, or strategic direction of long-term internal development versus relatively short-term external hiring in managing its own human resources (Malos & Campion, 1995). The *NLJ Staffing Survey*, published by the *American Lawyers*, offered all relevant data for this measure, available from 2000 through 2008.

Developmental opportunities. Developmental opportunities available in law firms, or specifically, an apprenticeship-based mentoring and training from partners were measured using the *Midlevel Associates Survey* available since 2004. Among many other survey items that ask perceptions (level of satisfaction) regarding workplace experience of associates, I chose three most relevant items: associate's perceptions about training and guidance, communication with partners, and openness in management group. Responses were provided on anchored Likert-type scales of 1 to 5 and aggregated within-firm prior to publication. An additive index of three items was calculated and thus a higher score on this index indicates higher levels of employee satisfaction on training, feedback, guidance, and open communication with partners, reflecting more and effective use of these practices by a law firm.

Control variables. Several additional variables were included in the analysis to control for their potential effects on firm performance (dependent measure). First, as mentioned earlier, the diversity in a partner group was measured using the Blau index (*partner racial/gender diversity*) and included to check whether it also has direct effect on firm performance. The *leverage ratio* of each firm, calculated as the number of associate lawyers relative to the number of partners, was considered as an important indicator of law firm performance in past research (Sherer, 1995; Wholey, 1985) and thus included as a control in the analysis. The average compensation level of newly hired associates in a given year for each firm (*first-year salary*) can reflect the overall level or quality of human capital in an organization and may have direct effects on firm performance as well (Gerhart & Rynes, 2003). Thus I also included this variable in the model. Key organization-level characteristics such as *firm size* and *firm age* were also included as control measures. Due to the economy of scale and slack resources, firm size has been argued to have a direct effect on firm performance (e.g., Miller, 1991). Age has also been considered as an important predictor for organizational functioning, performance, and even survival because of structural inertia in old firms or liability of newness in younger firms (e.g., Hannan & Freeman, 1984). Firm size was measured as the total number of attorneys employed in each firm; age indicates the years of operation since its establishment.

Prior research suggests that practice areas of each organization and the heterogeneity of practice areas can influence performance of law firms (e.g., Hitt et al., 2006). Drawing on past research on law firm practices (e.g., Heinz & Laumann, 1982; Gorman, 2005), four broad areas of law (with 23 subcategories) were specified: litigation (admiralty, antitrust, bankruptcy, civil rights, consumer, criminal, general business litigation, general personal litigation, and trademark and copyright), business transactions (banking, commercial, general corporate, international, municipal, real estate, securities, and tax), science-based (environmental and patents), and people-oriented (employment, family, immigration, and trusts and estates). Percentages for the practice areas were calculated as the number of lawyers in a practice area divided by the total number of lawyers in each firm (*percent litigation, business transactions, science-based,* and *people-oriented*). Diversity in practice areas was calculated using the Blau's (1977) index (*practice diversity*), indicating high scores as more diversified portfolio of practice areas in a law firm. All data were obtained from the *Martindale-Hubbell* and the NALP directories.

Finally, I also controlled for the potential effects of office locations on law firm performance. Because of different resources available (e.g., access to more and various resources in New York City than in small cities) and business environment (e.g., state laws, local employment situations), location has been considered to have implications on law firm's overall operation and performance and was often included as a control in past studies (e.g., Gorman & Kmec, 2009; Hitt et al., 2006; Sherer, 1995). Three measures were included in this study: office locations in *top ten legal markets* (New York, Washington DC, Chicago, Los Angeles, Boston, San Francisco, Philadelphia, Houston, Dallas, and Atlanta; see EEOC, 2003 for more details about the selection of these cities), the existence of *international offices* (out of the U.S. operations), and major geographic locations (*northeast, south, west, midwest,* and *national*). Data were coded from various sources such as the *Am Law* 200 lists, the NALP directory, and the companies' websites whenever available.

Analysis Techniques

The data were both cross-sectional (across firms) and time series (over years) in nature; thus, a panel data methodology was adopted. The use of panel data has become increasingly popular in studies of firm-level management research and has a number of advantages (Hitt, Gimeno, & Hoskisson, 1998). For example, panel data and methods can control for unobserved heterogeneity and improves statistical estimates by enlarging sample size and capturing both average effects for individual units and dynamic effects for an entire sample (Kmenta, 1996). However, care must be taken when conducting statistical tests on panel data (Dielman, 1983; Neter, Kutner, Wasserman, & Nachtsheim, 1996). The main problems include cross-sectional heteroskedasticity and within-unit serial correlation. When these are present, the ordinary least squares (OLS) assumptions of constant variance and uncorrelated error terms are violated, rendering OLS inappropriate. To correct for heterskedasticity and autocorrelated error terms, I used the generalized least squares (GLS) procedure (Kmenta, 1996; Sayrs, 1989).

Among the conventional panel data analysis methods (fixed- and random-effects models), a random-effects approach was chosen for the analysis. Although normally fixed-effects models are preferred in panel data analysis (Greene, 2003), I was prevented from using a fixed-effects approach because some of independent variables were very stable over time for the sample firms. For this reason, when the fixed-effects approach was used, I lost a large number of observations. This is a common problem when there are relatively few observations per cross-sectional unit (Greene, 2003). When the fixed-effects approach is ruled out, a random-effects approach can be used, wherein the fixed-effects are uncorrelated with the other independent variables. A Hausman test (Hausman & Taylor, 1981) revealed no significant correlations between independent variables and the firm-level fixed effects. In the random-effect specification, the intercept α is assumed to consist of a deterministic component ($\underline{\alpha}$) and a random component u_i, which is assumed to be distributed according to a normal distribution (i.e., $\alpha = \underline{\alpha} + u_i$). Therefore the model is given by:

$$Y_{it} = \underline{\alpha} + \beta X_{it} + u_i + \varepsilon_{it..}$$

To test the main effect of race/ethnicity diversity on firm performance, I used data ranging from 1984 through 2008, spanning 25 years; the effect of gender diversity was examined using data from 2000 (9 years) because gender composition data were only available since then. For moderator analyses (testing Hypotheses 1-3), data years were relatively limited and covered 2004-2008 (in full models) due to the lack of data in some HRM practice variables (e.g., developmental opportunities measures from the *Midlevel Associates Survey*) but these data still capture the most recent 5 years of diversity dynamics in large corporate law firms in the U.S.

CHAPTER 4

RESEARCH FINDINGS

This section presents the results from the empirical analyses conducted in this study. First, descriptive statistics and correlations among the measures are reported. Second, direct relationships between racial and gender diversity and firm performance are examined and reported. As an additional analysis, the possibility of the curvilinear relationship is also examined and results are discussed. Then, the results from the moderator analyses (Hypotheses 1-3) are presented and discussed along with a series of data tables and figures.

Descriptive Statistics and Correlations

Table 2 provides the summary statistics and correlations of all the variables. Note that although the means and standard deviations reported in Table 2 are for unstandardized measures, standardized values of all key independent and moderator variables were used for the hypothesis tests. Standardization both reduces multicollinearity and facilitates the interpretation of interaction terms (Aiken & West, 1991). Several important trends among the key variables were observed in Table 2. While the average racial diversity index for associate attorneys is .25, the average score for partners is only .08, indicating much less representation of racial minorities at an organization's upper echelon and the existence of glass ceiling in law firms (Gorman & Kmec, 2009). This phenomenon is also true for gender diversity although females are relatively more equally represented in law firms. For example, among associate attorneys, the average gender diversity index is .48 (a possible maximum value of .50), indicating almost equal distribution between female and male attorneys, and the gender diversity score for partners is .28 across all sample firms. Table 2 also reports that while racial diversity is positively associated with both firm performance measures (*r*s = .61 and .43 for productivity and profitability, respectively), the correlations of gender diversity with firm performance are minimal (*r*s = -.07 and -.06 for productivity and profitability, respectively). Among three HRM moderators in the analysis, pay dispersion appears to be highly correlated with performance outcomes (*r*s = .83 for both productivity and profitability). While an internal promotion policy has moderate positive correlations with performance measures (*r*s = .17 and .21 for productivity and profitability, respectively), developmental opportunities variable is negatively, but not as strongly as other moderators, associated with firm performance (*r*s = -.19 and -.13 for productivity and profitability, respectively). No significant correlations among key independent and moderator variables were observed in the analysis. Among control variables, the average compensation level of first-year associates is highly associated with performance outcomes (*r*s = .84 and .66 for productivity and profitability, respectively).

Table 2. Descriptive Statistics and Correlations.[a]

Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11
1. Racial diversity	.25	.12											
2. Gender diversity	.48	.04	-.07										
3. Productivity[b]	13.14	.39	.61	-.07									
4. Profitability[b]	12.10	.49	.43	*-.06*	.89								
5. Pay dispersion	573,746.72	476,852.03	.28	*-.07*	.83	.83							
6. Percent internal promotions	56.04	23.60	*.02*	-.11	.17	.21	.26						
7. Developmental opportunities	10.03	1.35	.11	*-.05*	-.19	-.13	-.30	-.08					
8. Partner racial diversity	.08	.05	.62	-.10	.41	.25	.16	*-.03*	*.05*				
9. Partner gender diversity	.28	.05	.21	.10	-.18	-.23	-.30	-.10	.21	.13			
10. Firm size	487.58	367.92	.13	-.08	.29	.21	.27	*-.01*	-.09	.18	-.10		
11. Firm age	88.42	39.87	*.02*	*.04*	.09	.04	.09	*.00*	-.18	-.07	-.09	.08	
12. Leverage ratio	1.54	.83	*-.03*	*-.02*	.28	.29	.68	.20	-.37	*.00*	-.33	.28	.12
13. First-year salary	106,134.11	29,987.96	.66	-.11	.84	.66	.50	.06	*-.03*	.48	*-.04*	.32	.08
14. Percent litigation	.47	.15	-.12	*.07*	-.19	-.17	-.17	*-.03*	*.02*	-.10	*-.01*	.07	.09
15. Percent business transactions	.27	.10	.04	*-.03*	.18	.20	.28	*.00*	*-.07*	*-.02*	-.14	*-.01*	*.00*
16. Percent science-based	.14	.10	.12	-.09	.15	.10	*.01*	.07	*.01*	.13	.08	-.07	-.06
17. Percent people-oriented	.12	.09	*.03*	*.02*	-.07	-.05	*-.05*	*-.03*	*.06*	.06	.09	*-.03*	-.08
18. Practice diversity	.55	.113	.05	*.06*	*.04*	*.03*	*-.01*	-.09	.13	*.03*	*.01*	*.01*	*-.00*
19. Top ten legal markets[c]	.73	.44	*.01*	*.00*	.24	.22	.34	*-.02*	-.13	*.01*	*-.06*	.04	-.05
20. International offices[c]	.65	.48	-.05	*.05*	.05	.04	.25	*-.03*	-.15	*.02*	-.15	.38	.17
21. Northeast[c]	.27	.44	-.06	*-.01*	.18	.18	.26	*.02*	-.19	-.15	-.25	-.20	.12
22. South[c]	.10	.31	*.03*	*-.02*	-.05	*-.02*	-.14	*.01*	.12	.09	*.03*	-.06	*-.03*
23. West[c]	.12	.33	.19	*-.04*	.07	.04	*.01*	*.00*	.15	.22	*.06*	-.05	-.06
24. Midwest[c]	.09	.29	-.09	*.02*	-.22	-.17	-.24	.11	.16	-.14	.11	-.16	*-.02*
25. National[c]	.41	.49	*-.03*	*.04*	*-.04*	-.09	*-.01*	-.09	-.08	*.02*	.09	.34	*-.04*

[a] Correlations not in italics are significant at .05 (two-tailed tests). Sample sizes vary across pairs of variables from n = 406 to 2,286.

[b] Natural logarithm.

[c] Dummy variable.

Table 2 (Cont.) [a]

Variable	12	13	14	15	16	17	18	19	20	21	22	23	24
1. Racial diversity													
2. Gender diversity													
3. Productivity[b]													
4. Profitability[b]													
5. Pay dispersion													
6. Percent internal promotions													
7. Developmental opportunities													
8. Partner racial diversity													
9. Partner gender diversity													
10. Firm size													
11. Firm age													
12. Leverage ratio													
13. First-year salary	.11												
14. Percent litigation	-.10	-.10											
15. Percent business transactions	.16	.06	-.60										
16. Percent science-based	*.02*	.15	-.52	-.09									
17. Percent people-oriented	-.05	-.07	-.43	-.04	-.18								
18. Practice diversity	*-.02*	.04	-.65	.53	.22	.23							
19. Top ten legal markets[c]	.36	.18	-.15	.11	.19	-.10	.10						
20. International offices[c]	.36	-.05	.09	*-.01*	*.01*	-.15	*.02*	.20					
21. Northeast[c]	.30	.08	-.09	.17	*-.01*	*-.02*	*-.04*	.18	-.13				
22. South[c]	-.18	*-.02*	.16	-.07	-.08	-.10	-.06	*-.01*	*-.03*	-.21			
23. West[c]	*.01*	.05	-.19	.07	.13	.08	.11	-.07	*-.01*	-.23	-.13		
24. Midwest[c]	-.29	-.14	.15	-.11	-.14	*.04*	-.05	-.42	-.26	-.19	-.11	-.12	
25. National[c]	*.01*	*-.02*	*.02*	-.09	.05	*.01*	*.03*	.14	.29	-.51	-.29	-.31	-.27

[a] Correlations not in italics are significant at .05 (two-tailed tests). Sample sizes vary across pairs of variables from n = 406 to 2,286.

[b] Natural logarithm.

[c] Dummy variable.

Table 3. Race/ethnicity and Gender Diversity Effects on Firm Performance.[a]

	Workforce productivity					
Variables	**Model 1: Controls only**		**Model 2: Race/ethnicity**		**Model 3: Gender**	
Intercept	3.97	(18.05)	15.86	(12.52)	5.54	(18.36)
Controls						
Partner racial diversity	.67**	(.15)	.54**	(.09)		
Partner gender diversity	.24*	(.11)			.36**	(.11)
Firm size	.00**	(.00)	.00**	(.00)	.00**	(.00)
Firm age	.00**	(.00)	.00**	(.00)	.00**	(.00)
Leverage ratio	-.07**	(.01)	-.03**	(.01)	-.07**	(.01)
First-year salary	.00**	(.00)	.00**	(.00)	.00**	(.00)
Percent litigation	8.29	(18.05)	-3.96	(12.52)	6.76	(18.36)
Percent business transaction	9.27	(18.06)	-3.18	(12.52)	7.73	(18.37)
Percent science-based	8.66	(18.05)	-3.65	(12.52)	7.15	(18.36)
Percent people-oriented	8.54	(18.05)	-3.71	(12.53)	7.04	(18.36)
Practice diversity	-.58**	(.17)	-.51**	(.15)	-.60**	(.17)
Top ten legal markets	.16**	(.04)	.11**	(.03)	.15**	(.04)
International offices	.07*	(.04)	.02	(.03)	.09*	(.04)
Northeast	.17**	(.06	.11*	(.05)	.18**	(.06)
South[b]					.01	(.06)
West	.12[†]	(.06)	.04	(.05)	.15*	(.06)
Midwest[b]	.01	(.06)	.02	(.06)		
National	.06	(.05)	.02	(.04)	.06	(.06)
Main effects						
Racial diversity			.52**	(.05)		
Gender diversity					-.13	(.10)
Wald χ^2	1,028.60**		12,042.86**		979.84**	
Overall R^2	.51		.72		.48	
Number of observations	813		1,995		821	
Number of groups	204		224		206	

[a] Standard regression coefficients are shown, with standard errors in parentheses. Year fixed effects are included in the models.

[b] Variables dropped in some models due to collinearity.

[†] $p < .10$, * $p < .05$, ** $p < .01$

Table 3 (Cont.)[a]

	Firm profitability					
Variables	**Model 4: Controls only**		**Model 5: Race/ethnicity**		**Model 6: Gender**	
Intercept	-32.33	(32.97)	1.46	(22.46)	-29.13	(33.10)
Controls						
Partner racial diversity	.43	(.26)	.57**	(.16)		
Partner gender diversity	.01	(.18)			.10	(.18)
Firm size	.00**	(.00)	.00**	(.00)	.00**	(.00)
Firm age	.00	(.00)	.00**	(.00)	.00	(.00)
Leverage ratio	-.09**	(.03)	-.03*	(.01)	-.10**	(.03)
First-year salary	.00**	(.00)	.00**	(.00)	.00**	(.00)
Percent litigation	43.71	(32.97)	9.43	(22.46)	40.57	(33.10)
Percent business transaction	45.14	(32.98)	10.58	(22.45)	41.97	(33.11)
Percent science-based	44.18	(32.97)	9.73	(22.45)	41.03	(33.10)
Percent people-oriented	44.18	(32.96)	9.80	(22.46)	41.04	(33.09)
Practice diversity	-.73*	(.31)	-.60*	(.26)	-.75*	(.31)
Top ten legal markets	.16**	(.04)	.12*	(.06)	.22**	(.07)
International offices	.22**	(.07)	.05	(.05)	.11†	(.06)
Northeast	.19†	(.10)	.06	(.09)	.19†	(.10)
South[b]			-.02	(.10)	-.02	(.12)
West	.13	(.12)	-.02	(.09)	.16	(.11)
Midwest[b]	.01	(.12)				
National	-.04	(.10)	-.08	(.09)	-.05	(.10)
Main effects						
Racial diversity			.50**	(.08)		
Gender diversity					-.09	(.16)
Wald χ^2	251.73**		3,801.80**		249.15**	
Overall R^2	.23		.44		.22	
Number of observations	813		1,995		821	
Number of groups	204		224		206	

[a] Standard regression coefficients are shown, with standard errors in parentheses. Year fixed effects are included in the models.

[b] Variables dropped in some models due to collinearity.

† $p < .10$, * $p < .05$, ** $p < .01$

Table 3 presents the results of the random-effects GLS regression analyses for the main effects of race/ethnicity and gender diversity on firm performance. Models 1 and 4 are baseline models consisting only of control variables. While partner racial and gender diversity have positive effects on productivity (b = .67, p < .01 for race/ethnicity and b = .24, p < .05 for gender diversity), no direct effects were found for a relatively more distal performance measure, firm profitability. Firm size and first-year salary of associates positively predict firm performance; the leverage ratio has strong negative effects on performance outcomes (all three coefficients are significant at the 99% confidence level). While firm age has strong positive effect on productivity (also significant at the 99% level), it has no direct influence on firm profitability outcome. Although practice areas do not have direct effects on firm performance, the heterogeneity in practice areas does – that is, it negatively predicts both firm performance measures (b = -.58, p < .01 for productivity and b = -.73, p < .05 for profitability). Finally, location also matters for firm performance. Results indicate that when law firms have offices in top ten big legal markets or international locations, or have more offices in the northeast region, performance of these firms tends to be better.

Models 2-3 and 5-6 in Table 3 add the main effects of race/ethnicity and gender diversity. Results from models 2 and 5 indicate that race/ethnicity diversity has strong positive effects on both firm performance measures (*b*s = .52 and .50, *p*s < .01, for productivity and profitability, respectively). These findings provide support for the assertion of the information processing/decision-making theory, rather than the social-categorization theory, indicating that the salience of the information processing aspect of diversity effects (positive consequences such as diverse cognitive resources and creativity in work units) is greater and thus manifest more in a law firm context. However, in models 3 and 6 of Table 3, the coefficients of gender diversity effects are not significant (*b*s = -.13 and -.09, n.s., for productivity and profitability, respectively), indicating no direct effects of gender diversity on firm performance outcomes.

Table 4. Curvilinear Effects of Race/ethnicity Diversity.[a]

Variables	Model 7: Productivity		Model 8: Profitability	
Intercept	17.74	(12.21)	3.31	(22.33)
Controls				
Partner racial diversity	.57**	(.09)	.60**	(.15)
Firm size	.00**	(.00)	.00*	(.00)
Firm age	.00**	(.00)	.00*	(.00)
Leverage ratio	-.03**	(.01)	-.03*	(.01)
First-year salary	.00**	(.00)	.00**	(.00)
Percent litigation	-5.79	(12.21)	7.62	(22.33)
Percent business transaction	-5.02	(12.21)	8.76	(22.33)
Percent science-based	-5.48	(12.21)	7.93	(22.33)
Percent people-oriented	-5.58	(12.21)	7.96	(22.33)
Practice diversity	-.50**	(.14)	-.58*	(.26)
Top ten legal markets	.11**	(.03)	.12*	(.06)
International offices	.03	(.03)	.06	(.05)
Northeast	.11*	(.05)	.07	(.09)
South[b]			-.02	(.10)
West	.05	(.05)	-.01	(.09)
Midwest[b]	.02	(.05)		
National	.03	(.04)	-.07	(.08)
Main effects				
Racial diversity	.58**	(.05)	.56**	(.08)
Racial diversity squared	-.02**	(.00)	-.02**	(.00)
Wald χ^2	12,704.24**		3,890.00**	
Overall R^2	.73		.44	
Number of observations	1,995		1,995	
Number of groups	224		224	

[a] Standard regression coefficients are shown, with standard errors in parentheses. Year fixed effects are are included in the models.

[b] Variables dropped in some models due to collinearity.

* $p < .05$, ** $p < .01$

To check the possibility of the curvilinear relationship between diversity and firm performance, I also added a quadratic term of racial diversity in the model and examined the pattern. Gender diversity was not included for this set of analyses because of non-significant main effects reported in previous analyses (see models 3 and 6 in Table 3). Table 4 provides the results. The coefficients for both racial diversity (*b*s = .58 and .56, *p*s < .01, for productivity and profitability, respectively) and racial diversity squared (*b*s = -.02, *p*s < .01, for both productivity and profitability) are significant, indicating the possibility of an inverted U-shape pattern between racial diversity and firm performance. To further examine the actual shape and the practicality of the curve considering the range restriction in race/ethnicity diversity of associate attorneys (a theoretical range of 0-.80), the maximum value or turning point on the curve was calculated by taking the derivative of the quadratic expression (Alexander, Bloom, & Nuchols, 1994).[5] Results indicate that the highest level of performance can be achieved at the diversity index of 14.5 and then performance decreases after that level. This hypothetical value of 14.5 is unrealistic because it far exceeds both the theoretical (0 to .88) and actual ranges (0 to .66) of the racial diversity index. Thus, all sample firms in the data fit by the positive and linear slope of the model prior to the turning point. For reasons of parsimony as well as the practicality of the findings, then, the linear model was deemed adequate for explaining the relationship between diversity and firm performance and thus used for subsequent moderator analyses.

[5] The turning point on a curve is calculated as $ax^2 + bx + c = 0$, where a is the coefficient of the quadratic term, b is the coefficient of the linear term, and c is the intercept. Solving for x, the racial diversity index at which the curve shifts direction:

$$2ax + b = 0$$
$$x = -b / 2a$$

Turning or max point for the data: $-.58 / 2(-.02) = 14.5$

Table 5. Moderating Effects of HRM Practices on the Diversity-Performance Link.[a]

Variables	Race/ethnicity diversity			
	Model 9: Productivity		Model 10: Profitability	
Intercept	18.16*	(9.04)	1.72	(17.75)
Controls				
Partner racial diversity	.40**	(.10)	.06	(.19)
Firm size	.00	(.00)	-.00	(.00)
Firm age	.00	(.00)	-.00	(.00)
Leverage ratio	-.04**	(.01)	-.08**	(.02)
First-year salary	.00**	(.00)	.00	(.00)
Percent litigation	-5.61	(9.04)	10.04	(17.75)
Percent business transaction	-5.43	(9.05)	9.66	(17.77)
Percent science-based	-5.40	(9.04)	10.04	(17.75)
Percent people-oriented	-5.64	(9.04)	9.79	(17.76)
Practice diversity	-.04	(.11)	.47*	(.22)
Top ten legal markets	.07**	(.02)	.06	(.04)
International offices	.02	(.02)	-.02	(.04)
Northeast	.04	(.03)	-.04	(.06)
South[b]				
West	.06†	(.04)	-.01	(.07)
Midwest	-.00	(.04)	.02	(.08)
National	.07*	(.03)	.01	(.06)
Main effects				
Racial diversity	17**	(.05)	.05	(.10)
Moderators				
Pay dispersion	.00**	(.00)	.00**	(.00)
Percent internal promotions	.00	(.00)	-.00	(.00)
Developmental opportunities	.00	(.00)	.00	(.01)
Interactions				
Racial diversity × pay dispersion	-.02**	(.00)	-.03**	(.01)
Racial diversity × percent internal promotions	.01†	(.00)	.02**	(.01)
Racial diversity × developmental opportunities	-.00	(.00)	.00	(.01)
Wald χ^2	2,588.51**		1,242.74**	
Overall R^2	.88		.79	
Number of observations	599		599	
Number of groups	162		162	

[a] Full models are reported in the table. Step-by-step interaction for each moderator was also examined in the analyses and rendered the same pattern of findings. Detailed results are available upon request. Standard regression coefficients are shown, with standard errors in parentheses. Year fixed effects are included in the models.

[b] Variable was dropped due to collinearity.

† $p < .10$, * $p < .05$, ** $p < .01$

Table 5 (Cont.)[a]

	Gender diversity			
Variables	**Model 11: Productivity**		**Model 12: Profitability**	
Intercept	16.81†	(9.29)	-4.07	(18.37)
Controls				
Partner gender diversity	.23†	(.12)	-.25	(.22)
Firm size	-.00	(.00)	-.00	(.00)
Firm age	.00	(.00)	-.00	(.00)
Leverage ratio	-.06**	(.01)	-.11**	(.03)
First-year salary	.00**	(.00)	.00	(.00)
Percent litigation	-4.36	(9.29)	15.82	(18.37)
Percent business transaction	-4.20	(9.30)	15.40	(18.40)
Percent science-based	-4.12	(9.29)	15.84	(18.37)
Percent people-oriented	-4.43	(9.29)	15.52	(18.38)
Practice diversity	-.05	(.12)	.42†	(.24)
Top ten legal markets	.05*	(.02)	.06	(.04)
International offices	.03	(.02)	-.03	(.04)
Northeast	.07*	(.04)	-.04	(.07)
South	.05	(.04)	-.01	(.08)
West	.10**	(.04)	.00	(.07)
Midwest[b]				
National	.10**	(.04)	.01	(.07)
Main effects				
Gender diversity	.18	(.12)	.28	(.22)
Moderators				
Pay dispersion	.00**	(.00)	.00**	(.00)
Percent internal promotions	-.00	(.00)	-.00	(.00)
Developmental opportunities	-.00	(.00)	.01	(.01)
Interactions				
Gender diversity × pay dispersion	.01*	(.00)	.01	(.01)
Gender diversity × percent internal promotions	.01*	(.00)	-.00	(.01)
Gender diversity × developmental opportunities	.00	(.00)	.00	(.01)
Wald χ^2	1,641.40**		717.68**	
Overall R^2	.88		.78	
Number of observations	363		363	
Number of groups	157		157	

[a] Full models are reported in the table. Step-by-step interaction for each moderator was also examined in the analyses and rendered the same pattern of findings. Detailed results are available upon request. Standard regression coefficients are shown, with standard errors in parentheses. Year fixed effects are included in the models.

[b] Variable was dropped due to collinearity.

† $p < .10$, * $p < .05$, ** $p < .01$

Table 5 presents the random-effects GLS regression results of the moderating effects of HRM practice variables. Hypothesis 1 predicts that vertical pay dispersion with an organization will negatively moderate the relationship between diversity and firm performance. Models 9 and 10 test this hypothesis for racial diversity and provide strong support. The coefficients for the interactions between racial diversity and pay dispersion are negative and significant for both productivity (b = -.02, $p < .01$) and profitability (b = -.03, $p < .01$). These are based on a conservative two-tailed analysis. Figures 2 and 3 illustrate this pattern of findings using the graphing method outlined by Aiken and West (1991). Reflecting the interactive pattern found in the analyses, both figures show that under a relatively egalitarian reward structure with low level of vertical pay dispersion (one standard deviation below the mean; a dashed line), the racial diversity-performance link turns out to be positive; in a hierarchical reward structure (one standard deviation above the mean; a solid line), the relationship becomes weak (actually negative).

With regard to gender diversity, however, I found that pay dispersion *positively* moderated the diversity-performance relationship. This contradicts the prediction proposed in Hypothesis 1. Models 11 and 12 display these results for gender diversity. The coefficients for the interactions between gender diversity and pay dispersion are positive and significant for productivity (b = .01, $p < .01$) and non-significant for profitability (b = .01, n.s.). This interactive effect is illustrated in Figure 4, which shows that the gender diversity-productivity relationship is *positive* under a more hierarchical pay practice (a more “up-or-out” pay scheme; a solid line) while the link becomes non-significant with lower levels of pay dispersion within a law firm (a dashed line).

Figure 2. Interactive Effects of Pay Dispersion and Race/ethnicity Diversity on Workforce Productivity.

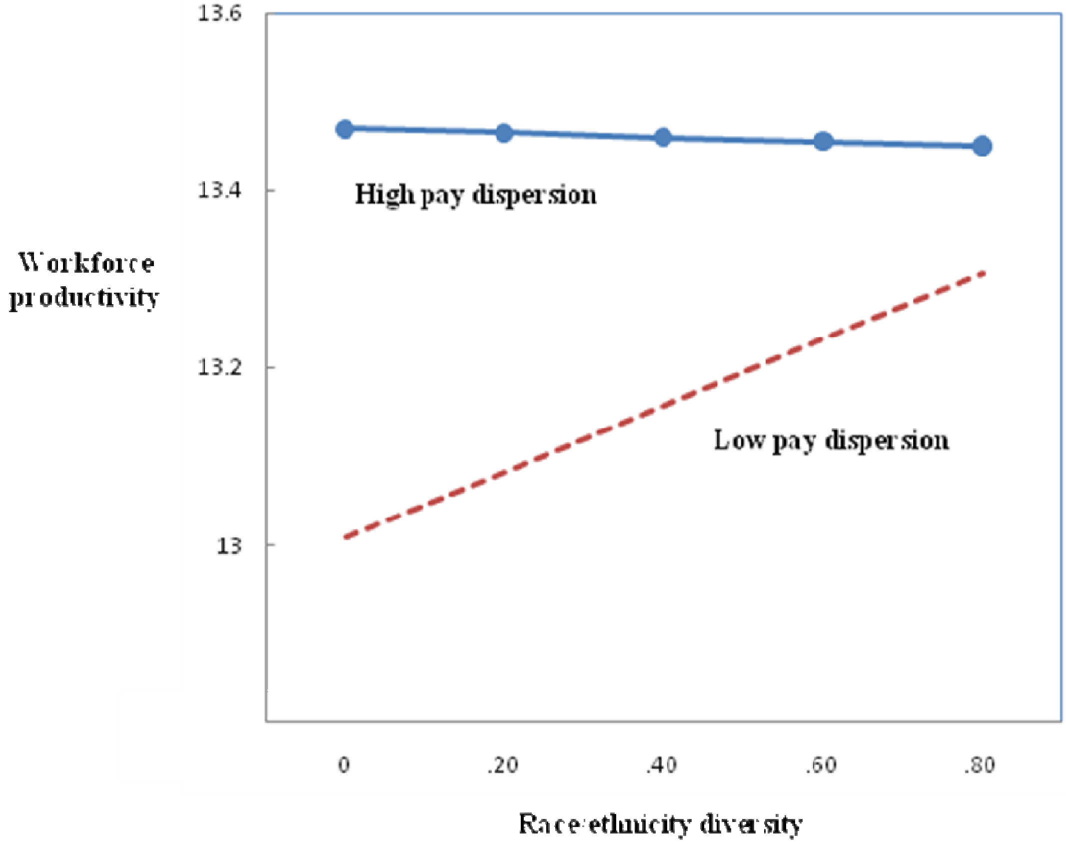


Figure 3. Interactive Effects of Pay Dispersion and Race/ethnicity Diversity on Firm Profitability.

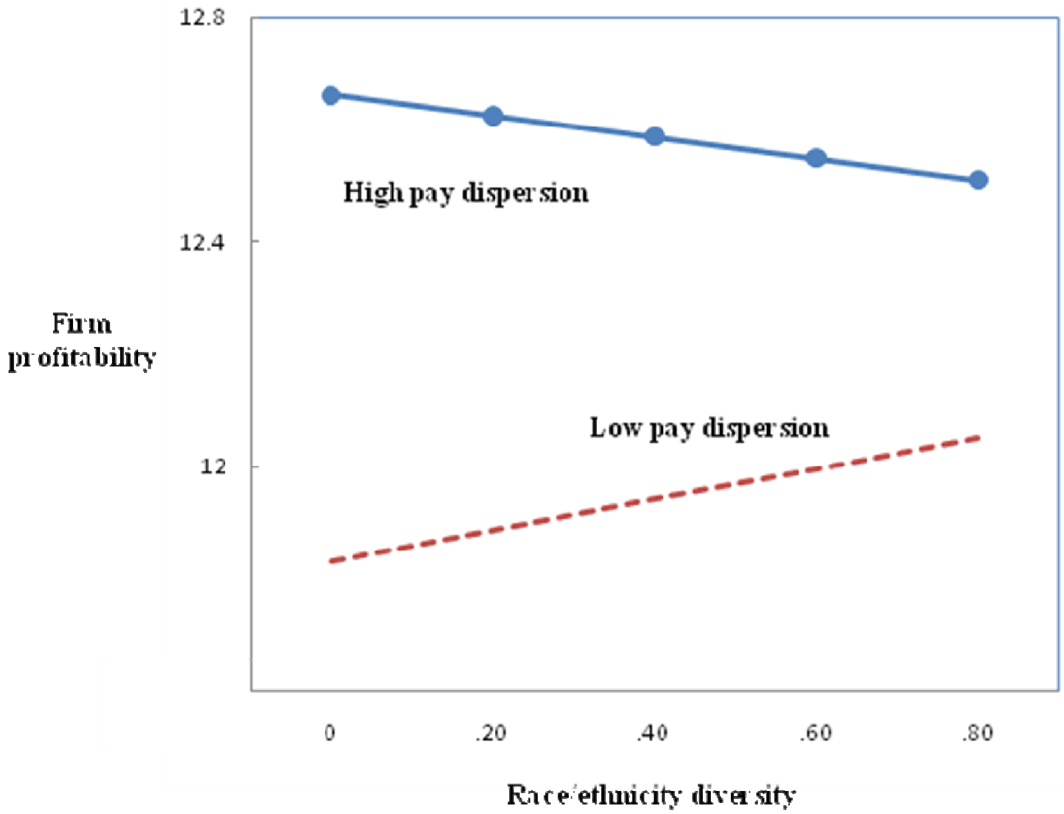
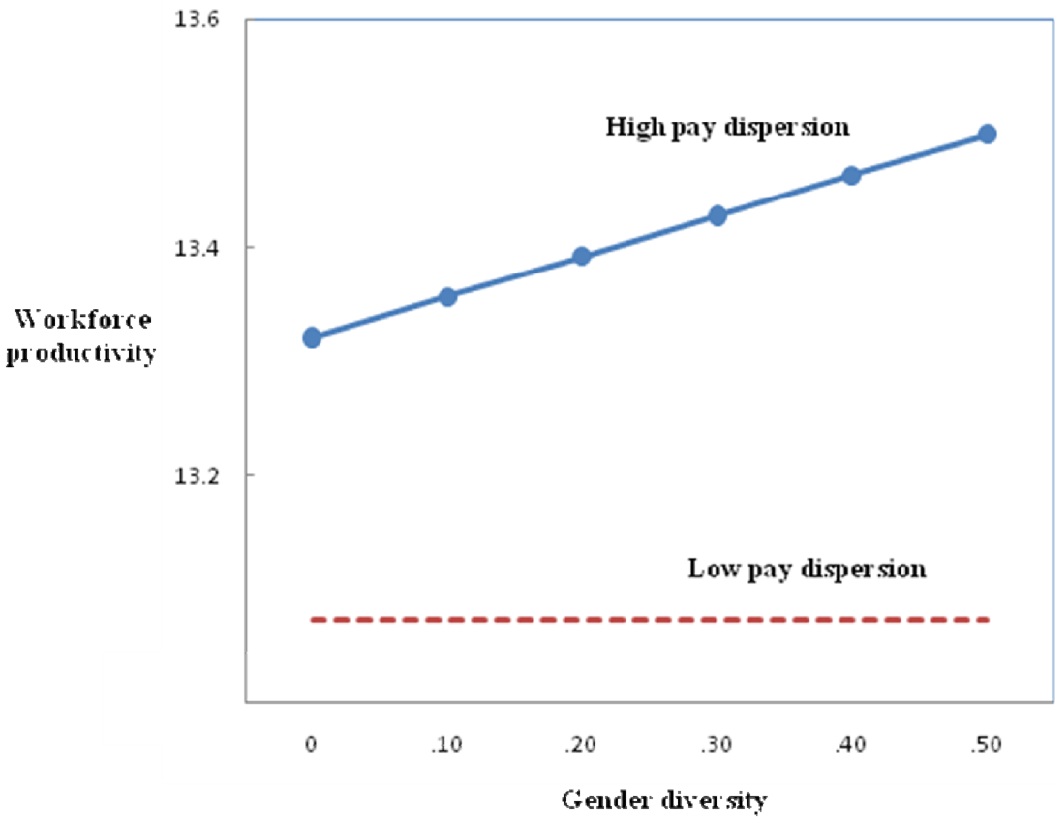


Figure 4. Interactive Effects of Pay Dispersion and Gender Diversity on Workforce Productivity.



Hypothesis 2 predicts a positive interaction effect between diversity and an organization's internal promotion policy on firm performance. Models 9 and 10 in Table 5 report the results of this hypothesis test for racial diversity. Supporting the hypothesis proposed, the coefficients for the interaction terms are positive and significant for both performance measures ($b = .01$, $p < .10$ for productivity and $b = .02$, $p < .01$ for profitability) based on a conservative two-tailed hypothesis testing. Models 11 and 12 test the same hypothesis for gender diversity, indicating that the interaction between gender diversity and internal promotion policy is also positive and significant for productivity ($b = .01$, $p < .01$) but not significant for profitability ($b = -.00$, n.s.). Figures 5 and 6 graphically depict the interaction patterns found from the analyses. Consistent with Hypotheses 2, both figures show that when a law firm relies more on internal promotions (one standard deviation above the mean in terms of the percent of internal promotions among all newly recruited partners in a given year; a solid line), the diversity-performance relationship is positive and strong; in contrast, when a firm relies less on internal promotions (one standard deviation below the mean in terms of the percent internal promotions; a dashed line), the relationship becomes negative.

Figure 5. Interactive Effects of Internal Promotions and Race/ethnicity Diversity on Firm Profitability.

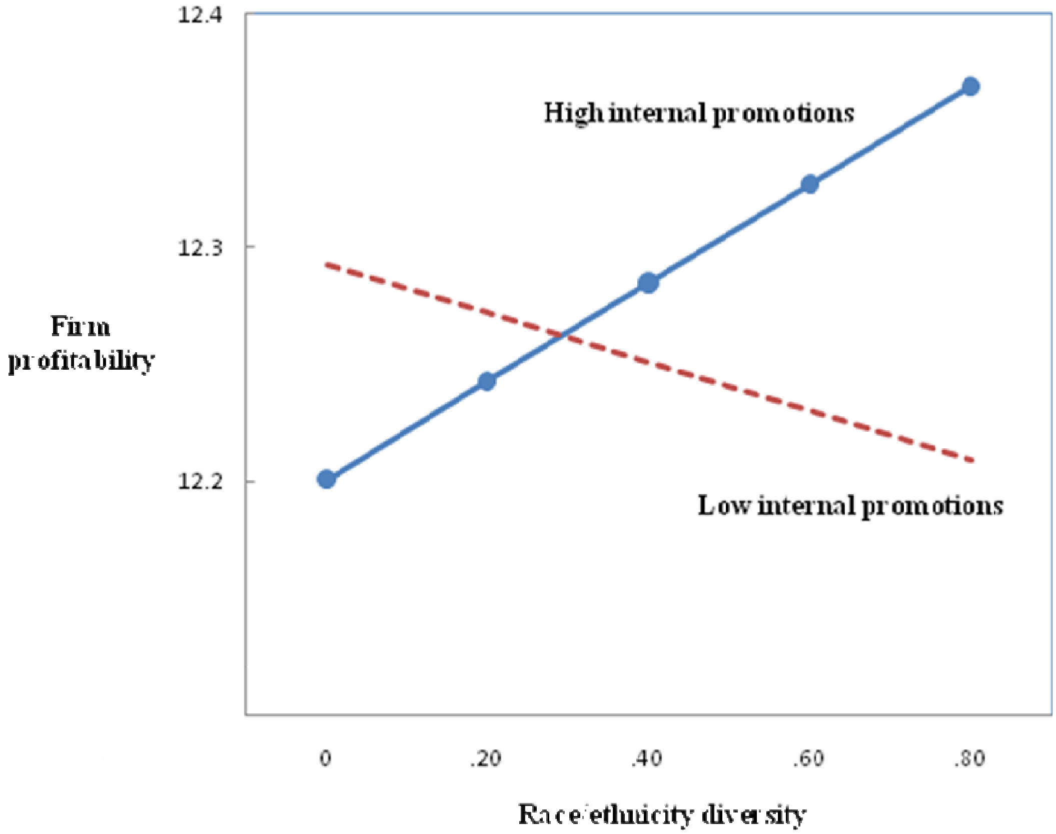
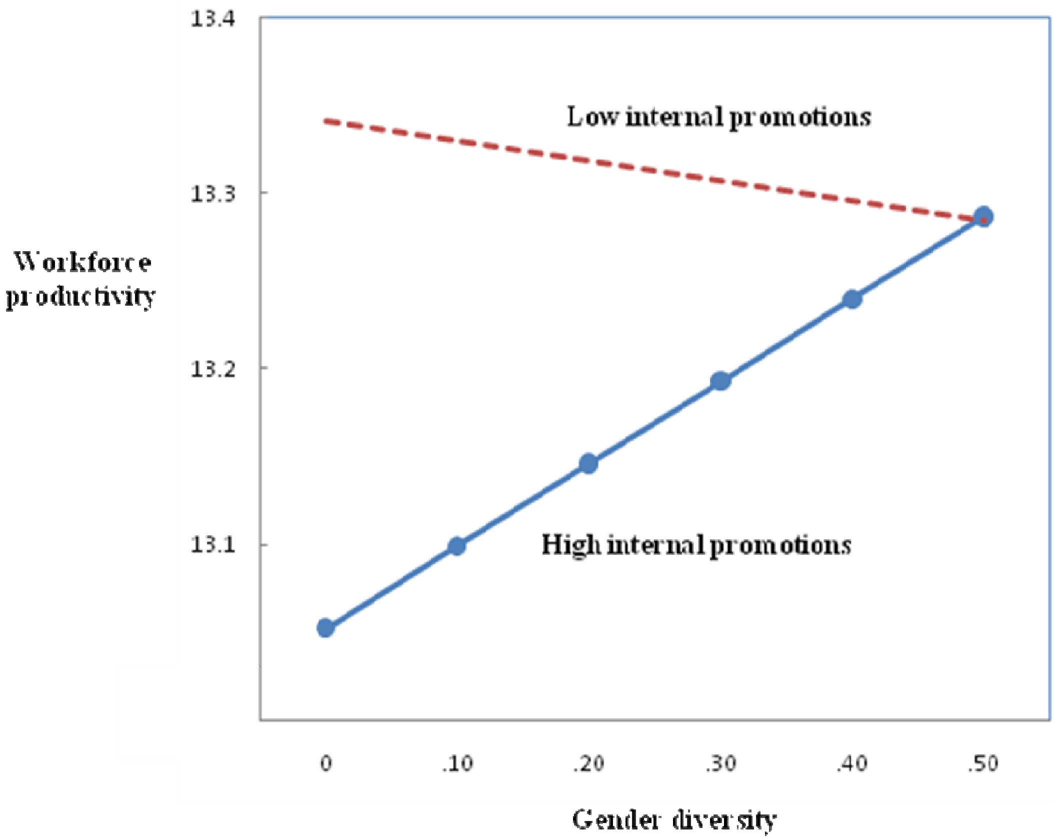


Figure 6. Interactive Effects of Internal Promotions and Gender Diversity on Workforce Productivity.



Finally, I also examined the interaction effects of diversity and developmental opportunities for associate attorneys on firm performance. Hypothesis 3 predicts that developmental opportunities for associates will positively moderate the diversity-firm performance relationship. Models 9 through 12 in Table 5 display the results. Unlike the predictions, the interaction coefficients for both race/ethnicity and gender diversity are not significant across all models. Therefore, Hypothesis 3 is not supported in the analyses.

CHAPTER 5

DISCUSSION AND CONCLUSION

The purpose of this final chapter is to highlight and discuss major findings from the analyses, implications of the findings, and the future questions that this study has prompted. First will be an overview of major findings, followed by discussion of detailed results from the analyses and both theoretical and empirical implications of these findings. The managerial implications follow, along with a discussion of limitations and future research directions.

Overview of Findings

Past research on the effects of diversity in the workplace was contradictory and empirical evidence has been inconclusive. The purpose of this study was to help reconcile the conflicting theoretical perspectives as well as mixed findings of prior research on the association between workforce diversity and firm performance by incorporating an important organization level moderating condition – the use of HRM practices. This study examined *when (under which conditions)* and *how* the salience of positive or negative diversity effects may be affected (be either enhanced or limited) and in turn manifest in overall performance outcomes when an organization chooses to implement certain HRM practices. I argued that depending on the characteristics and impacts of HRM practices, diverse employees may cooperate with or compete against each other and these social processes would be reflected in organization's performance outcomes. Findings revealed that the effects of both race/ethnicity and gender diversity on firm performance were significantly influenced by the use of certain types of HRM practices. While the direct effect of race/ethnicity diversity was positive for both performance measures, I found that the relationship became non-significant or even negative when an organization adopted a more hierarchical pay structure (high level of vertical pay dispersion). This relationship was positive and stronger under a more egalitarian and compressed reward practice (low level of vertical pay dispersion). However, contrary to the prediction, the effect of gender diversity on performance was positive under a more hierarchical pay scheme while the link became non-significant under a compressed reward structure. Results also indicated that an internal promotion policy significantly moderated the diversity effects within an organization. Supporting the hypothesis proposed in this study, both for race/ethnicity and gender diversity, the diversity-performance relationship became positive when a law firm relied more on internal promotions; however, this relationship was negative when organizations recruited more external hires rather than internally developed partners. Unlike the prediction, developmental opportunities (mentoring and training opportunities for associates) did not work as a moderator in the relationship between diversity and firm performance. Below I discuss the theoretical, empirical, and practical implications of the findings.

Direct Effects of Workforce Diversity on Firm Performance

As discussed earlier, previous theoretical perspectives offered conflicting views regarding the effects of diversity within an organization, leading researchers to dub diversity as "a double-edged sword" (Milliken & Martin, 1996: 403). Evidence from this study, conducted in a context of U.S. law firms, suggests that while race/ethnicity diversity among attorneys positively and significantly predicts firm performance outcomes, gender diversity does not. These findings draw attention to the importance of the industrial context as well as the diversity type in explicating the diversity effects in the workplace and I call for a more detailed and comprehensive acknowledgement of these factors in future research. The industrial context of this study is law firms, a service-oriented industry. Researchers, mainly from a strategic management domain, have identified industry context as a key contingency that influences the relationship between organizational processes/practices and performance outcomes (see Combs, Lieu, Hall, and Ketchen, 2006 for a meta-analysis). Service industries, defined as customer-oriented industries that require front-line customer interaction and engagement, include retail trade, hospitality, education, and professional service such as law firms (U.S. Census Bureau, 2002). Relative to other industries, service industries are characterized by more frequent and closer interactions with customers and a greater emphasis on discretionary behavior that can manifest directly in performance outcomes such as sales, customer satisfaction, and customer retention (Datta, Guthrie, & Wright, 2005). Researchers have argued that increasing demographic attribute-based diversity can enhance a firm's "market competence," which is a form of competitive advantage in the service industry, by attracting diverse customers and thus being more likely to have better sales (Richard et al., 2007; Sacco & Schmitt, 2005). In law firms, also in other professional service firms in general, firms with diverse employees are more likely to gain competitive advantage in the market as client firms are increasingly more diverse and also because of the fact that business nature of law firms relies heavily on close contact and interactions with clients (c.f., EEOC, 2003; *Minority Law Journal*, 2008). Thus, these aspects of service settings can serve as situational enhancers of diversity effects on performance (c.f., Joshi & Roh, 2009). In this industrial and business context, according to the recent conceptualizations of diversity by Harrison and Klein (2007), demographic diversity – at least race/ethnicity diversity in the study's samples – can be conceptualized as "variety," which emphasizes knowledge, experiences, and information processing aspects of diversity, resulting in positive consequences on performance outcomes. Supporting these arguments discussed above, in a recent meta-analysis of team diversity studies, Joshi and Roh (2009) found a strong positive association between demographic diversity (race, gender, and age) and performance outcomes but not in other industrial settings (e.g., manufacturing industries).

Unlike race/ethnicity diversity, gender diversity had no significant influence on firm performance. One possible explanation for this non-significant direct effect may be that female attorneys may not experience problematic gender-based relations with peers at least in their early stage of career (e.g., associate years). Indeed, female attorneys tend to be self-selected, highly motivated, and capable individuals, comparable to male counterparts, and thus they may be less likely to be susceptible to typical negative stereotypes associated with female employees in the workplace. In the U.S. context, women are almost equally represented among associate attorneys (45%; NALP, 2008) and also in law school students (44%; *American Bar Association*, 2010). Related, some researchers also argue that due to an increasing number of females in the workplace, gender-based biases appear to be less problematic in organizations and thus are less likely to manifest in work outcomes (Kirkman, Tesluk, & Rosen, 2004; Kochan et al., 2003). However, it is premature to draw any conclusion regarding this phenomenon considering countervailing evidence that often reports gender-based biases still prevailing in the U.S. legal context, especially in higher levels within an organization. For instance, despite a better representation in an associate level, there are only about 19 percent of female partners in contemporary law firms (Catalyst, 2010). Researchers have also indicated that female attorneys are often disadvantaged in the case of promotions to partners ("glass ceiling") due to inherent gender-based stereotypes and ingroup preference of male partners (e.g., Gorman & Kmec, 2009). Thus, future studies examining dynamic gender-based relations that female attorneys may experience throughout their careers, from newly recruited associates to senior level managing partners, can offer better insights and enhance refined theoretical understanding in the field.

As an additional analysis, I also tested the curvilinear relationship between diversity and performance outcomes but results did not explicitly support any pattern of curvilinear relationships. Although statistical analyses showed a possibility of an inverted U-shaped relationship by having a significant negative coefficient for a quadratic term of race/ethnicity diversity, considering the actual and theoretical range restrictions of diversity in the workplace, a turning point (or a negative portion of the curve) was unrealistic and thus a positive linear model was deemed more appropriate in this study. This result contradicts previous findings in past research, for example, U-shaped effects of racial diversity in service and other industries (Richard et al., 2007) or an inverted U-shaped relationship between gender diversity and firm profitability in service/wholesale/ retail industry sectors (Frink et al., 2003). More empirical studies that examine the curvilinear effects of diversity in the workplace, explicitly considering a range restriction of diversity variables, would also be helpful in reconciling unclear empirical evidence in the past as well as facilitating better understanding of the relationship.

Moderating Effects of HRM Practices

Findings from the moderating analyses indicated that pay dispersions significantly interacted with workforce diversity to determine its effect on firm performance but the pattern was different across diversity types. Consistent with the prediction (Hypothesis 1), the positive association between race/ethnicity diversity and firm performance outcomes became stronger when a law firm adopted a more compressed, egalitarian reward structure that imposes less competition but fosters cooperative, team-based behaviors. However, under a more hierarchical pay scheme with high levels of vertical pay dispersion which induces interpersonal competition, the effect of race/ethnicity diversity did not maintain its positive influence on firm performance. These findings indicate that depending on the characteristics of pay practices, either the negative or the positive consequences of diversity are more likely; hence, a priority for future research is to investigate how certain types of HRM practices, including a hierarchical or compressed reward practice, influence employee behaviors and perceptions differently and thus shape the diversity effects on performance outcomes. Despite a call for research on the role of HRM interventions in diversity dynamics (e.g., Ely & Thomas, 2001; Jackson, 1999; Richard et al., 2007), no systematic research has yet been conducted toward this direction in past diversity literature.

With regard to the compensation literature, results also indicate that there is no one universal compensation design that works best in all conditions and rather suggest an important organization-level condition that may determine the effectiveness of compensation practices for organizations (Bloom, 1999; Pfeffer & Langton, 1993). For instance, although researchers suggested that hierarchical pay distribution may be more appropriate when individual characteristics and abilities are closely tied to organizational outcomes as in professional service organization such as law firms (Bloom, 1999; see also Becker and Huselid’s (1992) study conducted in an auto-racing context), as shown in this study, in racially diverse law firms, a more compressed pay structure can be more beneficial for organizational effectiveness. Therefore, drawing on a contingency approach, I call for more context-specific research, which would entail targeting particular settings in which certain compensation designs work more or less effectively. Such efforts could facilitate more comprehensive theoretical understanding of the effectiveness of implementing various compensation designs in the workplace (c.f., Bloom, 1999; Pfeffer, 1994).

Contrary to the expectation, gender diversity and pay dispersions *positively* interacted to affect firm performance (for workforce productivity only) – that is, the gender diversity-productivity relationship became positive when a high level of pay dispersions existed within an organization while it remained non-significant in other conditions. This unexpected pattern may be associated with the earlier argument that gender-based biases may be less salient at least in an early stage of professional career and thus less influential on organizational outcomes. It is possible that although hierarchical pay dispersion induces individualized efforts and competition, it may not necessarily invoke problematic relations (such as gender-based biases and stereotypes) between male and female associates. Thus, I surmise that when interacting two variables in the analyses (gender diversity × pay dispersion), only a strong positive direct effect of pay dispersion could manifest in performance outcomes while the effect of gender diversity remains neutral (non-significant). Taken together, these findings suggest that the interactive effects of diversity and pay dispersion on performance outcomes may be more complex than expected and also they can differ across diversity attributes. More refined theoretical and empirical research attention is warranted for future studies to clarify somewhat mixed evidence reported in this study.

In support of the prediction (Hypothesis 2), findings indicated that an organization's internal promotion policy positively moderated the diversity-performance relationship for both race/ethnicity and gender diversity. When an organization relies more on internal promotions to recruit new partners (e.g., promoting internally developed talents rather than hiring external partners from other firms), both race/ethnicity and gender diversity are positively related to firm performance outcomes. In contrast, when hiring more external partners (stressing a 'buy' strategy in its human capital development), a diverse law firm is more likely to experience lower performance. These findings suggest that an internal promotion policy can create positive context for diversity by providing more career opportunities within an organization and showing an organization's commitment to employee development and retention (Malos & Campion, 1995; Super & Hall, 1978). Under this work context, positive aspects of diversity (e.g., informational differences which can be conceptualized as 'variety') are stressed and more reflected in performance outcomes while suppressing negative consequences such as intergroup biases. A positive interaction of gender diversity with an internal promotion policy on productivity also indicates that while gender-based biases may be less salient and problematic in a law firm context (thus less influenced by HRM interventions like a hierarchical pay scheme), its positive aspects such as informational difference still exist and thus can be activated when certain contextual conditions are met. Findings from this study suggest that an internal promotion policy, or an organization's emphasis on internal development and retention, can create such positive work context that enhances positive aspects of gender diversity; otherwise, these positive consequences may remain inactive in other contextual conditions (e.g., when relying more on external hiring).

Finally, unlike the prediction proposed in this study (Hypothesis 3), I did not find any statistical evidence that developmental opportunities (e.g., apprenticeship-based mentoring and training for associates) had influences on diversity effects in law firms. One possible explanation for this non-significant interaction may be that often in many organizations, mentoring and training do not occur across different gender or race/ethnicity; indeed, mentoring and training between the same sex or race/ethnicity tend to be more common in organizations (Kalev et al., 2006; Konrad & Linnehan, 1996). I surmise that when the same sex or race mentoring and training are more prevalent and available in organizations, social networks as well as relational identities would more likely to be formed *within* own social groups rather than *across* groups, which can confirm or even exacerbate preexisting intergroup biases and stereotypes. Research has also noted that even cross-race or gender mentoring and training can be problematic in organizations when the issue of race or gender is often avoided in conversations between the mentor and protégé and the relationship becomes more instrumental rather than social (Thomas, 1999). An interview with an industry expert (a minority equity partner in a major Chicago law firm) also indicated that although junior attorneys tend to have close work and social relationships with partners (mainly practice leaders), for minority attorneys, it is often difficult to find the same ethnicity or gender mentors and thus they are more likely to be limited to develop various social networks inside and outside the organization. Data used in this study could not capture this content issue of mentoring and training in dyads nor distinguish the types of practices (either the same or cross-gender/race mentoring and training). Hence, to clarify the influence of mentoring and training programs in diversity dynamics, a more refined theoretical test with detailed measurement would be necessary for future research endeavors.

Implications for Diversity Management

Findings from this study also provide some practical insights for diversity management. First, for organizations' decision makers and HR managers, it is important to recognize that the effectiveness of HRM practices can differ depending on the demography of the workforce – that is, there is no one best HRM practice that fits in all conditions. For example, although in past literature a merit-based, strong pay-for-performance incentive system has been popular and suggested as an important component of the high performance work system (HPWS) that can enhance organizational effectiveness in general (e.g., Huselid, 1995), in racially diverse settings, this pay scheme, which is more likely to engender high pay dispersion within an organization, may not lead to high performance by hurting intergroup relations. Perhaps, in these settings, a more egalitarian pay structure such as group-based or organization-wide incentives can be more appropriate to best utilize synergetic, combined efforts from diverse employees (c.f., Pfeffer, 1994). As law firms, also other organizations in general, are increasingly more diverse, this situational consideration will be an important strategic concern for HR managers and decision makers in implementing appropriate HRM practices to achieve best results.

Another important practical implication from the findings of this study is the fact that in diverse settings, law firms emphasizing more internal development and retention (for example, through an internal promotion policy) are more likely to achieve better performance outcomes. Although contemporary law firms tend to recruit an increasing number of external partners through lateral hiring perhaps due to short-term cost concerns and market competition (Todd, 2008), as law firms become more diverse, this 'buy'-oriented approach can elicit negative social relations among attorneys and thus hurt organizational functioning. Indeed, these can be critical and long-term loss and damage for organizations which cannot be easily fixed and recovered in a short-term because of personal, socially embedded, and long-term nature of employee social relationships (c.f., Leana & van Buren, 1999). Therefore, HR mangers and organizations' decision makers having diverse workforce or expecting more influx of female and ethnic minorities in their workforce need to develop a more 'make' orientation and strategy in managing human resources. These long-term, development, and retention-focused approaches are also closely tied to the concept of 'option-based firms' suggested by Malos and Campion (1995), which consider managing employees as an investment in long-term assets (such as long-term investments in financial options) and emphasize boding and internal development of employees by offering higher levels of mentoring, developmental work experiences, and support as well as providing more promotional opportunities (Malos & Campion, 2000). Thus, I surmise that in diverse firms, these option-based bundles of HRM practices can be an appropriate strategic choice for HR managers and organizations' decision makers to bolster positive aspects of diversity but reduce negative consequences, eventually leading to better organizational performance outcomes.

Limitations and Future Research Questions

The theoretical and empirical approach employed in this study has some limitations, which provide opportunities for future research. First, as noted earlier, diversity measures examined in this study were limited to gender and race/ethnicity diversity attributes that may have significant practical meaning in the workplace but excluded many others. Other types of workplace diversity such as age, tenure, task-oriented attributes (e.g., functional background, education), deep-level characteristics (e.g., personality, value, cognitive ability), or faultlines-based measures also warrant further investigation since depending upon the types of diversity attributes, their effects on employee relations and performance and interactions with HRM practices would more likely to vary. Second, despite efforts to include context-specific and most representative HRM practices of law firms, I acknowledge that there are other practices and work context that deserve more attention. For example, if measures are available, including actual promotion chances of associates to partners in each year (possibly available longitudinally) could be a more direct test of an 'up-or-out' career structure of law firms (c.f., Malos & Campion, 2000). Work characteristics such as interdependence, centralization, or temporal factors (e.g, long-term versus short-term projects) can also be interesting factors to examine in future diversity research (c.f., Joshi & Roh, 2009). Third, because of a relatively macro focus of this study and lack of data availability, diversity-related processes such as social categorization and information elaboration processes were assumed aligned with past theories but not directly examined in this study. Direct measurement and test of these processes and interactions with HRM practices, using survey methods, would be most interesting for future research in this area. Finally, although, as outlined earlier in the introduction of this dissertation, a focus of this study was the development of a context-specific theory and empirical test, a relatively narrow scope (focusing only on law firms) can still limit the ability to generalize the findings from this study in other context. For example, in manufacturing industries, or more male-dominated industrial and occupation context, the negative consequences of gender diversity could be more salient, interact with HRM practices, and thus manifest in performance outcomes (see Joshi & Roh, 2009 for a related argument and meta-analytic findings), unlike findings of this study from a professional service industry. More empirical examinations in various industrial and occupational settings could enhance and refine our understanding of the effects of workplace diversity.

Conclusion

In sum, this study represents an attempt to unravel the effects of workforce diversity on firm performance by considering an important organization-level moderating condition – the use of HRM practices. Beyond a traditional debate regarding potential benefits or damages of diversity in organizations, this study steps forward and proposes that HRM practices can shape the effects of diversity within organizations by impacting the salience of both positive and negative consequences of diversity. These interactions with HRM practices eventually determine the effects of workforce diversity on firm performance outcomes. As noted earlier, this study is one of few attempts that have examined organization-level moderating conditions, especially HRM practices, in the diversity-performance relationship. I hope this research facilitates further theoretical and empirical developments in the field.

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