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Modeling Diversity Management Practices in Corporate Ethics: The Spillover Effect

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MODELING DIVERSITY MANAGEMENT PRACTICES IN CORPORATE
ETHICS: THE SPILLOVER EFFECT

by
Yves-Rose SaintDic

A Dissertation

Presented in Partial Fulfillment of Requirements for the
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ABSTRACT

MODELING DIVERSITY MANAGEMENT PRACTICES IN CORPORATE
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Little is known about the relationship between workplace diversity and corporate ethics even though these two initiatives share similar ethical roots (Alder & Gilbert, 2006), and are quite popular in corporate America (Kochan, Bezrukova, Ely, Jackson, Joshi, Jehn, Leonard, Levine, & Thomas, 2003; Murphy, 2001). This study seeks to contribute to knowledge in these two areas by assessing whether diversity's contributions to firm performance are maximized through its effects on the firm's ethical processes. Using data that were collected on a sample of Fortune 500 firms, this study tested several hypotheses with predictor variables that represent two manifestations of diversity in corporate America: diversity management and the diversity of the boards of directors. Mediated hierarchical regression results from this study show that some aspects of a firm's ethical practices help explain the relationship between diversity management and firm performance. In addition, I find a positive relationship between board of directors' racial diversity and diversity management, which reinforces the importance of board of directors' composition in directing strategic initiatives. The study also provides support for the social cognitive theory's premise that prior experiences affect the learning and modeling of new norms (Bandura, 1969; 1998).

TABLE OF CONTENTS

Title Page.....	i
Copyright Page.....	ii
Signature Page.....	iii
Acknowledgements.....	iv
Abstract.....	v
Table of Contents	vi
List of Tables.....	vii
List of Figures.....	viii
Chapter 1: Introduction.....	1
Chapter 2: Literature Review.....	7
Chapter 3: Methodology.....	51
Chapter 4: Data Analysis and Findings.....	80
Chapter 5: Discussion, Limitations, & Future Research.....	100
References.....	112
Appendices.....	130

LIST OF TABLES

Table

3.1. Sample description by industry sector	59
3.2. Examples of statements on employment webpages or job postings	61
3.3. Frequency distribution of volunteer grant	73
3.4. Frequency distribution of donation match	74
4.1. Descriptive statistics	81
4.2. Correlations among all variables	84
4.3. Hierarchical regression results for internal ethics and external ethics.....	87
4.4. Hierarchical regression results predicting revenue	91
4.5. Hierarchical regression results predicting return on investment.....	92
4.6. Hierarchical regression results for diversity management.....	97
4.7. Summary of findings.....	98

LIST OF FIGURES

Figure

2.1. Conceptual research model.....	11
2.2. Schematization of the relations among behavior (B), cognitive and other personal factors (P), and the external environment (E) (Wood & Bandura, 1989).....	30
2.3. Theoretical framework.....	33
4.1. Box-plot graph depicting outliers.....	82

CHAPTER 1

INTRODUCTION

The call for workplace diversity is often positioned either as a business necessity (Cox, 1993; Herring, 2009; Kochan et al., 2003), or as an issue of fundamental fairness, equity and morality (Alder & Gilbert, 2006; Brown et al., 2005; Gilbert, Stead & Ivancevich, 1999). The business case is that workplace diversity makes good business sense and bolsters a company's financial stance (Cox, 1993; Herring, 2009). The prevalence of the business rationale is evident in the estimated eight billion dollars spent by organizations on diversity initiatives in 2003 based on the belief that greater business performance will result (Anand & Winters, 2008). The business justification was also a central argument in the 2003 friend of the Supreme Court's brief filed by a number of U.S. Fortune 500 firms supporting the view that racial-ethnic diversity in higher education is important to ensuring the firms' continued success in the global marketplace (3M et al, 2003).

The diversity literature, however, paints a different picture. Findings of direct contributions from workplace diversity to firm performance are inconclusive at best (for reviews, see Kochan et al., 2003; Milliken & Martins, 1996; Williams & O'Reilly, 1998). For instance, outcomes from workplace diversity include both negative effects such as decreased communications (Williams & O'Reilly, 1998) and social disintegration (Harrison, Price, Gavin, & Florey, 2002), as well as positive ones such as improved

decision-making (Ely & Thomas, 2001), innovation, creativity (Bantel & Jackson 1989), and social integration (Polzer, Milton, & Swann, 2002). Such mixed findings suggest the need for more complex analyses (van Knippenberg & Schippers, 2007) and the presence of contextual factors that need to be taken into account when conducting diversity research (Joshi & Roh, 2009; Kochan et al., 2003). A meta-analytic study that summarizes results from 39 studies concluded that contextual factors were significant in influencing the performance outcomes of diverse teams and groups (Joshi & Roh, 2009). Consequently, some researchers argued that negative effects of workforce diversity primarily exist in settings with ineffective management of diversity (Shen, Chanda, D'Netto, & Monga, 2009) and proposed the effective management of workplace diversity programs as a factor that would maximize business and financial benefits from workplace diversity (Gilbert et al., 1999; Pitts, 2006; Thomas, 1990; Yang & Konrad, 2011).

Contrasting the business case for workplace diversity is the ethical paradigm that considers diversity programs and practices as stemming from moral arguments and regulatory norms that compel businesses to treat individuals of different backgrounds fairly (van Dijk, van Engen, & Paauwe, 2012). An apparent implication of this view is that at a conceptual level diversity should relate to corporate ethics. Corporate ethics captures the impact of a firm's external ethics and internal ethical functioning (Chun, Shin, Choi, & Kim, 2013; Kaptein, 2011). With the exception of one paper (i.e., Labelle, Gargouri, Francoeur, 2010), the ethical view has not been empirically investigated beyond conceptual propositions of an existing link between diversity practices and ethical considerations (e.g., Alder & Gilbert, 2006; Brown, Treviño, & Harrison, 2005; Gilbert et al., 1999; van Dijk et al., 2012).

Ethics is an important factor to consider in diversity management research for several reasons. First, the Civil Rights Act of 1964, which serves as the foundation for workplace diversity practices (O’Leary & Weathington, 2006), was based on the premise of creating a more ethical and just workplace (Berg, 1964); yet we know little about diversity’s contributions to workplace ethics. The 1964 Act and its succeeding amendments continue to play important roles in shaping the way workplace diversity is carried out in organizations (Edelman, 1992). Second, the lack of research about diversity processes’ connections to other corporate practices that share related goals of creating a more ethical workplace ignores the social cognitive interconnectedness among practices that share similarities (Bandura 1988), which is well established empirically (Schneider, 1991). Lastly, given existing findings that diversity in small groups can have negative effects, such as interpersonal conflicts (Pelled, Eisenhardt, & Xin, 1999), reduced workgroup cohesiveness (Watson, Kumar, & Michaelsen, 1993), or lower levels of organizational commitment (Tsui, Egan, & O’Reilly, 1992), potential contributions from diversity management to corporate ethical processes may strengthen the business case for diversity.

Purpose of the Study

Recognizing the limitations from fragmenting workplace diversity research into either an ethical or a business view, researchers have made repeated calls for empirical studies that integrate the business case for diversity with its moral imperative (Alder & Gilbert, 2006; Gilbert et al., 1999; van Dijk, et al., 2012; Yang & Konrad, 2011). This study first responds to such calls by articulating and testing for a spillover effect from diversity management to corporate ethical practices, but also by suggesting that the

integration of these two initiatives could maximize firm-level financial outcomes. The spillover effect refers to externalities from the management of diversity that affect organizational ethical processes. Social cognitive theory, which helps to explain how prior experiences have subsequent consequences on norms creation (Bandura, 1969), provides the theoretical framework for investigating the spillover effect. Diversity management, which considers the formalized and concurrent practices used to manage workplace diversity (Gilbert et al., 1999; Pitts, 2006; Thomas, 1990; Yang & Konrad, 2011), represents the prior experience because regulations regarding such practices have a longer history of implementation in the workplace than ethics requirements for businesses.

Additionally, this dissertation not only brings together the business and the moral approaches to assessing workplace diversity, but also contributes to business ethics research. It responds to distinct repeated calls from ethics scholars for studies that can help to assess and explain other factors that may be associated with ethics in organizations (e.g., Kish-Gephart, Harrison, & Treviño, 2010; Martin & Cullen, 2006). For instance, Martin and Cullen (2006) encouraged researchers to clarify the consequences that formal organizational codes that promote values such as transparency, dignity, and fairness have on ethical climates. Diversity management practices embody such values. This thesis thus has the potential to shed light on whether the management of diversity is a factor to consider in business ethics research.

Furthermore, reviews and meta-analyses of academic studies that have investigated the outcomes of diversity management emphasized the need for empirical analyses of not only more complex (Milliken & Martins, 1996; van Knippenberg &

Schippers, 2007) but also more relevant indicators of workplace diversity practices (Harrison & Klein, 2007; Yang & Konrad, 2011). This dissertation explores a more complex configuration of a firm's management of diversity by combining its various manifestations throughout the organization and by examining its indicators at the board level. Governing boards play important roles fulfilling strategic, social and legitimate functions for the organization (Roberts, McNulty, & Stiles, 2005) and influencing strategic initiatives (Carpenter & Westphal, 2001; Deutsch, 2005). Thus, by investigating different aspects of the various manifestations of diversity management, this study systematically argues that such manifestations are actually appropriate indicators of diversity management. The consideration of diversity at the governance addresses relevancy by accounting for the influence of boards of directors on important firms' initiatives.

Lastly, this research is also pertinent to practitioners. Most corporations must currently address both ethics (Murphy 2001; U.S. House of Representatives, 2002) and diversity obligations (Berg, 1964), which they tend to treat as unrelated competing mandates (Stewart, Volpone, Avery, & McKay, 2011). However, findings in organizational studies suggest that internal consistency among related activities maximized organizational outcomes (Doty, Glick & Huber. 1993; Porter, 1980). Thus, if diversity and ethics are indeed related, but vie for competing resources within the organization (Stewart et al., 2011), corporations may be sending mixed messages about their importance (Kossek, Lewis, & Hammer, 2010). Mixed messages can be signs of organizational weaknesses, and often act as barriers to firm performance (Wendt, 1998).

In summary, this study investigates whether the management of diversity contributes to a firm's ethical processes, and eventually to a more profitable corporation. In the process, it connects the study of diversity to business ethics research, as well as addresses multiple calls for research that extends knowledge of other social or cultural factors within organizations that relate to business ethics. The remainder of this paper is organized as follow.

The first part of chapter 2 introduces the constructs of diversity management, board of directors' diversity, and corporate ethics, including aspects of their dimensionality. There, I also discuss existing conceptual models relating diversity management to corporate ethics and their relationships to firm performance. The next section of chapter 2 presents the theoretical foundation and the conceptual model that support the proposed relationships. The last section of chapter 2 develops the hypotheses for testing the proposed relationships. Chapter 3 describes the research design and methodology, which utilized archival records and analyses of firms' websites to gather data for testing the proposed hypotheses. Chapter 4 presents results of the inferential statistics. Chapter 5 presents discussions, potential limitations, and future research directions.

CHAPTER 2

LITERATURE REVIEW

The overarching question in this study is whether the management of workplace diversity creates spillovers into corporate ethics that subsequently maximize financial outcomes for the firm. This chapter provides a review of the theoretical and empirical literature related to this question. The first part of this chapter clarifies the various conceptualizations of workplace diversity. The remainder of the chapter provides an overview of the construct of diversity management that is employed in this research, its relationship to the other three constructs proposed in the conceptual model, and the rationales for the hypothesized relationships.

Review of Conceptualizations of Workplace Diversity

Existing conceptualizations of workplace diversity can be categorized according to which of three types of issues are being examined: workplace demographics, employee's perceptions of workplace diversity, and organizational diversity programs. Researchers who are interested in workforce demographic characteristics generally utilize observable relational diversity constructs, such as race, age or gender, and non-visible ones such as educational level or length of tenure (e.g., Andreovski, Richard, Shaw, & Ferrier, 2014; Pelled et al., 1999; Richard, Barnett, Dwyer, & Chadwick, 2004; Tsui & O'Reilly; 1989; Webber & Donahue, 2001). Studies using demographic characteristics as indicators of workforce diversity have made important contributions documenting

outcomes from diversity at the group or team levels (e.g., Andrevski et al., 2014; Webber & Donahue, 2001). However, research that sought to expand group levels' findings on demographic attributes to the firm level showed that demographic diversity on its own has insignificant effects on firm level outcomes (Kochan et al., 2003; van Knippenberg & Schippers, 2007; Williams & O'Reilly, 1998). Thus, the relational demography constructs appear to be less useful for the firm level research and for the more complex representation of workplace diversity proposed in this dissertation.

Two other workplace diversity constructs that go beyond basic demographics are the diversity climate and the diversity management constructs. Diversity climate represents the aggregate of individual perceptions of employees regarding the diversity environment in their organizations (Gonzalez & Denisi, 2009; Mor Barak, Cherin, & Berkman, 1998). Prior studies indicate that perceptions of a firm's diversity climate varied significantly with membership characteristics such as gender (e.g., Mor Barak et al., 1998), race and culture (e.g., Kossek & Zonia, 1993; McKay et al., 2007), supervisors and subordinates (e.g., McKay, Avery & Morris, 2009), and even work units (Gonzalez & Denisi, 2009). Thus, an organization can have different diversity climates across different departments and groups. Consequently, the diversity climate construct is generally used in studies that examined employees' perceptions of their workplace diversity programs, and relationships between group memberships and organizational experiences (e.g., Gonzalez & Denisi, 2009; Kossek & Zonia, 1993; McKay et al., 2007; McKay et al., 2009; Mor Barak et al., 1998). Given this dissertation is concerned with investigating organizational outcomes from formalized diversity practices, diversity

climate also appears less appropriate for this study's focus on firm level outcomes from formalized organizational diversity practices.

The last category, diversity management, characterizes the three formalized and primary organizational initiatives undertaken voluntarily by a firm's management in order to create and maximize benefits from its diversity towards important organizational goals (Gilbert et al., 1999; Pitts, 2006; Yang & Konrad, 2011). The diversity management conceptualization is appropriate for this dissertation for several reasons. First, it is pertinent to this study's investigation of how one set of organizational processes spillover into another one (i.e., corporate ethics) to benefit firm performance given diversity management's objectives of connecting workplace diversity to organizational goals. Second, through its three primary manifestations of diversity recruitment, valuing diversity and managing diversity, diversity management also serves the functions of developing an environment that promotes equity for all employees and that benefits the organization as a whole (Pitts, 2006), addressing both the moral equity and the business case that this dissertation seeks to integrate. Lastly, as a voluntary initiative, the success of diversity management is contingent upon leadership's commitment and support, which in turn makes it a strategic and firm-level program (Gilbert et al, 1999; Thomas, 1990). Diversity management is thus the more appropriate construct for conceptualizing the firm level perspective that is sought in this dissertation.

Conceptual Model

As depicted in Figure 2.1, the conceptual model in this study accounts for the leadership impetus that drives diversity management through the examination of the role of the board of directors, and proposes that diversity management's relationship to firm

performance occurs through the functional outcomes of corporate ethics. The proposed model is built from two theoretical models (i.e., Gilbert et al, 1999; Pitts, 2006), which are listed in Appendices A and B. These researchers related diversity management to functional outputs, and subsequently to organizational performance but Gilbert and colleagues (1999) suggested that leadership factors drive the success of diversity management.

An organization's upper leadership is generally comprised of the board of directors and the top executives (Hambrick & Mason, 1984). Top executives generally include the chief executive officer, and senior and executive vice-presidents (Carpenter, Pollock, & Leary, 2003). However, boards are different from top management teams (TMT). Distinct roles for boards of directors include enhancing firm legitimacy (Roberts et al., 2005), formulating strategies for top management teams (TMT) to execute (Finkelstein & Hambrick, 1990; Kim, Burns, & Prescott, 2009; McNulty & Pettigrew, 1999), connecting to the external environment (Westphal & Bednar 2005), responding to changes in the external environment and formulating strategy in response to such changes (Finkelstein & Hambrick, 1990; Forbes & Milliken, 1999). Given their distinctive governing roles (Roberts, McNulty, & Stiles, 2005), boards are uniquely relevant to research that concerns regulatory mandates (Schmidt & Brauer, 2006), such as diversity and ethics. This study thus examines the role of the boards of directors in influencing diversity management.

FIGURE 2.1. Conceptual research model

The Leadership Construct: Board of Director's Diversity

This study specifically focuses on the role of a racially diverse board of directors on diversity management for a couple of reasons. First, while the overall composition of the board of directors matters for important firm initiatives (Deutsch, 2005), research suggests that racial diversity on the board of directors may be more relevant to factors relating to workplace diversity and reputation than other types of demographic diversity, such as gender. For example, using signaling theory and behavioral theory of the firm, research found that board of directors' racial diversity had positive effects on firm performance through firm reputation when considering a sample of Fortune 500 companies (Miller & del Carmen Triana, 2009). The research did not find similar positive effects between gender diversity on the board and reputation. One explanation for these findings is that racially diverse board members increased firm reputation by signaling that

directors were well equipped to understand the diverse external environments in which the firm operates, which may function differently for gender diversity (Miller & del Carmen Triana, 2009). Studies have also shown that there is a higher level of utility in networks defined by race than gender (Ibarra, 1995), as well as greater value in racial diversity in increasing the firm's understanding of a culturally diverse base (Richard, 2000). The proposed study tests whether there might be greater level of diversity management in firms with racially diverse board of directors. Lastly, racial diversity's distinct role on the board may not have the same effect in TMTs. For example, research has demonstrated that the types of differences in TMTs that are relevant to organizational processes and performance are those associated with knowledge, skills, and ability (see review, Bell, Villado, Lukasik, Belau, & Briggs, 201; Williams & O'Reilly, 1998). These differences are often found in functional background, educational level, organizational tenure, and age, given these characteristics capture experiences, information, and perspectives relevant to cognitive tasks (Bantel & Jackson, 1989; Carpenter & Fredrickson, 2001; Williams & O'Reilly, 1998). This dissertation thus examines whether the racial make-up of the board of directors has ripple effects for diversity management. Having clarified the importance of the board of directors in driving diversity management initiatives, I now turn to the multidimensionality of diversity management.

The Diversity Management Construct

Diversity management, which considers the formalized organizational programs used to manage workplace diversity (Gilbert et al., 1999; Pitts, 2006; Thomas, 1990; Yang & Konrad, 2011), has been investigated through two different but interlinked approaches. Both approaches examine aspects of three primary diversity programs that

are carried in organizations: recruitment, valuing differences or diversity, and managing diversity. However, the two approaches position these three programs differently and make a distinction in the conceptualization of managing diversity.

The first approach placed diversity management at the last phase of a continuum that categorized the strategies corporations use to manage their workforce diversity either into three phases (Thomas, 1990; 1991; Thomas & Ely, 1996), four categories (Dass & Parker, 1999) or six stages (Singh & Point, 2004). The four categories or six stages are more delineation of the three-phase paradigm. Phases 1 and 2 are termed 'compliance' and 'valuing differences,' respectively. Firms at the initial 'compliance' phase display their diversity commitment primarily through adherence to national affirmative action and equal opportunity regulations (Thomas, 1990). Evidence of this phase is mostly visible through recruitment programs given that U.S. affirmative action compliance requirements specifically focus on the recruitment and selection of individuals into the workforce (U.S. Department of Labor, 1967). The 'valuing differences' phase includes firms that promote appreciation for individual differences (Thomas, 1990). Thomas (1991) attributed this second phase to the realities of major demographic changes in the U.S. workforce, or societal coercive pressures, which compel firms to react.

The third phase originally called the managing diversity phase (Thomas, 1991) had been renamed diversity management (Cox, 1993; Cox & Beale, 1997) to reflect the view that diversity management only occurs at the last phase. This phase is identified through its emphasis on voluntary efforts driven from a belief that the systemic management of diversity at the organizational level would help firms achieve strategic organizational outcomes (Cox & Beale 1997; Thomas, 1990; Thomas & Ely, 1996).

Firms view diversity management, or managing diversity, as an attractive strategy to address the inevitable changing demographics given its contrast to the mandated affirmative action compliance programs (Harrison, Kravitz, Mayer, Leslie, & Lev-Arey, 2006; Thomas, 1990; 1991). Managing diversity is thus seen as a “higher” organizational response to workforce diversity (Thomas, 1990). While there is little empirical investigation of the 3-phase continuum, researchers have drawn from this concept to empirically demonstrate that organizational strategies to address diversity can be classified into as many as six stages (e.g., Singh & Point, 2004; Rubaii-Barrett & Wise, 2007).

Other research, however, indicated that the phases within diversity management were not necessarily exclusive of one another, but rather that ‘managing diversity,’ moved past, and included compliance activities to a diversity strategy that can bring value to the firms (Wright, Ferris, Hiller, & Kroll, 1995). Given the arguments that diversity management occurs at the last phase and includes previous ones, the construct came to be viewed as a continuum that reaches its peak where workforce diversity bring strategic returns to the firm (e.g., Cox & Beale, 1997; Thomas & Ely, 1996). Furthermore, other research suggested that the management of diversity might not be entirely voluntary, but that governmental regulations and societal expectations were relevant coercive pressures driving their adoption (Armstrong, Flood, Guthrie, Liu, MacCurtain, & Mkamwa, 2010; Edelman, 1992), which created paradoxical limitations for the voluntary distinction that theoretically differentiates managing diversity from the previous phases. Lastly, the idea that diversity management would bring strategic advantages to the firm was challenged by research that continues to show that diversity does not directly contribute to firm

performance (e.g., Kochan et al., 2003). These contradictions are indicative of the current state of diversity research and make compelling arguments for more in-depth analyses.

The above limitations to the phase approach gave rise to a second approach of conceptualizing diversity management as three components (Pitts, 2006, 2009). The three-component approach differs from the three phases in the following ways. First, the three-component approach proposed that ‘managing diversity,’ is one part of diversity management as opposed to being diversity management (Pitts, 2006; 2009; Yang & Konrad, 2011). ‘Managing diversity’ under this second approach is conceptualized as “pragmatic management functions” that successfully integrate diversity into organizational objectives (Pitts, 2006, p. 259), as opposed to directly link to organizational goals. The second approach also proposed that the three initiatives of diversity recruitment, valuing diversity initiatives, and pragmatic management functions form integral components of diversity management that must be examined concurrently (Pitts, 2006). Lastly, each component serves important normative functions for the firm (Pitts, 2006), as opposed to strategic organizational ones. The three-component approach therefore suggests that diversity management occurs through all three components that contribute to overall organizational goals through intervening functions.

The limited empirical examination and the lack of theories on diversity management (Yang & Konrad, 2012) do not offer definitive conclusions on which of the two above approaches best evaluates its manifestations. Keeping in mind that both the phase and the component approaches examine diversity recruitment, valuing differences or diversity, and managing diversity programs, but placed them differently, this dissertation suggests that both approaches are appropriate indicators of a firm’s diversity

management and thus integrates both. First, this thesis investigates a “higher” or strategic level of diversity management in relationship to strategic organizational outcomes.

Additionally and consistent with research that diversity’s direct contributions, although not strategic, serve important normative and operational functions for the firm (Gilbert et al., 1999; Kochan et al., 2003; Pitts, 2006), this study also investigates each of the three primary components for their relationships with corporate ethics. There is limited empirical research that examines the three initiatives as concurrent components of diversity management, but many studies have investigated them as separate aspects of workplace diversity initiatives. The following sections review and build from relevant empirical studies on each of the three initiatives to illustrate how they contribute to important firms’ functions, which in turn maximize overall outcomes from diversity.

Diversity Recruitment

Diversity recruitment refers to a firm’s strategies for attracting diverse employees (Avery & McKay, 2006; Rubaii-Barrett & Wise, 2007). Diversity recruitment serves the function of creating a more diverse workforce (Avery, 2003; Avery & McKay, 2006; Rubaii-Barrett & Wise, 2007), which in turn leads to access to more diverse markets, and eventually to greater profits (Robinson & Dechant, 1997). Diversity recruitment occurs through a series of targeted efforts to render organizations more attractive to specific groups of people (McKay & Avery, 2005). For example, many studies reported that minority participants found that organizations whose recruitment materials contained diversity statements were more attractive than the organizations with materials that had no information about diversity statements (McNab & Johnston, 2002; Perkins, Thomas, & Taylor, 2000; Rau & Hyland, 2003; Rynes & Cable, 2003 for a review). Diversity

recruitment materials also contributed to making organizations more attractive to non-minority women (Rau & Hyland, 2003; William & Bauer, 1994) but had no impact for non-minority males (Williams & Bauer, 1994). Given that most corporations tend to have relatively low percentages of racial diversity in their workforce (Mor Barak et al., 1998; Olsen & Martins, 2012; Thomas, 1991), diversity recruitment enables greater workforce diversity by making organizations more attractive to larger groups of minorities and women. However, to actualize any potential benefit, diversity must be managed (Kalev, Dobbin & Kelly, 2006; Wright et al., 1995; Yang & Konrad, 2011), which in turn requires dedicated personnel (Kalev et al., 2006).

Diversity Staffing Structures

The second component of diversity management relates to the “pragmatic management functions” to successfully manage and align workplace diversity practices with organizational goals (Pitts, 2006; 2009; Thomas, 1990). Although this component is named ‘managing diversity’ in the extant literature (e.g., Cox & Blake, 1991; Pitts, 2006; Triana, Garcia, & Colella, 2010), it is re-named ‘staffing structures’ in this dissertation to minimize possible confusion with the construct of diversity management. This relabeling reflects research that has shown that diversity programs that have personnel responsible for managing diversity see better results from all types of diversity initiatives (Kalev et al., 2006), thus making the personnel structure an important management function in diversity management.

Valuing Diversity

Valuing diversity, the third component within diversity management, includes initiatives aimed at creating greater inclusion and integration (Pitts, 2006; 2009). These initiatives include organizational statements that convey the importance of diversity to the workforce, programs that teach all employees cultural awareness and inclusiveness skills, and resources that promote the success of minority employees in environments naturally prone to accommodating homogeneity (Mor Barak et al., 1998; Olsen & Martins, 2012; Pitts, 2006; Thomas, 1991). Valuing diversity initiatives, as the name suggests, are value-driven. They help to address the initial lack of shared understanding in diverse groups (Olsen & Martins, 2012) that often led to inefficiencies, conflicts, and turnovers (Pelled et al., 1999; Watson et al., 1993; Williams & O’Rielly, 1998).

Resources such as affinity groups and mentoring programs were found to be particularly useful mechanisms for providing opportunities for their members to connect with one another, to expand their networks, and reduce their isolation (Friedman & Holtom, 2002; Peek, Kim, Johnson, & Vela, 2013; Pitts, 2009; Robinson & Dechant, 1997).

Consequently, by increasing cohesion (Watson et al., 1993), providing support (Friedman & Holtom, 2002), and contributing to reduced turnovers and their associated costs (Peek et al., 2013), valuing diversity initiatives help to maximize potential benefits from a diverse workforce (Pitts, 2006). In sum, the success of diversity management in achieving organizational outcomes, whether through the three components or the phase approach, is realized through other functional benefits which in turn contribute to firm performance (Gilbert et al., 1999, Pitts, 2006). The potential benefits that will be examined in the current study are ethical spillovers from diversity management.

Ethical Benefits of Diversity Management

There are multiple ways of conceptualizing a firm's ethical context (Treviño et al., 2006). Some of the most commonly used ethical constructs include: a) ethical climate (Victor & Cullen, 1987; 1988); b) ethical culture (Kaptein, 2011; Treviño, Butterfield, & McCabe, 1998); c) institutionalization of ethics (Jose & Thibodeaux, 1999; Sims, 1991; Singhapakdi & Vitell, 2007); d) ethics programs (Kaptein & Van Dalen, 2000; Kaptein, 2009); and e) corporate ethics (Chun et al., 2013; Kaptein & Van Dalen, 2000; Sims, 1991; Treviño et al., 1998). These constructs share many similarities among them. This dissertation utilizes the corporate ethics construct, which captures 1) a corporation's internal ethical practices or activities, 2) the practices' effects on society and stakeholders, and 3) the ethical actions of individuals as collective representatives of the corporation (Kaptein & Van Dalen, 2000). Through the three components of internal ethics, external ethics, and ethical behaviors, corporate ethics incorporates many aspects of each of the other ethics constructs (Chun et al., 2013; Kaptein & Van Dalen, 2000), as briefly described below.

Although positioned as an organizational level construct, ethical climate is the aggregate of individual perceptions of their work climate (Victor & Cullen, 1987, 1988). Ethical climate shares many similarities with corporate ethics (Chun et al., 2013). For instance, the caring ethical climate in which individuals perceived decisions to be based on concerns for the well-being of everyone (Victor & Cullen, 1987) matches the external ethics component of corporate ethics, which considers a firm's actions on society (Chun et al., 2013; Kaptein & Van Dalen, 2000). The rules ethical climate, which categorizes

organizations in which decisions are perceived to be guided by organizational rules or processes (Victor & Cullen, 1988), shares commonalities with internal ethics, which is the formal and tangible internal ethics processes in organizations (Kaptein 2009; Kaptein & Van Dalen, 2000). Given that the corporate ethics construct incorporates various aspects of ethical climate, the latter construct was not used.

Another commonly used ethics concept is ethical culture, which derives from the established systems that created organizational norms and that provided the ethical standards for day-to-day activities (Treviño et al., 1998). These ethical standards form an organization's internal ethics system (Kaptein, 2009; 2011). The internal ethics system thus captures aspects of ethical culture. Internal ethics is one of the components within this dissertation's corporate ethics construct.

Lastly, the institutionalization of ethics represents the extent to which an organization explicitly and implicitly incorporates ethics into its processes (Jose & Thibodeaux, 1999; Singhapakdi & Vitell, 2007). Implicit forms of institutionalizing ethics include the more subtle forms of ethical contexts such as corporate culture, ethical leadership and open communication. Implicit forms of ethics institutionalization were strongly associated with individual outcomes such as one's commitment to the organization than explicit institutionalization of ethics (Singhapakdi & Vitell, 2007). Implicit ethics institutionalization, which tends to focus on individual behaviors, was not examined as this dissertation is concerned with institutional practices. Explicit forms of ethics institutionalization refer to formal internal ethics systems such as ethics officers, ethics committees, codes of ethics, ethics hotlines and rewards systems (Jose &

Thibodeaux, 1999; Vitell & Singhapakdi, 2007). These ethics systems are part of the internal ethics component of corporate ethics, which was investigated in this dissertation.

Corporate Ethics

The corporate ethics construct brings together three perspectives in business ethics. The “consequence” perspective looks at the impact of business activities on external stakeholders; the “intention or input” approach analyzes organizational internal ethics programs; and the “conduct approach” examines behavioral actions (Kaptein & Van Dalen, 2000). Other scholars validated the conceptualization of ethics into these three aspects, namely external ethics, internal ethics, and the ethical behaviors of employees (Chun et al., 2013). Extant literature shows any of these three facets can offer a view into a firm’s ethical context (e.g., Kaptein, 2009; Weaver, Treviño, & Cochran, 1999a; 1999b). As my focus is not individual employee behavior, corporate ethics in this study is represented through its external and internal components. Moreover, these two components present the proper conditions for examining spillover effects from diversity management given they share many similarities with diversity management. For instance, external ethics shares with diversity an interest in resolving societal concerns.

More specifically, external ethics accounts for a company’s actions on society from an ethical standpoint (Chun et al., 2013; Kaptein & Van Dalen, 2000). External ethics reflects the notion that societal considerations matter to business success, and that there are consequences to a corporation’s actions (Chen, Patten, & Roberts, 2008; Chun et al., 2013). External ethics also comes from the corporate social responsibility theoretical perspective that researchers use extensively to explain the positive contributions of business ethics to society (Chen et al., 2008). However, external ethics

differs from corporate social responsibility in that it is concerned with the ethical obligations within corporate social responsibility (Basil & Erlandson, 2008). From this perspective, external ethics can be viewed as a subset of corporate social responsibility, which is composed of the economic, legal, ethical and discretionary responsibilities of a business (Carroll, 1979).

While external ethics is concerned with actions that impact external stakeholders, internal ethics, the second component of corporate ethics considered in this study, represents the formal and tangible ethical processes that are in place in organizations (Kaptein 2009; Kaptein & Van Dalen, 2000). This component considers whether the extent to which a firm manages its day-to-day functions reflects normative legal and ethical standards (Weaver, et al., 1999a; 1999b). As noted above, internal ethics also shares inherent characteristics with many other ethical constructs. It incorporates aspects of the rules ethical climate (Chun et al., 2013), serves as foundation for ethical culture (Treviño et al., 1998) and facilitates the institutionalization of ethics (Jose & Thibodeaux, 1999; Vitell & Singhapakdi, 2007). Additionally, internal ethics sets standards for behaviors similarly to the way diversity statements establish acceptable behaviors. The two components of corporate ethics, external and internal ethics, thus provide the appropriate context for the three research questions that motivated and guided this study.

The first research question seeks to understand whether relationships between diversity management and corporate can be predicted? The second research question investigates whether racial diversity on the board of directors has an impact on the level of diversity management within a firm? These questions are relevant to business primarily because of limited resources to devote to two competing mandates, diversity

and ethics. The last research question is to determine whether organizational financial outcomes from diversity management are contingent upon corporate ethics. Before reviewing research that laid the foundation for examining these questions, it is important to first outline the definition of firm performance as utilized in this dissertation, and its relationship to corporate social initiatives such as diversity and ethics.

Firm Performance

Firm performance is generally conceptualized in three major ways: organizational effectiveness, business performance, and financial performance (Butler, Martin, Perryman & Upson, 2012). Organizational effectiveness, the broadest conceptualization, explains the organization's ability to perform its functions with optimal levels of inputs and outputs (Cameron & Whetten, 1983). Business performance includes financial measures as well as non-financial measures, such as market share, manufacturing value-added and technological efficiency (Venkatraman & Ramanujam, 1986). Financial performance is the narrowest of the three conceptualizations given its focus on simple indicators that represent firm value (Venkatraman & Ramanujam, 1986). The literature on the complexities of each of these conceptualizations of performance is extensive (Venkatraman & Ramanujam, 1986) and is beyond the realm of this study.

Organizational performance is represented by financial performance because the latter has been validated as having clear and direct relations to actual financial accounting and market-based indicators such as revenues, profits, or return on assets (Butler et al., 2012). Thus, one important consideration when assessing financial performance is whether to utilize accounting or market based measures. Accounting measures are generally shorter-term than market measures, suggesting their suitability in assessing factors associated

with current managerial practices and current stakeholders (Mitchell, Agle, & Wood, 1997). Market measures are forward-looking and represent the discounted present value of future cash flows (Fisher & McGowan, 1982). I utilize accounting-based measures because of their ability to represent the effects of current practices on determining firm value. The accounting-based measures also revealed an organization's internal efficiency, which relates to organization's social performance (van Beurden & Gössling, 2008). Furthermore, the validity of accounting-based measures is well established in the extensive evidence showing that accounting and economic returns are related. For instance, Danielson and Press (2003) found that the correlation between accounting and economic rates of return was above 0.75. Financial performance was thus assessed with two separate commonly used accounting indicators of growth and profitability: revenues and return on investment (Hillman & Keim, 2001). These indicators of a firm's financial performance are readily available through the archival data collection method proposed in this dissertation. Using actual and clear financial indicators to represent firm performance should reduce some of the ambiguities that are often present in research that investigate relationships between firm performance and diversity or ethics, as described next.

Empirical studies on ethics' contributions to firm performance are extensive, but perhaps without clear consensus on their findings (Margolis & Walsh, 2003). The lack of consensus is attributed to the variations in the number of constructs representing and measuring business ethics and firm performance (see reviews by Margolis & Walsh, 2003; van Beurden & Gössling, 2008). A detailed review of such literature is beyond the domain of the proposed study and has been conducted by others. This section references

three points that are relevant to this dissertation. First, existing reviews of studies of ethics and performance showed a combination of mixed (Margolis & Walsh, 2003), negative (Griffin & Mahon, 1997), and primarily positive relationships between business ethics and firm performance (Donker, Poff and Zahir, 2008; Orlitzky, Schmidt, & Rynes, 2003; van Beurden & Gössling, 2008). These researchers concluded that ethics' contributions to firm performance generally depend on what aspects of ethics and performance were examined, which leads to the second point to note.

The conceptualization of corporate ethics, as adopted in this dissertation, represents a firm's ethical context. This context reflects both the social concerns of society represented by external ethics and the explicit internal ethical procedures for employees to abide to (Chun et al., 2013; Kaptein & Van Dalen, 2000). As such, corporate ethics represents external aspects of a corporation's social responsibility along with its internal ethical functioning, two manifestations that have shown positive contributions to firm performance. For instance, after accounting for the effects of research methodologies and measurements issues, van Beurden and Gössling (2008) in their literature review affirm that the effects of corporate social performance on firm performance are "solely positive". Additionally, representations of internal business ethics that specifically investigate ethics processes such as codes of ethics, training, and enforcement mechanisms consistently found these programs to be important factors in reducing costly ethical frauds (e.g., Mitchell, Daniels, Hopper, George-Falvy, Ferris, 1996; Schnatterly, 2003; Treviño & Weaver, 2001). As such, both components of corporate ethics studied in this dissertation are usually linked positively to firm performance. The third and last related observation is that a discussion of ethics and

financial benefits should take into account the high cost of financial misconduct (Rockness & Rockness, 2005), such as those at Enron, WorldCom, and Global Crossing (Josephson Institute Reports, 2004). Therefore, the costs associated with ethical and financial misconduct should serve as impetus for many firms to improve organizational ethical context.

The financial costs of misconduct are also relevant to the discussion regarding diversity and firm performance. Corporate diversity scandals, as in those at Lockheed Martin (Equal Employment Opportunity Commission, 2008) and Best Buy (Hill, 2011) provide anecdotal evidence that mismanagement of diversity can be damaging and costly (Murphy, Shrieves, & Tibbs, 2009), which may explain the business mantra that diversity has financial benefits. However, research does not definitely support the business rationale that workplace diversity is directly associated with financial outcomes (Kochan et al., 2003; Milliken & Martins, 1996; Williams & O'Reilly, 1998). The academic literature seems to indicate that diversity's benefits to the firm occur through contextual factors such as an organization's business strategy (Richard, 2000), overall reputation (Miller & del Carmen Triana, 2009), or diversity reputation (Roberson & Park, 2007). Consistent with past research, I propose that diversity management's contributions to firm performance take place through corporate ethics. As described next, few studies have examined diversity, ethics and firm performance simultaneously.

Even fewer empirical studies have specifically examined diversity management (Yang & Konrad, 2011), but there are many conceptual papers on the topic (i.e., Gilbert et al., 1999; Thomas, 1990; Pitts, 2006, Yang & Konrad, 2011). A comprehensive literature search found only two empirical studies that examined all three components of

diversity management (diversity recruitment, staffing structures, and valuing diversity) concurrently (i.e., Labelle, et al., 2010; Pitts, 2009). The first study by Pitts (2009) is not applicable here as it investigated the effects of the three components of diversity management on employee job satisfaction and employees' performance and did not examine ethics or firm performance. The second study by Labelle and colleagues (2010) is the only empirical study to date that addressed diversity management and business ethics. While the authors did not address firm performance specifically, they referenced firm benefits through financial reporting quality. I will briefly review their research below to highlight how their study differs from the proposed dissertation.

Labelle and colleagues (2010) employed the corporate ethical continuum framework (Reidenbach & Robin, 1991), which characterized firms through an ethics development scale that ranges from amoral, legalistic, responsive, emerging ethical, to ethical stage, depending on the degree to which the firms' social missions were in tune with their economic mission. The authors made a leap that diversity management reflects organizational ethical context by using diversity management as a proxy for the corporate ethical continuum. They placed firms with existing diversity management policies at the responsive stage on the corporate ethical continuum by proposing that such policies showed concerns for additional stakeholders beyond the owners.

This dissertation differs from the Labelle and colleagues' (2010) study in several ways. First, diversity management does not represent ethics, but rather complements ethics as antecedents to organizational outcomes (Gilbert et al., 1999). In accordance with the conceptual model discussed earlier in Figure 2.1, this dissertation specifically tests for a connection between diversity and ethics based on the social cognitive theory's

modeling concept (Bandura, 1988; 1989; 2001), and thus helps to further clarify the nature of such a relationship.

The second way this dissertation differs from Labelle and colleagues' (2010) study is that it accounts for the racial diversity of boards of directors in addition to diversity management. Labelle and colleagues assessed diversity management through the Jantzi Research's scoring criteria, which rate Canadian corporations on 10 diversity-related items (Labelle et al., 2010). However, none of the 10 items included racial diversity. Eight items measured diversity management's policies and programs that had iterations of the three components of recruiting, staffing structures, and valuing diversity. The remaining two items measured the percentage of women among firms' senior executives, and the percentage of women on boards of directors. As discussed earlier, racial diversity on the board of directors is an important factor to investigate.

Lastly, Labelle and colleagues' (2010) study found that higher level of diversity management related negatively to the quality of financial reporting. They utilized earnings management report, which is an ethics construct (Merchant & Rockness, 1994), as proxy for financial reporting quality. This dissertation differs from their study in that the outcome variables in relations to diversity management are firm performance measures as opposed to another ethics construct.

In summary, academic findings do not support industry's views that workplace diversity contributes to firm performance (Kochan et al., 2003). These conclusions beg for more comprehensive analyses that can further explain how such practices accommodate firms' goals given their popularity in industry. I also referred to studies that demonstrated evidence of positive findings of business ethics' contributions to firm

performance (Donker et al., 2008; Orlitzky et al., 2003; van Beurden & Gössling, 2008), and that showed diversity's benefits occur through intervening factors (Joshi & Roh, 2009). Faced with these results, the current study proposes that diversity management benefits firms by creating spillover effects through corporate ethics. The spillover hypothesis is grounded through the social cognitive theory, which affirms that behaviors and practices are modeled from previously observed ones, especially when there are similarities and relations between the old and the new practices (Bandura, 1989; 1991). The next section begins with a review of social cognitive theory and its applicability to this study. With the theoretical overview established, I then explore each projected hypothesis in relation to the theory.

Theoretical Foundation

Social cognitive theory explains learning through observation and modeling. The learning by observation view was originally known as social learning theory (Akers, Krohn, Lanza-Kaduce, & Radosevich, 1979; Bandura, 1965). In later writings, Bandura (1986) relabeled learning by observation as social cognitive theory to diminish the focus on the traditional pairing of learning with its 'response' acquisition mechanism. Bandura (1986) conceptualized learning as the process of 'knowledge' acquisition. He also proposed that such knowledge can be obtained from watching others, a process known as vicarious learning. Vicarious learning allows an individual to develop an idea of how to carry out a task, without actually performing it oneself, through observations of prior events within a social context (Bandura, 1986; 1989). Hence, social cognitive theory's vicarious learning concept created a role for environmental events and for learning from

observing others' past behaviors. Bandura (1986) proposed this concept occurs within a triadic reciprocal learning process.

Figure 2.2 below illustrates the triadic reciprocal observational learning process that involves behavioral, personal, and environmental factors interacting to determine subsequent behavior (Bandura, 1986). Personal factors (P) relate to cognitive abilities, such as knowledge, expectations and attitudes. Behavioral factors (B) relate to behaviors or practices; they must have already occurred and they can be from the self or from observing others. Environmental factors (E) are events within the social context such as social norms or past practices. The three influencing factors (P, B, and E) are not of equal strength, nor do they all occur concurrently (Wood & Bandura, 1989). In fact, empirical testing can utilize any one of the three aspects to explain subsequent expectations (Bandura, 1988). For instance, Bandura (1988) demonstrated how personal factors equipped people with the competencies they need to model an organizational task.

FIGURE 2.2. Schematization of the relations among behavior (B), cognitive and other personal factors (P), and the external environment (E) (Wood & Bandura, 1989).

In addition to vicarious learning, modeling is another important mechanism that plays a role in developing competencies in all three determinants of the triangle above (Bandura, 1986). Modeling refers to the repeating of behaviors observed from others, thus vicariously (Bandura, 1986). Modeling provides a blueprint for understanding how the past helped create current norms. Vicarious learning and modeling offered researchers the tools to apply social cognitive theory to diverse areas of studies, including organizational behavior (Manz & Sims, 1981) and organizational learning (Gibson, 2004). In this dissertation, boards of directors' compositions are hypothesized as models for diversity management behaviors, and past diversity management practices as environmental practices that guide appropriate ethical sequences. Bandura (1998) further explained that similarity and consistency are important characteristics that facilitate and reinforce the modeling process. Along with being an antecedent, diversity management shares similarities with ethical practices. They are both based on various principles of ethics (Alder & Gilbert, 2006). The rest of chapter 2 presents the hypotheses that develop the above linkages beginning with the theoretical model in Figure 2.3.

Hypotheses Development

Figure 2.3 below integrates the two approaches to investigating diversity management that were discussed earlier: the three-component approach (Pitts, 2006), and the phase approach (Thomas, 1990). The three-component approach indicated that the three initiatives that form diversity management relate directly only to functional benefits and not to overall organizational outcomes. For example, diversity recruitment increased employee diversity (McKay & Avery, 2005), valuing diversity helped with reducing turnovers (Peek et al., 2013), and staffing structures contributed to the implementation of

diversity programs that are aligned with organizational objectives (Dobbin & Kalev, 2007; Kalev et al., 2006). Consequently, the first six relationships in the model below investigate the three components of diversity management as possible facilitators of corporate ethics (H1a - H2c). Hypotheses H1a - H2c utilize the multi-dimensional construct of diversity management to represent the component approach. Corporate ethics in turn is investigated in relations to financial performance (H3a, H3b). Simultaneously, I also assess diversity management as a strategic initiative in accordance with the phase approach. As a reminder, the phase approach proposed that given diversity management is a voluntary strategic initiative that has organizational impact, it requires involvement at the highest level of leadership in order to permeate the organization (Gilbert et al., 1999; Pitts, 2006; Thomas, 1990). The model thus shows board of directors' racial diversity as the impetus for diversity, and firm performance as the ultimate outcome. In testing relationships between diversity management and other organization-wide variables such as boards of directors or firm performance (H4, H5), I utilize the one-dimensional construct (shown as the larger oval in Figure 2.3). Predicting relationships using both one-dimensional and multi-dimensional variations of the same construct within a study is consistent with procedures previously utilized by Kaptein (2009) in his investigation of the manifestations of ethics programs and ethical culture.

FIGURE 2.3. Theoretical framework

Another important distinction in the above model has to do with the directions of the arrows, from diversity management to corporate ethics. One could very well attempt to show that ethics might influence diversity management; however, such a view would not be grounded in social cognitive theory. Although this dissertation does not imply causal relationship, social cognitive theory asserts that the modeling effect occurs from the prior behaviors to the new ones (Bandura, 1977). Therefore, the potentials for supporting the theoretical relationships predicted in Figure 2.3 exist because formal attention to diversity management in U.S. corporations can be traced back to the 1964 Civil Rights Act (O'Leary & Weathington, 2006), which precedes the creation of formal workplace ethics programs during the 1990's (Weaver & Treviño, 2001). Furthermore, a basic premise of social cognitive theory's spillover model is that the common foundation between the two practices allows for the transfer of returns from one to the other, such

that exposure to one initiative brings returns that go beyond that one initiative to transmit to other programs. I therefore assess the spillover model by testing the prediction that diversity management positively correlates with corporate ethics.

As a reminder, the three social cognitive theory's mechanisms of modeling, consistency, and vicarious learning that appropriately link prior diversity management practices with corporate ethics do not need to occur all the time or simultaneously (Wood & Bandura, 1989). As such, I anticipate the spillover effect to manifest primarily through the modeling of diversity recruitment's processes given diversity recruitment's focus on systems and processes. I expect the vicarious learning mechanism to be more visible in the valuing diversity component given the latter's focus on building values. I project staffing structures to primarily create consistency that reinforces an organization's values and commitment to diversity and thus strengthens the proposed spillover effects. I anticipate secondary effects to occur throughout all the components within diversity management and corporate ethics. I begin with how diversity recruitment processes are modeled into internal ethics.

The Internal Ethics Benefits of Diversity Management

Diversity Recruitment and Internal Ethics: Diversity recruiting experiences strengthen internal ethics primarily through the modeling of established and fair recruitment processes. For example, there is a long-standing requirement that job advertisements contain targeted equal opportunity statements designed to open the doors to all qualified candidates, and most importantly, that managers and recruiters follow and document transparent systemic procedures when recruiting new employees into the organization (McNab & Johnston, 2002). The equal opportunity legal requirements

derived from the premise that absent discrimination, whether intentional or unconscious, a workplace would look like the general population from which it recruits (Affirmative Action Programs, 1978; U.S. Department of Labor, 1967). Given that most workplaces do not look like the general population that is qualified to do the work, there is an assumption of implicit discrimination (U.S. Department of Labor, 1967). The equal opportunity clause does not offer any special privileges to minorities, except those given as remedies for proven past discrimination. Furthermore, the law specifically protects everyone from all races from discrimination and emphasizes a commitment to equity and fairness. The concept of fairness is so critical to the anti-discrimination law that the tool most widely used by the EEOC to investigate discrimination in hiring is the Uniform Guidelines on Employee Selection Procedures (Cohen & Dunleavy, 2009). The Uniform Guidelines on Employee Selection Procedures assessed the fairness of a firm's recruitment and selection process by conducting a series of fairness tests (Uniform Guidelines on Employee Selection Procedures, 1978). Given its focus on fairness and equity, it is not surprising that diversity recruitment is the most popular of the diversity management practices with 79% of human resources professionals reporting that they use diversity recruitment strategies to open the doors to all applicants (Esen, 2005). For the people directly involved, the fair and transparent nature of diversity recruitment processes should have a ripple effect into stronger internal ethics, given that equity, fairness (Treviño, Gibson, Weaver, & Toffler, 1999) and transparency (Kaptein, 2009; Martin & Cullen, 2006) are inherent aspects of internal ethics.

I expect the spillover effect from diversity to ethics to extend beyond the core group of hiring managers and human resources professionals to permeate organizational

internal practices, primarily because of social cognitive theory's vicarious learning and shared commonalities effects. Vicarious learning is the concept that individuals learn not only from their own experiences but also from observing others (Bandura, 1986; 1989). Observed information is often stored in categories that are later used to recover cues on related issues of the same category (Schneider, 1991). Indeed, empirical research shows that on matters involving internal ethics, employees pulled from cognitive cues on observed related issues such as fairness in hiring and other personnel related matters (Weaver & Treviño, 2001). Additionally, the diversity literature showed adverse reactions to diversity initiatives from a greater number of non-minorities occurred when diversity is positioned as affirmative action (Harrison et al., 2006). Diversity recruitment under the diversity management paradigm stands in contrast to affirmative action and emphasizes the firm's commitment to accessing talents that can better serve the needs of its diverse constituencies. These types of recruitment initiatives are viewed and accepted more positively by the general workforce, partly because of their focus on fair representation (Kalev et al., 2006; Kochan et al., 2003). I therefore expect positive internal ethical outcomes for the organization from the diversity management's recruitment initiatives because of their emphasis on fairness and on doing what is right.

Lastly, another area of research that bolsters the claim for ripple effects from diversity recruitment's ethical spillovers beyond those directly affected by diversity comes from the business ethics literature. Martin and Cullen's (2006) meta-analysis of the consequences of the ethical climate types for the larger organizational revealed that principled climates, which are the types of ethical climates in which rules, laws, codes, and procedures are perceived to be internalized, produced positive ethical outcomes for

the organizations. Examples of positive ethical outcomes relating to principled climates include higher levels of ethical reasoning and more ethical decision-making (e.g., Barnett & Vaicys, 2000; Elm & Nichols, 1993). Researchers concluded that principled climates produced such ethical benefits because the internalized rules provide predictable bases for interactions and decision making (Martin & Cullen, 2006; Rosenblatt & Peled, 2002). Given diversity recruitment practices also provide established predictable standards for decision making in the hiring process, they are well positioned to ripple positive ethical effects. In sum, internal ethics, which reflects a company's formal adoption of desired ethical standards (Trevino, 1986), can model diversity recruitment practices with which they shared similarities through the principles of fairness, equity, and rules of law. Therefore, the following is suggested:

Hypothesis 1a: A firm's diversity management recruitment is positively related to that firm's internal ethics.

Diversity staffing Structures and Internal Ethics: The impact of diversity management's practices in setting precedents for internal ethics also hinges on how the practices are implemented throughout the organization. Research suggests that commitment from the top and accountable personnel are two important aspects of the staffing structures that relate to the successful implementation of diversity management (Kalev & Dobbin, 2006; Yang & Konrad, 2011). For example, the existence of an individual or group accountable for diversity conveys to managers the importance that the leadership places on diversity management, and those managers in turn commit departmental resources to diversity (Kalev & Dobbin, 2006). Moreover, when that

individual or group is positioned in the executive suite, this level of attention to diversity reinforces that leadership is “truly committed” to diversity (Dexter, 2010). Thus, through strengthening the notion that the leadership is sincere in managing diversity, the right level of diversity staffing structures bolsters internal ethics given sincerity is a shared value between the two programs. For instance, codes of ethics, which also emphasize the concepts of sincerity (Martin & Cullen, 2006), are an integral part of internal ethics (Chun et al., 2013; Kaptein, 2009; Sims, 1991). Moreover, with stronger diversity staffing come more opportunities to carry out programs, and thus more opportunities for modeling organizational values in subsequent internal ethical practices. The implementation of more programs would maximize the impact on internal ethics, as observations are easier to model than statements (Bandura, 1988). Therefore, the following is suggested:

Hypothesis 1b: A firm’s diversity management staffing structure is positively related to that firm’s internal ethics.

Valuing Diversity and Internal Ethics: The third and last primary component within diversity management, valuing diversity, offers firms another opportunity to strengthen internal ethics. At the most elementary level, a firm’s internal ethics would be bolstered through observations and modeling of valuing diversity’s basic steps. Such steps include policy statements that state organizational intent, the set-up of committees or task forces that monitor enforcement, and diversity training that teach expected and acceptable standards (Mor Barak et al., 1998; Olsen & Martins, 2012; Pitts, 2006; Thomas, 1991). The ethics requirements in the 2002 Sarbanes Oxley Act (U.S. House of

Representatives, 2002) as well as internal ethics as practiced by firms also include codes, enforcement systems, and training programs (Treviño et al., 1998; Treviño & Weaver, 2001). Accordingly, valuing diversity practices provide models for subsequent internal ethics practices, given the spillover or external learning occurs through the social cognitive theoretical premise that individuals search for appropriate standards from records of prior experiences (Akers et al., 1979; Bandura, 1986).

Additionally, I propose that the standards created by the valuing diversity component do not remain at a basic or superficial level but permeate the firm's ethical culture. Although this dissertation did not measure ethical culture, it can rely on previous research that has shown that ethical culture shares many characteristics with internal ethics (Kish-Gephart et al., 2010; Treviño et al., 1998). For instance, research shows that a firm's ethical culture derives from the established systems that provided the internal ethical standards for day-to-day activities (Treviño et al., 1998), and that internal ethics is more effective in environments that sanctioned appropriate behaviors (Kish-Gephart et al., 2010; Treviño et al., 1998). Valuing diversity statements guide internal diversity practices so that they reflect organizational ideals (Singh & Point, 2004), and create standards for how employees will treat each other (Gilbert et al., 1999). It is reasonable to expect these diversity standards to build greater ethical expectations given that people learn through a triadic reciprocal process (Figure 2.2.) that includes past behaviors (B) and their environments (E) (Bandura, 1989). Thus, I propose that organizations build stronger internal ethics through the implementation and internalization of valuing diversity standards. Therefore, the following is suggested:

Hypothesis 1c: A firm's diversity management valuing diversity is positively related to that firm's internal ethics.

Thus far, through the three hypotheses above (H1a - H1c), I have shown that the components of diversity management practices, namely recruitment, staffing structures, and valuing diversity are respectively rooted in the ideals of fairness (e.g., Uniform Guidelines on Employee Selection Procedures, 1978), honesty (Dexter, 2010; Kalev & Dobbin, 2006), and standards (e.g., Gilbert et al., 1999; Olsen & Martins, 2012). The next set of hypotheses (H2a - H2c) offer the rationales for how social concerns in the diversity management's components also create consistency with and reinforce external ethics.

The External Ethics' Benefits of Diversity Management

If, as research shows, the justice value of fairness can transcend self-interest (Folger, 1994, 1998), then it is reasonable to expect that such concerns would extend to external ethics. External ethics considers how a firm's voluntary activities contribute to the welfare and well-being of society and align the firm with society's ethical concerns (Chun et al., 2013). The spillover effect of perceived organizational fairness on employees' actions is powerful. For instance, research firmly concluded that employee citizenship attitudes and activities are influenced by how fair they consider their organizations' actions to be (e.g., Colquitt et al., 2001; Cropanzano, Byrne, Bobocel & Rupp, 2001; Masterson, Lewis, Goldman, & Taylor, 2000; Moorman, 1991).

Consequently, the following three hypotheses argue how the ideals of fairness, standards, and honesty reinforce to external stakeholders that the firm abides to societal concerns,

which in turn strengthens external ethics through the social cognitive mechanisms of modeling, consistency and vicarious learning.

Diversity Recruitment and External Ethics: The implementation of established diversity recruitment practices appears well positioned to strengthen external ethical practices through consistency of shared values and modeling. First, returning to the ethical benefits of an internal context in which rules, laws, codes, and procedures are perceived to be internalized (Martin & Cullen, 2006), researchers attributed such benefits to the fact that decision making in these contexts does not center around personal benefits to the individuals but rather on principles that promote the greater good (Martin & Cullen, 2006). External ethics' societal concerns reflect the firm's commitment to the common good.

Second, both diversity recruitment and external ethics share a common goal of improving a firm's external reputation and of demonstrating a company's commitment to its perceived social obligations. For instance, diversity recruitment improves a firm's reputation by portraying to the public its commitment to equal opportunities and fairness (Kochan et al., 2003). Specifically, the targeted diversity messages in the recruitment materials improve a firm's reputation by signaling that the organization recognizes the importance of diversity in the society of which it is a part of (Williams & Bauer, 1994). Such reputation may have the additional ripple effects of attracting specific groups of employees who are more socially oriented and concerned with improving social welfare and well-being (Cropanzano et al. 2001; Rupp, Ganapathi, Aguilera, & Williams, 2006), which in turn would contribute to external ethics' social concerns. The external spillover

effects of diversity recruitment statements should be especially visible when the diversity messages go beyond the basic mandated requirements and are made readily available to the general public, such as on corporate websites. Websites convey signals about organizational values and priorities to all stakeholders (Rubaii-Barrett & Wise, 2007). Given that diversity statements in job postings are generally positive, I expect these statements to reinforce an image of an ethical corporation externally. As such, the following is expected:

Hypothesis 2a: A firm's diversity management recruitment is positively related to that firm's external ethics.

Diversity Staffing Structures and External Ethics: Similar to the internal effects, diversity staffing structures should also relate to the external image of the company by reinforcing the evidence portrayed in the recruitment and valuing diversity statements. However, the rationale proposed here is based on prior studies' findings that outsiders perceived corporate reports more favorably when there is other evidence to support the reports (Brown, Dacin, Pratt & Whetten, 2006; Kirby & Richard, 2000; Smith, Morgan, King, Hebl, & Peddie, 2012; Smith, Wokutch, Harrington & Dennis, 2001). Supporting that concept, Brown and colleagues (2006) concluded that how outsiders view organizations "may be indirectly affected through managerial choices and actions" (p. 105). Therefore, I assert that the personnel devoted to the management of diversity contribute to reinforcing an image of an organization that cares about societal concerns. External ethics is strengthened given it also embodies societal concerns. Therefore,

higher level of diversity staffing structures should reinforce the firm's stated vision for external ethics to the public. As such, I suggest:

Hypothesis 2b: A firm's diversity management staffing structure is positively related to that firm's external ethics.

Valuing Diversity and External Ethics: Valuing diversity, the last component of diversity management strengthens external ethics by presenting evidence of an ethical corporation to external stakeholders. A firm's valuing diversity component is designed to foster respect of others and create organizational diversity standards (Olsen & Martins, 2012). Many corporations highlight their valuing of diversity's initiatives in company statements and annual reports, which serve to formalize the intentions and positions of the organization on the issue of diversity with external stakeholders (Roberson & Park, 2007). These statements and reports are presumed to align with society's ethical values and therefore present evidence of an ethical corporation to external stakeholders.

Moreover, valuing diversity strengthens external ethics by encouraging employees' citizenship behaviors. Prior findings showed that organizational contexts and cultures stimulated employees to implement the ethical expectations of societal and external stakeholders (Kaptein & Van Dalen, 2000; Masterson et al., 2000; Moorman, 1991). As referenced in the introduction to this sub-section, the experiences of employees at work helped to shape their beliefs about fairness, respect and their citizenship behaviors (Cropanzano et al., 2001; Moorman, 1991). That is, citizenship behaviors may be a function of an employee's beliefs that he or she has been treated fairly by the organization (Masterson et al., 2000; Moorman 1991). Consequently, I propose that the

experiences of being in an organization with strong valuing diversity practices that embody fairness and respect are likely to reflect in external citizenship behaviors whereby such employees are more likely take part in the company's activities that benefit external constituencies, which will be reflected in the company's external ethical actions. This in turn strengthens external ethics since external ethics is manifest in a firm's expressed commitment to public welfare and to solving social problems (Chun et al., 2013). Therefore, I suggest the following:

Hypothesis 2c: A firm's diversity management valuing diversity is positively related to that firm's external ethics.

The aforementioned six hypotheses on the various relationships among the components of diversity management and corporate ethics are investigated in order to assess their potentials to increasing financial performance, an important goal for corporations. This dissertation asserts that diversity management's practices contribute to the development of a more ethical, and subsequently a more profitable firm. As shown next, social cognitive theory can also predict how the spillover from diversity management into corporate ethics subsequently impacts firm performance. As depicted earlier through the theoretical model, in testing relationships between diversity management and overall organizational outcomes or governance, I position diversity management as a strategic initiative. As such, the remaining hypotheses examine diversity management as a strategic or a one-dimensional variable.

Mediating Roles of Internal and External Ethics on the Diversity Management-Firm Performance Relationship

This study suggests that diversity management positively affects firm performance through the mediating effects of corporate ethics by facilitating the implementation of internal and external ethics practices. As argued above (H1a - H1c), diversity management is predicted to bolster internal ethics. Previous empirical research can be relied upon to buttress the case for a positive relationship between ethics and firm performance, in order to subsequently make the case for the mediation arguments.

First, studies that specifically examined firms' internal ethical functioning through explicit combinations of codes of ethics, training, and enforcement mechanisms consistently found these programs to be important factors in reducing fraud that resulted from internal ethical failures (e.g., Mitchell et al., 1996; Schnatterly, 2003; Treviño & Weaver, 2001). Ethical frauds are costly (Rockness & Rockness, 2005). Second, companies who made public commitments to using explicit ethical practices showed positive financial outcomes in combined measures of total return, sales growth, and profit growth (Choi & Jung, 2008; Verschoor, 1998). These studies confirmed that higher levels of internal ethical functioning correlate with greater level of financial outcomes.

Therefore, I anticipate:

Hypothesis 3a: There is a positive relationship between a firm's internal ethics program and its revenue.

Hypothesis 3b: There is a positive relationship between a firm's internal ethics program and its return on investment.

External ethics should also contribute to financial performance. This proposition is supported by findings from the stakeholder's perspective, which is primarily used to explain the positive relationship between corporate social performance and financial performance (Chun et al., 2013; van Beurden & Gössling, 2008). Corporate social performance often includes the ethical impact of a firm's practices on society (van Beurden & Gössling, 2008). A major challenge identified by most researchers is that corporate social performance also includes many other different activities (Jones, Felps & Bigley, 2007; van Beurden & Gössling, 2008). Margolis, Elfenbein and Walsh (2007) coded nine different categories of corporate social performance that could potentially include aspects of corporate ethics. Corporate social performance does however overlap with external ethics (Basil & Erlandson, 2008; Chen et al, 2008). Consistent with previous studies on corporate social performance that have primarily showed positive relationships between corporate social performance and firm performance (Orlitzky et al., 2003; van Beurden & Gössling, 2008), I anticipate an image of positive external ethics to also contribute to financial performance.

Furthermore, business ethics programs that incorporated basic values that resonate with the public, such as accountability, fairness, honesty, respect, trust, integrity, and responsibility, also show positive benefits to business practices and strategies (Donker et al., 2008). External ethics, as conceptualized by prior research and as adopted in this dissertation, is built from similar societal concerns that resonate with the public (Chun et al., 2013; Kaptein & Van Dalen, 2000). These positive relationships are explained through the belief that corporate ethics improves a firm's external relations, legitimacy, and reputation, thus leading to increased firm performance (Donker et al., 2008; Hosmer,

1994; Roberts & Dowling, 2002). For example, Hosmer (1994) maintained that corporate ethics contributes to firm performance by promoting trust between the firm and its stakeholders (customers, suppliers, employees and vendors). Consistent with these previous findings, I expect to find positive correlations from external ethics to financial performance. Therefore,

Hypothesis 3c: There is a positive relationship between a firm's external ethics programs and its revenue.

Hypothesis 3d: There is a positive relationship between a firm's external ethics programs and its return on investment.

Although empirical studies do not support significant and direct contributions of diversity management to financial performance (Kochan et al., 2003), proponents of diversity continue to argue that diversity management remains a business necessity because of its potential benefits to firm performance (Thomas, 1990; Yang & Konrad, 2011). However, most scholars agreed that the performance implications of diversity operate through intervening processes (Kochan et al., 2003; Miller & del Carmen Triana, 2009; Milliken & Martins, 1996; Roberson & Park, 2007). As reviewed earlier, diversity recruitment achieved greater workforce diversity (Avery, 2003), which in turn opened access to diverse markets, and eventually to greater profits (Robinson & Dechant, 1997). Valuing diversity reduced minority turnovers and their associated costs (Peek et al., 2013). There were positive associations between receiving a diversity award and financial performance (Roberson & Park, 2007; Wright et al., 1995), which required staffing to carry out high caliber diversity programs worthy of rewarding. Paradoxically, many

studies found negative returns from diversity to firm performance (Milliken & Martins, 1996; Williams & O'Reilly, 1998).

Given the conditional requirements and the inconsistent findings regarding workplace diversity practices in general, and given the lack of research specifically on diversity management, direct significant relationships between diversity management and firm performance cannot be predicted. As such, this dissertation anticipates the contributions of diversity management to firm performance to be transmitted through corporate ethics. In other words, diversity management indirectly affects financial performance because diversity management affects corporate ethics (H1a-c, H2a-c), which in turn affects financial performance (H3a-d). I expect this mediation to be a partial influence given a relatively small number of studies have found small outcomes from diversity management that were enhanced through contextual factors (e.g., Roberson & Park, 2007; Wright et al., 1995), and given the argument that negative consequences from diversity are the results of ineffective management of diversity (Shen et al., 2009). Therefore, I suggest the following partial mediation:

Hypothesis 4a: Internal ethics partially mediates the relationship between diversity management and revenue.

Hypothesis 4b: Internal ethics partially mediates the relationship between diversity management and return on investment.

Hypothesis 4c: External ethics partially mediates the relationship between diversity management and revenue.

Hypothesis 4d: External ethics partially mediates the relationship between diversity management and return on investment.

Board of Directors' Racial Diversity and Diversity Management

Given diversity management is a voluntary and strategic initiative, existing conceptual models of diversity management proposed leadership as one of its most important drivers (Gilbert et al., 1999; Pitts, 2006; Thomas, 1990). Additionally, social cognitive theory would also predict leadership as an important condition affecting diversity management given that organizational norms and values are learned primarily through association, modeling, and reinforcement (Bandura, 1977; 1986; Brown et al., 2005). For instance, studies on ethical behaviors show that although organizations may state clear standards about expected practices, if leaders' behaviors contradict these expectations, employees are confronted with inconsistent signals; however, if the behaviors of the leaders are consistent with organizational practices, the message to employees to comply with these expectations is reinforced (Brown et al., 2005; Kaptein, 2008; 2011). Cues from leadership are particularly important for behaviors relating to aspects of fairness and justice (Alexander & Ruderman, 1987).

I consider leadership behavior at the board of directors' level given findings that boards of directors play significant roles connecting the firm to the external environment and formulating strategies in response to changing environments for top management teams to implement (Finkelstein & Hambrick, 1990; McNulty & Pettigrew, 1999). Furthermore, important firms' initiatives are often a reflection of the characteristics of their directors using their previous experiences to direct the paths of the firms (Westphal & Bednar 2005) and not necessarily of the top management team. Lastly, given that top management teams generally average 5.9 members (Jehn, 1995; Forbes & Milliken, 1999), versus 13 for boards (Monks & Minow, 1995), and have low representation of

racial minorities (Roberson & Park (2007), the boards of directors offer more opportunities for organizational members to observe and experience models of consistency between diversity management rhetoric and leadership practice. That is because in order for organization members to evaluate and model leaders' behaviors on diversity, the opportunities must first exist. Thus, I expect racial diversity at the board of directors to enhance overall diversity management by providing organizational examples to model, and by reinforcing consistency throughout the organization with practices at the board level. I therefore predict:

Hypothesis 5: There is a positive relationship between racial diversity on the board of directors and overall diversity management.

The remainder of this manuscript addresses the methods used to test the above hypotheses in chapter 4. Discussion and results of the statistical analyses are presented in chapter 5.

CHAPTER 3

METHODOLOGY

The main purpose of this empirical study is to explore the relationship between four aspects of corporate diversity (diversity recruitment, diversity staffing structures, valuing diversity and board of directors' racial diversity) and their impact on firm ethics, and subsequently on firm performance. This chapter describes the methodology employed to assess the hypotheses presented in Chapter 2 and contains two sections. The first section provides an overview of the study's methodology, including a description of the sample, sampling technique, and the pilot testing procedures. The second section describes the data collection process, followed by an in-depth description of the measures employed in the study.

Overview of Research Methodology

This study utilizes a cross-sectional and quantitative research design that assesses relationships between variables in a synchronized manner that does not imply a causal relationship (Creswell & Clark, 2007). This study also relies on the constructivist paradigm to categorize and apply meanings to secondary data. The constructivist paradigm, which views knowledge as constructed from collected information as opposed to discovered (Schwandt, 1994), recognizes the complex nature of interpreting information as realities, and thus proposes that there is no single, unique "reality" but only individual perspectives (Erlandson, Harris, Skipper & Allen, 1993). While the

categories utilized in this study came from previous research (i.e., Singh & Point, 2004; Thomas, 1990), it cannot be said with certainty that the assigned meanings are as intended by the corporations, but rather that the data reveal patterns that can be analyzed from a particular paradigm to answer the specified research questions for this sample. Lastly, similar to previous studies that have examined the relationship between social performance and finance performance (e.g., Andrevski et al., 2011; Chen et al., 2008; Luo & Bhattacharya, 2006), this study collected its data from corporations' websites and archival databases. One advantage of using secondary databases as opposed to questionnaires and interviews is that one can obtain information with reduced biases from respondents. Respondent bias is often heightened on sensitive topics (Harris, 2001) such as ethics and diversity, as considered here.

Sample

Data were gathered from four archival sources including annual reports, the National Directory of Corporate Giving (Foundation Center, 2013), Compustat, and corporate websites. There is precedent for using the sources considered in this study including annual reports (e.g., Abbott & Monsen 1979; Clarkson, Li, Richardson, & Vasvari, 2008), the National Directory of Corporate Giving (e.g., Marquis & Lee, 2013; Seifert, Morris, & Bartkus, 2004), and the Compustat databases (e.g., Hull & Rothenberg, 2008; Misangyi, Elms, Greckhamer, & Lepine, 2006; Sørensen, 2002). Corporate websites are increasingly being validated as reliable instruments to collect information on companies' social, ethical, and environmental performance (Jose & Lee, 2007; Rubaii-Barrett & Wise, 2007; Singh & Point, 2004). Furthermore, Rahman and Post (2012) found that the data disclosed by companies on their corporate websites are consistent

with those found in their annual reports. However, given that information on a corporate website may not be formally audited, it will not be used to make any interpretation or conclusion about the firms' levels of commitment, but rather to reveal characteristics about the diversity and ethical practices of companies in this sample. Thus, the discussion and interpretations of these characteristics are presented with these limitations in mind.

The sample for this study was selected through criterion sampling from the 500 firms in the 2012 Fortune 500 list. Fortune Magazine publishes its annual list of the top 500 closely-held and public US corporations with the largest gross revenues on the magazine's website. A criterion sampling technique entails the selection of cases that meet certain relevant conditions (Neuman, 2003), and is effective in research of groups with common characteristics (Creswell & Clark, 2007). These 500 firms are subject to similar sets of internal and external pressures (e.g., from government, industry associations, boards of directors, labor groups, etc.), which might compel similar types of social responsibility that can be compared across firms (Weaver et al., 1999a). Additionally, these firms are large enough that they are likely to take on the management of diversity (Singh & Point, 2004), and develop corporate ethics programs (Weaver et al., 1999a). They also represent a wide range of industries (Weaver et al., 1999a).

In order to be selected for the target sample, firms from the 2012 Fortune 500 list had to be continuously listed on Compustat from 2009 to 2012, without being acquired by another company during those years. New mergers and acquisitions is likely to impact human resources and diversity issues (Richard, 2000), and often lead to less efficient operations in the short term, which can negatively affect firm performance (Hopkins & Hopkins, 1997). The Compustat database was also appropriate given that it only lists

firms that are publicly traded. Publicly traded companies face similar normative and cultural pressure (Crawford & Williams, 2010) and are thus an appropriate pool for comparing practices such as diversity management and ethics that may derive from normative and cultural pressures (Armstrong et al., 2010; Edelman, 1992; Weaver et al., 1999a). Furthermore, privately-held firms may not be subject to the same disclosure requirements as publicly traded companies are. I also selected 2012 as the data year since many corporations have not yet released their 2013 data as of the date of this research (April 2014). Using the latest year for which data was publicly available helped to minimize the time lag between information collected from the companies' websites and those published in the 2012 annual reports. I downloaded the links to the corporations' web addresses and selected those firms with headquarters in the United States to avoid elements of global diversity that internationally-based corporations may seek to convey. These initial criteria reduced the list of 500 to 360 firms that were publicly traded and that had complete data for the dependent variables, which were revenues and return on investment. This list of 360 firms was subsequently used to collect data for the remaining variables through a random sampling method. As a reminder, the other variables include the independent variables of diversity recruitment, valuing diversity, and diversity staffing structures, which in turn form the three components within diversity management. Board of directors' racial diversity was also examined for its effect on diversity management. Internal and external ethics make up the two mediating variables of interest in this study.

Pilot Testing

Prior to proceeding with the main study, I conducted a pilot test of 25 randomly selected firms from the list of 360. The pilot test was designed to: a) improve the list of keywords to be used in the online searches in order to find and categorize the diversity statements; b) validate the process for collecting corporate charitable giving data; and c) assess the reliability of the process for collecting and classifying data for two of the diversity variables (diversity recruitment, and valuing diversity). Following researchers in the diversity literature (e.g. Rubaii-Barrett & Wise, 2007; Singh & Point, 2004), I used information published by the firms, either on their webpages or in annual reports, to collect data on the diversity variables.

To finalize the list of keywords to search for on the websites, I began with an initial list from two meta-reviews of diversity (Horwitz & Horwitz, 2007; Wise & Tschirhart, 2000). I combed through the home pages of the corporations and through every sub link on the 'about' page to gather information relating to diversity. In addition to keyword searches, I also read the employee sections in the corporate social responsibility (CSR) reports. I searched for the following words in the CSR and annual reports, and on every relevant subpage: diversity, inclusion, differences, equal opportunity, affirmative action, race, racial, diversity awareness, affinity group, black history, Latino heritage, diversity week, training, network group, resource group, mentoring, minority, diversity council, diversity task force, employment, and recruitment. This pilot testing led to adding other variations to the above keywords, including heritage month, respect, diversity celebration, employee resource groups, and cultural backgrounds.

The second part of the pre-test was designed to further validate the accuracy of the Foundation Center's online repository of corporate-owned private foundations' tax returns (990-PFs), which list the amount of corporate charitable cash donations, one of the three items in external ethics. It must be noted that given that 990-PFs only apply to firms that distribute charitable giving through corporate foundations and given that not all Fortune 500 firms have set-up such foundations, this meant that the distribution of firms with reported amount of corporate giving took place through the selective way of whether or not the firm had set up a private foundation. This process may thus be subject to possible sample selection bias. This concern is mitigated, however, by the fact that the final sample includes firms from all 10 sectors within the Global Industry Classification Standard (see Table 3-1), and size, which suggests that the sample is largely a representative group. The alternative would have been to collect the extent of charitable donations from corporate social responsibility reports or from the Foundation Center's (2013) National Directory of Corporate Giving, which are not comparable across firms. For example, some firms report pledges and estimates of charitable giving, while others report cash and/or in-kind donations of employees' time, or other donated material goods on their CSR reports. The 990-PFs must be filed annually by private foundations with the Internal Revenue Service (IRS) and actual cash donations made by the firms in the given year must be listed on line 25d (Chen et al., 2008). Thus, to ensure that the same categories of charitable donations were being collected for all firms, I followed previous research (e.g., Seifert et al., 2004) and excluded nonmonetary donations. However, the IRS has thus far released only a portion of the 2012 returns, those that were filed within the first few months of 2013 (see, Internal Revenue Service, 2014). Thus, the IRS could

not be used as the primary source for the 990-PFs. I collected the list of corporations that have established private foundations along with their employer identification number (EIN) from the National Directory of Corporate Giving. This list was subsequently used to download the available 2012 private foundations' tax returns from the IRS and compare the amount of donations listed on the copies found on the Foundation Center (2012) 's online repository of 900-PFs with that on the Internal Revenue Service (2014). IRS data were found for 11 of the 25 firms. I found no discrepancies between the two sources, which suggested that the Foundation Center's copies of the 990-PFs were accurate.

Next, I tested whether the diversity data found on the 25 corporations' websites would significantly differ from those found on their 2012 CSR or annual reports. Sixteen of these 25 firms had published CSR or annual reports that contain information on diversity management. Similar to Rahman and Post (2012), I found no discrepancies between the information on the 2012 reports and on the current webpages. These results thus suggested that both the 2012 annual reports and the information on the webpages are useful sources for collecting information on firms' diversity management practices for the full sample.

In the last part of the pilot study, I screenshot or cut and pasted the relevant sections used to code diversity recruitment, and valuing diversity. The information from the screenshots was then coded under the appropriate categories. Simultaneously, I sent a copy of the websites' screenshots for all 25 firms along with the 16 available CSR and annual reports to a diversity expert with instructions on how to code the items. The two coders had a 91.3 % intra-class coefficient (ICC) for the diversity recruitment ratings (23

out of 25). Further examination of the two cases where they differed revealed that these two companies, along with 7 others in the full sample, were actually taking both a compliance and valuing diversity stance at the same time (e.g., We are an equal opportunity employer who values diversity). I thus selected the highest rating for these recruitment items. Furthermore, while both coders selected different sections for two other companies' recruitment practices, both coders assigned the same diversity recruitment rating to these two companies. As for coding valuing diversity, there was 100% agreement with a resulting ICC of 1. The resulting excellent ICCs indicated that the two coders had a high degree of agreement and suggested that the items can be assigned into clearly observed categories. I thus proceeded with the main study on the full sample.

Main Study

The desired sample size to achieve a significant statistical power for a study such as this one with four predictor variables would be 80 or a ratio of 20 observations for each independent variable (Hair, Black, Babin, & Anderson, 2010, p. 175). To ensure that the sample exceeded the desired size, I randomly selected 110 firms from the list of 360 Fortune 500 firms that met the selection criteria with the expectation that some observations would have to be dropped from the sample per missing data. One firm had to be dropped because of missing demographic data on its board of directors. Industry distribution of the final sample is summarized in Table 3-1, which shows that the 109 firms represented all 10 sectors of the Global Industry Classification Standard. The largest sector in the sample represented over 23% of the total, and is *Consumer Discretionary* (automobiles and components, consumer durables and apparel, hotels,

restaurant and leisure, media, and retail). The next largest sector was *Industrials* (aerospace and defense, construction and engineering services, electrical equipment, machinery, commercial services and supplies, and transportation) makes up nearly 20% of the total sample. *Telecommunications services* was the smallest sector represented in the sample, with 1 firm.

TABLE 3.1. Sample description by industry sector

<i>Industry Sector</i>	<i>Total</i>
Consumer Discretionary	24 (23.91)
Consumer Staples	11 (9.78)
Energy	2 (1.83)
Industrials	21 (19.27)
Health Care	10 (9.17)
Financials	15 (13.76)
Information Technology	13 (11.93)
Materials	5 (4.59)
Telecommunications Services	1 (.92)
Utilities	7 (6.42)
Total	109

(Percentages of industry in parentheses)

Independent Variables

Diversity recruitment: Diversity Recruitment is defined as the targeted outreach strategies that organizations conduct in order to attract employees from various ethnic and cultural groups (Avery & McKay, 2006). Inserting diversity messages in job advertisements has been shown to be a reliable strategy for attracting such diverse employees in that they convey an image of an inclusive workplace (Avery & McKay, 2006; Rubaii-Barrett & Wise, 2007). As such, this dissertation examined employment websites and job postings to assess and rank the types of diversity messages firms are conveying to potential applicants. I first looked for diversity recruitment statements in the 2012 corporate social responsibility and annual reports; 71 recruitment statements out of 109 were found through this process. The remaining 38 recruitment statements were obtained from the corporations' employment websites.

The ranking of the diversity messages was conducted in accordance with Singh and Point's (2004) six categories that ranked diversity practices across a continuum where each stage on the continuum relates to the rationales or drivers for the diversity strategies employed in organizations (Thomas, 1990; Singh & Point, 2004). *Stage 1* is known as the invisible stage. It identified companies that do not mention or refer to diversity or equal opportunity on their recruitment materials, nor any other words from which readers might be able to ascertain the company's stance on diversity such as respect for cross-cultural differences. None of the firms in the sample could be categorized under stage 1. Table 3-2 lists some examples of statements from the sample for the other five categories. *Stage 2*, the 'avoid discrimination stage,' referred to companies that use defensive language without stating the positive side of equal

opportunities. *Stage 3*, the “equal opportunities management” reflected firms in which diversity engagement occurs only through statements of compliance with equal employment rules. Such basic compliance statements indicated either adherence to minimal expectations from federal regulators (see, U.S. Department of Labor, 1967), society or stakeholders, or imitation of competitors’ practices (Kossek et al. 2010; Yang & Konrad, 2011). *Stage 4* utilized the “respect for the individual/capabilities stage” focused on respecting the diversity that different individuals bring to the organization. *Stage 5* identified firms at the diversity management level. Diversity engagement at stage five goes beyond basic requirements and statements of respect to show evidence of diversity management initiatives; however, firms at this stage failed to mention why a diverse workforce was important to the business (Singh & Point, 2004). *Stage 6*, the last stage, distinguished firms that linked diversity recruitment to business needs (Singh & Point, 2004; Thomas, 1990; Thomas & Ely, 1996).

TABLE 3.2. Examples of statements on employment webpages or job postings

<i>Stage</i>	<i>Frequency</i>	<i>Examples from sample</i>
1 - Invisible	0	N/A
2 - Avoid Discrimination	1	•‘We are determined to refrain from any form of discrimination in recruiting, hiring, promotion, assignment, training, termination, and other terms and conditions of employment.’
3 - Equal Opportunity	21	•‘X Corporation is committed to equal

Compliance

opportunity and affirmative action.’

•‘Y Corporation is a federal government contractor and, as such, has developed affirmative action plans and programs pursuant to Executive Order 11246, the 1973 Rehabilitation Act, and the Vietnam Era Veterans’ Readjustment Assistance Act of 1974, as amended.’

•‘As an equal opportunity employer, it is the policy of Z Corporation to consider all qualified applicants for employment without regard to race, color, religion, national origin, sex (including pregnancy), sexual orientation, age, disability, veteran status or other characteristics protected by law.’

4 - Respect for

28

Individual

Capabilities

•‘We recruit, hire, train, and promote qualified Associates with diverse attributes.’

•‘No matter who you are — what race, what religion, what gender, age, disability, or sexual orientation — you are welcomed at Corporation X.’

•‘We recognize and respect the differences in our workforce.’

5 - Diversity Management with no Rationale	3	<ul style="list-style-type: none"> •‘We are committed to develop hiring pipeline that reflects the diversity of talents and backgrounds available at our sites globally.’ •‘We support diversity.’ •‘Our diversity mission is to foster a culture that integrates diversity and inclusion into all aspects of the business.’
6 - Diversity as competitive advantage	56	<ul style="list-style-type: none"> •‘Maintaining a diverse an inclusive work environment is fundamental to our business strategy.’ •‘We recognize that diversity is truly a competitive advantage and helps drive innovation.’ •‘Diversity includes everyone. Diversity drives innovation. Innovation drives customer solutions and business results.’
Total	109	

Diversity staffing structures: Diversity staffing structures consider strategies for establishing responsibility and accountability for the management of diversity (Dobbin & Kalev, 2007; Kalev et al., 2006). A comprehensive approach to diversity management requires the appropriate staffing structure to carry out the initiatives (Dobbin & Kalev,

2007). The items and the ranking for this measure came from a prior study that identified three types of diversity staffing structures: an officer responsible for developing the required affirmative action plan, a diversity staffer or manager, or a structure that combines diversity expertise with leadership involvement (Dobbin & Kalev, 2007). An additional 0-category was added to represent firms with no dedicated personnel responsible for diversity management.

Firms with affirmative action officers were classified at level 1 of diversity management, which represents basic compliance. The driver for the compliance stage is adherence to regulatory or public mandates (Thomas, 1990). Federal regulations require that federal contractors at a minimum have the basic structure of an affirmative action officer who “must have the authority, resources, support of and access to top management to ensure the effective implementation of the affirmative action program” (U.S. Department of Labor, 1967). This position generally resides in the human resource department and serves a compliance function. A diversity manager or staffer was classified at level 2. Such a position had been found to be more effective than the minimally federal requirements of just having an affirmative action officer as it centralizes the firm’s responsibility for managing diversity (Dobbin & Kalev, 2007). For level 3, Dobbin and Kalev (2007) identified staffing structures that included a hybrid of diversity expertise and executive leadership to be the most effective at managing diversity. An important distinction of this level is to have leadership involvement, by either having someone reporting to a high-level executive, or having executives as members of a diversity taskforce or committee. The high-level diversity position projects an image that the executives value diversity and that there was someone dedicated to its

implementation (Robinson & Dechant, 1997). Task forces and committees leaders were also more willing to implement strategies that they themselves had set up as members of the committees (Dobbin & Kalev, 2007). For these reasons, a firm with a high-level diversity personnel, defined as a vice-president of diversity or a chief diversity officer, or a firm with a task force or committee on which the chief executive officer was a member was classified in the managing diversity stage. Information about the diversity staffing structures came from documents on the corporate websites and annual reports, and was ranked as either 0, 1, 2, or 3, with 3 representing higher level in the diversity management's staffing structure.

0 = No dedicated staff responsible for diversity management; 15 out of the 109 firms were classified under this category.

1 = The diversity staffing structure was an officer responsible for developing the mandated affirmative action plan. Nine of the 109 were classified under category 1.

2 = The diversity staffing structure was an individual responsible for diversity strategies beyond basic affirmative action such as a director or a manager.

Twenty-eight of the 109 were classified under category 2.

3 = The diversity staffing structure was one in which there was a high level diversity personnel, or a firm-wide diversity committee/task force with the chief executive officer represented on the committee. Fifty-seven firms had this structure.

Valuing Diversity: Valuing diversity considers the degree to which a culture that values diversity existed within a firm. Consistent with previous research, “valuing diversity” was measured as the extent of appreciation and support for ethnically and culturally diverse employees (Pitts, 2009; Triana & Garcia, 2009). Six items were collected for this variable. Similar to Triana and Garcia (2009), I borrowed the items from a number of other short scales.

My first item ‘my organization values diversity,’ came from Triana and Garcia (2009). I modified one item from Hegarty and Dalton’s (1995) 3-item Organizational Diversity Inventory, “my organization has sponsored classes, workshops, and/or seminars on diversity,” into two: the existence of diversity awareness (item 2) and of diversity training (item 3). I also used two items from Mor Barak and colleagues’ (1998) Diversity Perceptions Scale Organizational Inclusion Factor, which assessed resources devoted to minorities’ successes in the organization: diversity mentoring program (item 4) and employee resources groups (items 5 and 6). I split employee resource group into two categories, the existence of employee resource groups (item 5) and whether the groups were listed as company-sponsored (item 6) vs. employee-chartered). Recent literature suggests that many corporations opted to provide monetary contributions to their employee resource groups in their efforts to demonstrate the value of diversity (Friedman & Craig, 2004). Employer-sponsored resource groups are the more advanced strategies for managing diversity because they require investment of time, resources, or money to minority employees as a group (Friedman & Holtom, 2002). Evidence of the six items was obtained through the diversity language used on corporate websites similar to the process used by Rubaii-Barrett and Wise (2007) for diversity recruitment. Each item was

assigned a dummy variable of 1 or 0 representing the presence or absence of each activity, respectively. The coding of the non-metric information into dummy variables enables the use of the appropriate multivariate technique (Hair et al., 2010) with other metric data. Taken as a whole, past studies suggest (e.g., Friedman & Holtom, 2002; Mor Barak et al., 1998; Pitts, 2009; Triana & Garcia, 2009) that a firm that is engaged in all six aspects of these valuing diversity activities is at a higher level of valuing diversity. The six-item valuing diversity scale exhibited acceptable internal consistency ($\alpha = .811$; $n = 109$), a benchmark for determining whether the items that are grouped together belong on the variable (Hair et al., 2010). I subsequently created an averaged summated score to assess the extent of valuing diversity with the six items where 0 represented firms without any of the six items, and 1 firms in which all six items could be identified:

- 1) Existence of a diversity value statement (Triana & Garcia, 2009): 1 = yes; 0 = no.
- 2) Resources devoted to employee diversity awareness activities (Hegarty & Dalton, 1995): 1 = yes; 0 = no.
- 3) Diversity skill-building and training programs (Pitts, 2009): 1 = yes; 0 = no.
- 4) Diversity mentoring - resources devoted to minorities' successes in the organization (Mor Barak et al., 1998; Pitts, 2009): 1 = yes; 0 = no.
- 5) Employee-led resources groups - resources devoted to minorities' successes in the organization (Mor Barak et al., 1998): 1 = yes; 0 = no).
- 6) Company-chartered employee resource groups: 1 = yes; 0 = no.

Diversity Management: Principal components analysis (PCA) was used to create the diversity management variable, in accordance with Pitts' (2006, 2009) model. His model conceptualized the components of diversity management based on its three functions, recruitment, valuing diversity, and staffing structure. The suitability of PCA was assessed prior to analysis. Inspection of the correlation matrix showed correlation coefficients of .627 for diversity recruitment and staffing structure, .672 for staffing structure and valuing diversity, and .663 for diversity recruitment and valuing diversity. The overall Kaiser-Meyer-Olkin (KMO) measure was .73, a classification of 'middling' to 'meritorious' according to Kaiser (1974). The Bartlett's test of sphericity was statistically significant ($p < .0005$), indicating that the data was likely factorizable. Furthermore, the PCA revealed one component that had an eigen value greater than one (2.30), and which explained 76.93% of the total variance. Visual inspection of the scree plot indicated that one component should be retained (Hair et al., 2010). As such, one component was retained and was used in the subsequent statistical analyses as a substitute for the three original variables. A Varimax orthogonal rotation was employed to aid interpretability of the factor. The interpretation of the data was consistent with Pitts' (2006, 2009) model of diversity management.

Board of Directors' Racial Diversity: As discussed in chapter 2, commitment from the top maximizes diversity's organizational impact. Given the top level includes the board of directors, this dissertation examined the role of boards of directors' racial diversity on diversity management. I constructed measures for four dimensions of board of directors' heterogeneity: age, tenure, gender, and race. Age, tenure, and gender

heterogeneity were examined as possible control variables. Data for the four dimensions were gathered through the 2012 and 2013 corporations' proxy statements (Form DEF 14A) that are filed annually with the Securities and Exchange Commission. I collected the names of the members of the board of directors from the 2012 proxy statements, and also the ages of the directors and the dates they joined the board. Many of the proxy statements had pictures of the directors. Using both the 2012 and the 2013 reports helped to assess which directors were elected at the beginning of 2013 but were listed on the 2012 statements given that the 2012 reports were actually published in 2013. Information from the corporations' websites, annual reports, Bloomberg and Lexis-Nexis were also used in case of missing pictures from the proxy statements. Bloomberg and Lexis-Nexis have a wide range of full-text news (newspapers, wire services, transcripts and newsletters) on who's who in major corporations. Many of the articles included pictures, ages, and races of the directors. I validated the information in at least two of these four sources. Consistent with prior research, the four categories for the race of the board members were Asian, Black, Hispanic, or White.

The Blau (1977) index of diversity was used to measure racial heterogeneity. Blau's (1977) index is widely used to measure heterogeneity when categorical data is used and no group member belongs to multiple categories simultaneously in the same index (Allison, 1978; Finkelstein & Hambrick, 1990; Miller & del Carmen Triana, 2009). The Blau index is calculated as the sum of the squared proportions of people in each category, or $1 - \sum p_k^2$, where P is the percentage of members in the K category. Values of the Blau index for racial diversity can range from 0 to .75 $(4-1)/4$. The maximum occurs when there are equal numbers of all races represented on the board; the higher the

resulting score, the greater the board of directors' racial diversity. Racial diversity index for the 109 boards of directors in this sample ranged from 0 to .66, with a mean of .27 and a standard deviation of .15.

I analyzed the measures described above in relationship to the mediating variables that represent corporate ethics. Corporate ethics considers a corporation's internal and ethical practices and their effects on stakeholders (Kaptein & Van Dalen, 2000). The next section describes the operationalization of corporate ethics through external ethics and internal ethics.

Mediating Variables

Internal Ethics: Internal ethics measures the ethical extent to which a firm manages its day-to-day operations (Chun et al., 2013; Weaver et al., 1999b). According to Weaver et al. (1999b), the scope of a firm's formal internal ethics program is determined by the presence of its ethic activities and structure. The nine items used in this dissertation came from Kaptein's (2009), and from Weaver and colleagues' (1999a), measures of a firm's formal internal ethics program. Kaptein's (2009) original nine components are the existence of: 1) code of ethics; 2) ethics office(r); 3) ethics training and communications; 4) ethics hotline; 5) response policies for unethical conduct; 6) policies for investigating allegations of unethical conduct and corrective action 7) incentive and reward policies for ethical conduct; 8) internal monitoring and auditing of ethics; and 9) pre-employment screening on ethics. I utilized items 1-6 above but modified item 2 into two items: a) the existence of an ethics or compliance officer, and b) the existence of an ethics office or department in accordance with Weaver and colleagues (1999a). I did not utilize items 7, 8

and 9 as they have not been tested widely (Kaptein, 2009) and were also not part of Weaver and colleagues' (1999a) list. Instead, I added 'communication from the chief executive' to account for the influence of the chief executive and 'acknowledgement of receipt of the code of ethics from employees', which were two items listed by Weaver and his colleagues (1999a) as being important aspects of a formal ethics program. The Compustat's database showed all the firms in the sample had a published code of ethics in 2012. Subsequently, the contents of the published codes of ethics were used to collect the remaining eight items. I ensured that the codes were for 2012 through one of three steps. Many firms listed 'updated dates' on their codes while others included the codes in their 2012 CSR reports. Codes of ethics for which the dates could not be determined through these two steps were examined with Google tools modified by dates to ensure that they were posted prior to January 1, 2013. Lastly, each of the nine items was measured as a dichotomous variable. The existence of an item was coded as "1" for that item and the absence of that item was coded at "0". Consistent with Weaver et al. (1999b), I formed a summated measure for internal of ethics by summing up all the items and dividing them by 9. The eight items yielded a Cronbach's alpha of .609 and showed no increase resulting if any of the items was deleted. This Cronbach alpha level is considered as weak (Hair et al., 2010), and remains as a limitation to the empirical analyses relating to internal ethics. Specific definitions for the variables appear below.

1. A published code of ethics for all employees (yes/no), which include references to the following:
 - i. Reference to ethics training (yes/no)
 - ii. A dedicated published hotline to report ethical violations (yes/no)

- iii. Stated procedures/steps for investigating and responding to allegations of unethical behaviors (yes/no)
- iv. Discipline/response policies for unethical conduct (yes/no)
- v. An ethics officer, compliance office(r), or ethics ombudsperson (yes/no)
- vi. An ethics office, department or committee (yes/no)
- vii. Inclusion of a letter or statement from the chief executive officer (yes/no)
- viii. Acknowledgement of receipt and obedience

External Ethics: External ethics looks at how a firm contributes to the welfare of society through its voluntary activities (Chun et al., 2013). Consequently, one existing measure of external ethics is a 2-item scale that assessed whether or not a firm is involved in public welfare projects, and in resolving social problems (Chun et al., 2013). The same two items are found in Basil and Erlandson's (2008) 4-classification of external ethics that includes whether or not a company 1) encourages its employees to volunteer, 2) donates cash to registered charities, 3) sponsors community events, and 4) donates to cause-related marketing. However, given current estimates that over 90% of the Fortune 500 companies run one or more of these type of programs (Boccalandro, 2009; Grant 2012), this dissertation sought to further expand beyond whether or not firms were involved in these activities and created a 3-item scale with discrete values from Basil and Erlandson' (2008) 4 categories.

My first item modified Basil and Erlandson's (2008) first category into the level of volunteer grants made to charities where the firm's employees volunteer (hereinafter, volunteer grant). Corporate volunteer programs are a growing way for firms to

demonstrate their commitment to the community and to instill a positive ethical culture within the firm (Peterson, 2004). Most corporations published data and policies regarding corporate volunteer programs in their annual or CSR reports, which are also compiled by the Foundation Center's (2013) National Directory of Corporate Giving. This item was collected on a scale of 0 to 4. Zero represented policies that explicitly stated that the firms did not offer volunteer grants; firms that made donations ranging from \$1 to \$5 for each hour that an employee volunteers were categorized as 1; amounts between \$6 and \$10 were categorized as 2; amounts between \$11 to \$15 were categorized as 3; and amounts beyond \$15 were categorized as 4. For example, a firm that donates \$250 for 20 hours of volunteer service by one of their employees was classified under category 3, ($250/20 = 12.50$). Table 3-3 presents the frequency distribution for volunteer grant for the final sample. More than half of the firms in the sample (60.6%) did not offer volunteer grants.

TABLE 3.3. Frequency distribution of volunteer grant

<i>Level</i>	<i>Frequency</i>	<i>%</i>	<i>Cumulative %</i>
0	66	60.6	60.6
1 = ($1 \leq 5$)	7	6.4	67.0
2 = ($6 \leq 10$)	13	11.9	78.9
3 = ($11 \leq 15$)	11	10.1	89.0
4 = (> 15)	12	11.0	100.0
Total	109	100.0	

Furthermore, using two basic categories from previous research that has assessed employer community involvement (e.g., MacPhail & Bowles, 2009), I modified Basil and Erlandson's (2008) third and fourth categories into a continuous variable, namely the level of corporate match of employees' donations to registered charities (hereinafter corporate match). Firms' policies on the amount of corporate match generally state an upper limit. This information was obtained through the same process as the volunteer grant variable. The range for corporate match was recorded and then categorized either as 0 when the firms' policies explicitly stated that they do not match employee donations; 1 when the upper limit of corporate match was \$1000; 2 when the range was from \$1001 to \$2000; 3 for amounts ranging from \$2001 to \$3000; 4 for amounts between \$3001 and \$4000; 5 for amounts between \$4001 and \$5000; and 6 for amounts above \$5000. No firms in the sample had corporate match policies that could be coded under category 4. Nearly one quarter (23.9%) did not offer any match, and the largest group in the sample (40.4%) matched donations from their employees up to \$1000 (see Table 3.4). The first phase of data reduction for the volunteer grant and corporate match involved collecting, recording the stated amount, and then grouping them into class intervals. Class intervals may be regarded as ordinal realizations of underlying continuous measures and can be treated as continuous variables (Winship & Mare, 1984). Accordingly, both the donation match and volunteer grant were subsequently treated as continuous data.

TABLE 3.4. Frequency distribution of donation match

<i>Level</i>	<i>Frequency</i>	<i>%</i>	<i>Cumulative %</i>
0	26	23.9	23.9

1 = (≤ 1000)	44	40.4	64.2
2 = ($\$1001 \leq 2000$)	4	3.7	67.9
3 = ($2001 \leq 3000$)	9	8.3	76.1
5 = ($4001 \leq 5000$)	9	8.3	84.4
6 = (> 5000)	17	15.6	100.0
Total	109	100.0	

The last item forming the external ethics variable was the total dollar amount of charitable cash donations in 2012, which I manually recorded from the IRS 990-PFs. Prior studies of corporate charitable giving have used both the total dollar value of the amount (e.g., Wang & Qiang, 2011), or an amount adjusted for the size of the firm given that the size of the firm affects the amount of corporate donation (e.g., Griffin & Mahon, 1997; Seifert et al., 2004). The size-adjusted measure is the total amount of donations by the company in the given year divided by the firm's total assets for the same period (Seifert et al., 2004). I computed both the total contributions and the size-adjusted measures to account for corporate giving. The total donation for the sample ranged from \$75,186 to \$241,278,000 with a mean of \$11, 526,459 and a standard deviation of \$26, 230, 627 ($n = 109$).

These three items in external ethics, level of volunteer grant, level of corporate match, and amount of corporate donations, were not expected to show high level of inter-item correlation, given that not all firms are necessarily involved in all three aspects (Boccalandro, 2009; Grant 2012). Firms may be overcompensating in one area when they fall short in the other two. Consequently, the external ethics variable was treated as an

index of three different components and was measured by computing the summated average of the standardized value of each item.

Dependent Variables

Consistent with past research, the dependent variables measuring financial performance were assessed with two commonly used accounting indicators of growth and profitability: revenues and return on investment (Hillman & Keim, 2001). I utilized these measures because of their ability to represent the effects of current practices on determining firm value (van Beurden & Gössling, 2008). Firms' revenues and return on investment data for 2012 came from Compustat's Fundamental Annual database.

Revenue: Revenue is a reliable representation of growth or market expansion (Roberson & Park, 2007). Expansions into markets, especially into new demographics, are the most common benefits obtained from diversity (Cox & Blake, 1991; Cox, Jr., 1993; Roberson & Park, 2007). This variable was highly skewed. In accordance with Hair et al., (2010), it was log-transformed to achieve the normal distribution necessary for regression. The mean of the log of revenues was 9.70 (SD = .87). The values ranged from 8.53 to 11.72 ($n = 109$).

Return on investment: Return on investment is a reliable and validated accounting measure of the profitability of invested capital and have been used in studies assessing a company's performance (i.e., Erhardt, Werbel & Shrader, 2003; Smith, Smith, Olian, Sims Jr, O'Bannon & Scully, 1994). Specifically, return on investment touches on two areas where diversity affects firm performance. First, board members played important

roles in determining strategy direction and decision-making relating to investments (Carpenter & Westphal, 2001). The decision-making processes of diverse groups are preferred as they generated more ideas (Bantel, & Jackson, 1989; van Knippenberg & Schippers, 2007). Second, boards of directors fulfill a monitoring role that may include representing shareholders and ensuring proper use of firms' wealth and investments (Carpenter & Westphal, 2001; Roberts et al., 2005). Return on investments was computed as net income divided by invested capital (Erhardt et al., 2003). This variable was also high skewed. In cases such as in this study, where the dependent variable that needs to be log-transformed assumes some negative values, some researchers have dropped the non-positive values (e.g., Wang & Qiang, 2011), while others have added a constant so that each observation is positive (Osborne, 2002). In this study, a constant value of 1.0483 was added to the return on investment data in order to convert the smallest return (-1.047) to the smallest positive value of .001 prior to transformation. The transformed return on investment data ranged from 0 to .23 with a mean of .07 and a standard deviation of .04 ($n=109$).

Control Variables

I examined data for the following control variables as suggested by an extensive literature review: firm size, minority ownership, and variations in board of directors' and TMT's composition. Firm size controlled for larger firms who tend to achieve better performance (Subramaniam & Youndt, 2005) and have higher level of social performance (e.g., Adams & Hardwick, 1998; Galaskiewicz, 1997; Seifert et al., 2004). Firm size was operationalized as the natural logarithm of a firm's total assets (Richard et al., 2004; Wang & Qiang, 2011). The 109 firms had a mean of 10.06 for size ($SD = 1.26$).

The smallest firm had 7.64 in log of asset, or size, and the largest one had 13.75. All the firms in this study were publicly traded and were owned by investors.

I controlled for three variations in board of directors' compositions that have been found to have important implications on group functioning, strategic initiatives, corporate governance, and ultimately performance (Deutsch, 2005). They are gender, age, and tenure diversity. Gender diversity on the board of directors has important implications for corporate governance (Kang, Cheng, & Gray, 2007), and firm performance (Erhardt et al., 2003). Heterogeneity in age and tenure are associated with skill-based dimensions that translate into a greater variety of perspectives, and thereby enhanced decision-making process and creative and innovative solutions to problems (Milliken & Martins, 1996; Williams & O'Reilly, 1998).

For similar group functioning rationales, and given that an organization's upper leadership is generally comprised of the board of directors and its TMT (Hambrick & Mason, 1984), this study also controlled for the influence of TMT's composition on the variables of interest. The four characteristics of TMT's diversity that have been shown to relate to performance, depending on the context, were functional background, age diversity, tenure diversity, and gender diversity (Williams & O'Reilly, 1998). However, unlike the board of directors, the role of gender diversity in top management team had "ambiguous" effects on firm performance (Smith, Smith, & Verner, 2006, p. 589). TMT's racial diversity was added as an additional control variable to account for and isolate for other potential visible attributes of diversity effects (Richard, 2000; Richard et al., 2004). Consistent with previous research, TMT was defined as the executives with the top five compensations as listed on the proxy statements, which generally include the

chief executive officer (Carpenter, Pollock, & Leary, 2003). Following the advice of Carpenter (2002), I also included the chair of the board when the chair is other than the chief executive officer.

In accordance with past studies (e.g., Knight, Pearce, Smith, Olian, Sims, Smith, & Flood, 1999), diversity in functional background, race, and gender was calculated using the Blau's (1977) heterogeneity index. A high score on Blau's index indicates greater variability while a low score represents homogeneity. Age heterogeneity in each firm was computed through the coefficient of variation (ratio of the standard deviation to the mean) of the ages of the team members. Tenure diversity for each firm was also calculated through the coefficient of variation of the number of years serving as a member of the group (Knight et al., 1999).

In summary, Chapter 3 provided an overview of the methodology employed during the pilot study and the main study. It began with a summary of the study design, followed by a discussion of the sample and data collection procedures. A detailed description of the variables followed. Chapter four, which follows, will present the analysis of the data and the findings of the study.

CHAPTER 4

DATA ANALYSIS AND FINDINGS

This chapter presents results of the study through summaries and analyses of the collected data. The results presented are broadly divided into descriptive statistics and inferential statistics. Descriptive statistics for all the variables in this study are displayed in Table 4.1. Four variables, specifically donations, revenue, return on investment and TMT's tenure, were identified as having high levels of skewness. Skewness is a measure of asymmetry in a distribution, whereas a level that is not within the critical ratio of ± 1.96 ($p = .05$) is an indication of an unbalanced or non-normal distribution (Hair et al., 2010). In accordance with established statistical procedures (Hair et al, 2010), I used a logarithmic transformation to correct for the non-normality in three of the four variables. None of the available data transformation techniques could reduce the level of skewness in the top management team's tenure variable. This was less of a concern given that it is a control variable and given that the sample size was greater than 50 (Hair et al., 2010); I verified the data to ensure that there were no errors. The remaining individual variables were normally distributed within the acceptable range of skewness; therefore, no additional transformations were required. Box-plot diagrams were also used to identify and highlight observations with standard scores' deviations of 2.5 or greater as outliers (Hair, et al., 2010). As seen in Figure 4.1, there were no outliers for the independent and dependent variables in the sample.

TABLE 4.1. Descriptive statistics

<i>Variables</i>	<i>Mean</i>	<i>SD</i>	<i>Min</i>	<i>Max</i>	<i>Skewness</i>	<i>Kurtosis</i>
BoD Age	.116	.030	.061	.189	.682	-.032
BoD Gender	.289	.102	.000	.486	-.268	.411
BoD Race	.267	.153	.000	.663	.090	-.555
BoD Tenure	.752	.196	.364	1.296	.517	-.091
Corp Match	2.073	2.171	0	6	.898	-.777
DM (Factor)	.013	1.000	-1.984	1.110	-.682	-.808
Diversity Recruitment	4.798	1.275	2.000	6.000	-.322	-1.545
Diversity Staffing	2.128	1.072	.000	3.000	-.949	-.440
External Ethics	.000	.654	-1.076	1.954	.544	-.383
Donations (LgAdjSize)	.000	1.000	-3.273	2.664	-.705	.459†
Internal Ethics	.690	.197	.222	1.000	-.388	-.532
Rev(Lg)	4.214	.377	3.704	5.088	.567	-.566†
ROI(Lg)	.068	.040	.000	.230	1.449	2.645†
Size (LN Assets)	10.057	1.255	7.638	13.752	.774	.700
TMT Age	.105	.043	.035	.260	.776	.824
TMT Function	.628	.129	.278	.833	-.754	.094
TMT Gender	.131	.171	.000	.480	.700	-1.182
TMT Race	.141	.186	.000	.640	.832	-.675
TMT Tenure	4.354	2.906	.516	19.882	2.562	9.959
Valuing Diversity	.613	.313	.000	1.000	-.579	-.892
Vol Grant	1.046	1.461	0	4	.988	-.590

$n = 109$; † Statistics represent variable post logarithmic transformation.

FIGURE 4.1. Box-plot graph depicting outliers

Table 4.2 presents the correlation statistics for the variables considered in this study. Initial evaluation of the correlations indicates that many of the components of diversity management were correlated with internal ethics. For instance, internal ethics positively correlated with diversity recruitment ($r = .585, p < .01$), valuing diversity ($r = .588, p < .01$) and diversity staffing structures ($r = .581, p < .01$). Additionally, internal ethics correlated with revenue ($r = .322, p < .01$) but not with return on investment ($r = .084, p > .05$). The correlation table also reveals no significant correlations between the TMT's demographic characteristics and firm performance, except for tenure with revenue ($r = .118, p < .05$). The two variables forming firm performance, revenue and return on

investment, were not significantly correlated ($r = -.044, p > .05$). Lastly, there were three significant correlations above the .70 level. One was between external ethics and one of its three components, volunteer grant ($r = .770, p < .01$). The other two were between valuing diversity and two other variables, diversity recruitment ($r = .728, p < .01$), and staffing structures ($r = .738, p < .01$). These high correlations were expected given these three variables formed the three components of the diversity management factor.

Nevertheless, when running the multivariate analyses, I also evaluated for possible collinearity among the set of variables in each equation and found no evidence of multicollinearity using Hair and colleagues' (2010) standards of variance inflation factor scores (VIFs) above 3.0 as indicators of possible multicollinearity among independent variables. The highest VIFs in the collinearity statistics in all equations were all below the 3.0 threshold. As such, multicollinearity does not seem to be a problem.

TABLE 4.2. Correlations among all variables

<i>Variables</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>	<i>11</i>	<i>12</i>	<i>13</i>	<i>14</i>	<i>15</i>	<i>16</i>	<i>17</i>	<i>18</i>	<i>19</i>	<i>20</i>
1. BoD Age	--																			
2. BoD Gender	-.102																			
3. BoD Race	-.158	.382**																		
4. BoD Tenure	.188	.042	.046																	
5. Corp Match	.115	.013	.145	-.130																
6. Diversity Staffing	-.215*	.272**	.483**	.009	.234*															
7. Diversity Recruit.	-.163	.362**	.459**	.130	.183	.676**														
8. DM (Factor)	-.241*	.383**	.541**	.062	.183	.890**	.894**													
9. External Ethics	.071	.173	.239*	-.065	.638**	.269**	.338**	.305**												
10. Internal Ethics	-.218*	.278**	.302**	.023	.119	.581**	.585**	.650**	.186											
11. Rev(Lg)	-.194*	.320**	.167	-.177	.062	.383**	.310**	.390**	-.020	.322**										
12. ROI(Lg)	.058	.140	.181	.091	.107	.102	.184	.157	.372**	.084	-.044									
13. Size (LN Assets)	-.221*	.104	.110	-.139	.089	.396**	.266**	.367**	-.177	.347**	.605**	-.309**								
14. TMT Age	.239*	-.153	-.102	-.032	-.021	-.008	-.075	-.103	-.060	.019	-.072	.029	-.107							
15. TMT Function	-.097	.060	.116	-.003	.050	.032	-.015	.008	.005	.162	.085	-.077	.151	.007						
16. TMT Gender	-.125	.091	.134	.176	-.045	-.002	.066	.048	.111	-.047	.026	.072	-.015	-.135	.088					
17. TMT Race	-.100	.133	.223*	.156	.071	.183	.242*	.279**	.069	.134	.028	.057	-.027	-.054	-.012	-.030				
18. TMT Tenure	.068	-.080	-.030	-.063	-.064	.085	-.076	-.033	-.126	.025	.118*	.063	.065	.296**	-.082	.010	-.062			
19. Valuing Diversity	-.270**	.399**	.516**	.029	.078	.728**	.738**	.915**	.218*	.588**	.359**	.137	.330**	-.193*	.004	.066	.325**	-.095		
20. Volunteer Grant	-.003	.205*	.113	-.127	.221*	.191*	.239*	.232*	.710**	.258**	.067	.198*	.070	-.105	-.006	.124	.015	-.108	.197*	--

* $p < .05$. ** $p < .01$. $n = 109$

Research Findings

All hypotheses in this research were examined using hierarchical regression analysis, which allowed testing for mediation while controlling for other variables (Hair et al., 2010). As a reminder, firm size, TMT's and board of directors' demographic characteristics were included as control variables in this study. As recommended by Hair and colleagues (2010), before running the analyses, I assessed the variables for possible problems relating to their distribution and for the assumptions of hierarchical regression analysis. The assumptions of linearity for all models were analyzed with the lack of fit tests, which indicated that linear regression analyses were adequate. Additionally, all standardized residuals were in the ± 3 standard deviations with no outliers. There was not any influential observation as the largest leverage value was .375, well below the .5 risk and the highest Cook's distance value was .331, well below the recommended threshold of 1 (Cook and Weisberg, 1982). The assumptions of normality were tested through the Shapiro-Wilks test ($p > .05$) and Quantile-Quantile plots of the residuals, which appeared to be approximately normally distributed.

Diversity management and internal ethics: Hypotheses 1a - 1c predicted significant, positive relationships between the diversity management's components and internal ethics. Table 4.3, panel A, presents the results of the hierarchical regression models that were performed to assess this relationship. To examine the contribution of the control variables (firm size, board of directors' characteristics, and TMT demographics), they were entered as a single block in the first step of the regression model. The overall control model was statistically significant $F(10, 98) = 3.563; p < .001$

and explained 27% of variance in internal ethics (Model 1). Model 2 added the independent variables of diversity recruitment, staffing structures, and valuing diversity as a single block in step 2. The addition of the diversity management variables (diversity recruitment, staffing structures, and valuing diversity) resulted in a significant improvement in R^2 ($\Delta R^2 = .220$, $F(10, 98) = 6.915$, $p < .001$). The unstandardized coefficients were positive and significant for diversity recruitment and valuing diversity, ($b = .043$, $p < 0.05$; $b = .170$, $p < 0.05$, respectively). Hypotheses 1a and 1c were supported. However, the coefficient for diversity staffing structures was positive but insignificant. Thus, Hypothesis 1b was not supported.

Diversity management and external ethics: Results of hypotheses 2a - 2c, which proposed that diversity management positively related to external ethics, are presented in table 4.3, panel B. The first step of the hierarchical regression analysis illustrated that the control variables (firm size, board of directors' characteristics, and TMT demographics) had no significant relationships with external ethics (Model 4). The independent variables (diversity recruitment, staffing structures and valuing diversity) were entered next as a single block in the second step (Model 5). The overall model predicting external ethics after adding the independent variables to the control variables was statistically and positively significant, $F(13, 95) = 3.174$, $p < .005$. Model 5 also significantly improved from Model 4 ($\Delta R^2 = .146$, $p < .001$), and showed a positive and significant unstandardized coefficient for diversity recruitment on external ethics, ($b = .177$, $p < .005$). Thus, Hypothesis 2a is supported. The coefficient for diversity staffing structure was also positive and significant ($b = .191$, $p < .005$). Therefore, Hypothesis 2b was

supported. However, the coefficient for valuing diversity was not significant, and Hypothesis 2c was thus not supported.

TABLE 4.3. Hierarchical regression results for internal ethics and external ethics

Pane A - Internal Ethics			
<i>Variables</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>
Intercept	-.003 (.204)	.022 (.179)	.406 (.183)
Size	.045* (.014)	.014 (.013)	.013 (.013)
TMT Age	.535 (.436)	.437 (.377)	.415 (.368)
TMT Function	.127 (.136)	.234 (.117)	.230* (.115)
TMT Gender	-.124 (.105)	-.111 (.089)	-.106 (.088)
TMT Race	.057 (.096)	-.049 (.085)	-.044 (.083)
TMT Tenure	.001 (.006)	.003 (.005)	.002 (.005)
BoD Age	-1.020 (.627)	-.562 (.540)	-.551 (.534)
BoD Gender	.340 (.182)	.112 (.160)	.126 (.157)
BoD Race	.230 (.124)	-.096 (.118)	-.101 (.117)
BoD Tenure	.092 (.093)	.038 (.080)	.039 (.078)
Diversity Recr.	- -	.043* (.018)	- -
Div Staffing	- -	.030 (.023)	-
Valuing Div	- -	.170* (.086)	- -
Diversity Mgtm	- -	- -	.126*** (.020)
R^2	.267***	.486***	.484***

<i>Adjusted R²</i>	.192***	.416***	.426***
Change in <i>R²</i>	-	.220***	.218***
F-Test	3.563***	6.915***	8.276***

Panel B -External Ethics

<i>Variables</i>	<i>Model 4</i>		<i>Model 5</i>		<i>Model 6</i>	
Intercept	.759	(.727)	.813	(.695)	1.721*	(.728)
Size	-.103	(.051)	-.179**	(.051)	-.178*	(.052)
TMT Age	-.485	(1.553)	-1.357	(1.461)	-.767	(1.459)
TMT Function	-.013	(.484)	.208	(.452)	.230	(.459)
TMT Gender	.430	(.373)	.505	(.346)	.473	(.350)
TMT Race	.120	(.343)	.019	(.329)	-.116	(.328)
TMT Tenure	-.024	(.022)	-.026	(.021)	-.022	(.021)
BoD Age	2.980	(2.237)	3.836	(2.091)	4.080	(2.119)
BoD Gender	.651	(.649)	.266	(.621)	.147	(.624)
BoD Race	.948	(.443)	.186	(.459)	.171	(.464)
BoD Tenure	-.551*	(.330)	-.752*	(.309)	-.673*	(.311)
Diversity Recr.	-	-	.177*	(.071)	.	-
Div Staffing	-	-	.191*	(.088)	.	.
Valuing Div	-	-	-.365	(.332)	.	.
Diversity Mgtm	-	-	-	-	296***	(.078)
<i>R²</i>	.157		.303***		.265***	

<i>Adjusted R²</i>	.071	.207***	.182***
Change in <i>R²</i>	-	.146***	.108***
F-Test	1.821	3.174**	3.181**

* $p < .05$; ** $p < .01$, *** $p < .001$; $n = 109$

Unstandardized coefficients with corresponding standard errors in parentheses

Internal ethics and revenue: Hypotheses 3a - 3b, considered the relationships between internal ethics and firm performance and were also examined through two-step hierarchical multiple regression analyses. For the dependent variable in this set of equations, both the data and prior studies (e.g., Butler et al., 2012) suggest that revenue and return on investment may be distinct constructs that should not be combined into one multidimensional variable to represent firm performance. As a result, models with firm performance were tested as two hypotheses, one for revenue (H3a) and the other for return on investment (H3b).

Table 4.4, Models 7 and 8, presents the hierarchical regression models for testing Hypotheses 3a, which argued that internal ethics positively related to revenue. The control variables (firm size, board of directors' characteristics, and TMT demographics) for predicting revenue were entered in the first step (Model 7). Significance was found for the overall control model, $F(10, 98) = 8.250$, $R^2 = .457$, $p < .001$. Consistent with prior research (e.g., Miller & del Carmen Triana, 2009; Subramaniam & Youndt, 2005), firm size ($b = .166$, $p = .000$) and board of directors' gender diversity ($b = .987$, $p = .001$) were found to be significant. Keep in mind that the maximum unit in the Blau's (1977) gender index is .50, representing equal number of men and women on the board. None of

the coefficients for the TMT's demographic variables was significant. Model 8 added internal ethics in the second step. The change in R^2 from Model 7 to Model 8 was not significant. The coefficient for internal ethics was also above the significance level. Hypothesis 3a predicting that higher level of internal ethics would positively relate to revenue was thus not supported.

Internal ethics and return on investment: The results for hypothesis 3b, which predicted that internal ethics would positively relate to return on investment, are presented in Table 4.5, Models 11 and 12. Model 11 analyzed the control variables in step 1 and was statistically significant, $F(10, 98) = 1.955$, $R^2 = .187$, $p < .005$. Model 12 where I added the independent variable of internal ethics in the return on investment equation was also statistically significant, $F(11, 97) = 2.022$, $R^2 = .187$, $p < .005$. However, both the change in R^2 from Model 11 to Model 12 and the coefficient for internal ethics were not significant. Therefore, Hypothesis 3b was not supported.

TABLE 4.4. Hierarchical regression results predicting revenue

<i>Variables</i>	<i>Model 7</i>		<i>Model 8</i>		<i>Model 9</i>		<i>Model 10</i>	
Intercept	2.398***	(.336)	2.399***	(.337)	2.381**	(.339)	2.583* *	(.358)
Size	.166***	(.024)	.161***	(.025)	.169	(.024)	.153	(.025)
TMT Age	.072	(.718)	.003	(.723)	.083	(.721)	.029	(.715)
TMT Funct.	-.033	(.224)	-.049	(.225)	-.033	(.225)	.002	(.224)
TMT Gender	.062	(.172)	.078	(.174)	.052	(.174)	.072	(.172)
TMT Race	.059	(.159)	.051	(.159)	.056	(.159)	.011	(.161)
TMT Tenure	.013	(.010)	.012	(.010)	.013	(.010)	.013	(.010)
BoD Age	-.345	(1.034)	-.214	(1.050)	-.414	(1.048)	-.161	(1.037)
BoD Gender	.987*	(.300)	.944*	(.306)	.972*	(.303)	.890*	(.306)
BoD Race	-.002	(.205)	-.031	(.209)	-.024	(.211)	-.144	(.227)
BoD Tenure	-.210	(.153)	-.222	(.154)	-.197	(.155)	-.231	(.152)
Div. Mgtm	-	-	-	-	-	-	.055	(.038)
Int. Ethics	-	-	.128	(.167)	-	-	-	-
Ext. Ethics	-	-	-	-	.023	(.047)	-	-
R^2	.457***		.460		.458		.468	
Adjusted R^2	.402***		.399		.397		.408	
Change in R^2	-		.003		.001		.011	
F-Test	8.250***		7.522***		7.456***		7.767***	

* $p < .05$; ** $p < .01$, *** $p < .001$, $n = 109$; unstandardized coefficients with corresponding standard errors in parentheses

TABLE 4.5. Hierarchical regression results predicting return on investment

<i>Variables</i>	<i>Model 11</i>	<i>Model 12</i>	<i>Model 13</i>	<i>Model 14</i>	<i>Model 15</i>
Intercept	.144** (.044)	.144* (.043)	.130* (.042)	.178* (.046)	.150 (.046)
Size	-.010** (.003)	-.012** (.003)	-.009* (.003)	-.013* (.003)	-.010 (.003)
TMT Age	.004 (.093)	-.014 (.094)	.013 (.089)	-.006 (.092)	.007 (.089)
TMT Funct.	-.015 (.029)	-.019 (.029)	-.015 (.028)	-.006 (.029)	-.010 (.028)
TMT Gender	.007 (.022)	.012 (.022)	-.001 (.022)	.009 (.022)	.001 (.022)
TMT Race	-.001 (.021)	-.003 (.021)	-.003 (.020)	-.009 (.021)	-.008 (.020)
TMT Tenure	.001 (.001)	.001 (.001)	.002 (.001)	.001 (.001)	.002 (.001)
BoD Age	.014 (.135)	.048 (.135)	-.042 (.130)	.053 (.133)	-.013 (.132)
BoD Gender	.044 (.039)	.033 (.039)	.032 (.038)	.026 (.039)	.024 (.038)
BoD Race	.046 (.027)	.039 (.027)	.029 (.026)	.018 (.029)	.016 (.028)
BoD Tenure	.006 (.020)	.003 (.020)	.017 (.019)	.002 (.020)	.013 (.020)
Div. Mgtm	-	-	-	.020* (.005)	.007 (.005)
Int. Ethics	-	.033 (.022)	-	-	-
Ext. Ethics	-	-	.021* (.006)	-	.016* (.006)
R^2	.166*	.187	.247*	.210*	.261*
Adjusted R^2	.081*	.094	.161*	.120*	.168*
Change in R^2	-	.020	.081*	.044*	.095*
F-Test	1.955*	2.022*	2.889*	2.342*	2.824*

* $p < .05$; ** $p < .01$, *** $p < .001$; $n = 109$; unstandardized coefficients with corresponding standard errors in parentheses

External ethics and revenue: Hierarchical regression analyses were also conducted for predicting revenue (H3c) from external ethics. Analyses were run for two external ethics variables, one with the size-adjusted donation and one with the total donation amount. Both measures returned statistically similar results. Results are reported for the size-adjusted measure. Model 9 in Table 4.4 added the external ethics variables to the control model (Model 7) that predicted revenue. The addition of external ethics to the control model did not improve the model and the coefficient for external ethics was not significant. Hypothesis 3c was not supported.

External ethics and return on investment: Model 13 (Table 4.5) added the independent variable of external ethics to the control model (Model 11) that predicted return on investment (H3d). The results showed a positive and significant overall model, $F(11, 108) = 2.889$, $R^2 = .161$, $p < .05$. The change in R^2 was also significant ($.081$, $p = .002$) along with the coefficient for external ethics ($b = .021$, $p = .002$). These results indicate that Hypothesis 3d was supported.

Mediation testing: This study had proposed that the relationship from diversity management to firm performance would occur through internal ethics and external ethics. Baron and Kenny's (1986) mediated regression approach was applied to test for the proposed mediation effects of internal and external ethics on the relationships between diversity management and the firm performance variables. According to Baron and Kenny (1986), testing for mediation consists of four steps. Step 1 is to establish that a

direct relationship does exist between the independent variable (diversity management) and the dependent variable(s) (revenue, return on investment). Step 2 is to establish that the independent variable is related to the proposed mediator(s) (internal and external ethics). Step 3 is to establish that the proposed mediator has a relationship with the dependent variable, while controlling for the independent variable. Step 4, the final one, is to show that a previously significant relationship in step one is reduced when the proposed mediator is present.

The previous analyses revealed no significant findings using the two proposed mediators of internal ethics (H3a) and external ethics (H3c) to predict revenue. As such, testing for any subsequent mediated effect on the diversity management-revenue relationship could not continue. Significant findings were also not found for the effect of internal ethics on return on investment (H3b). Thus, hypotheses 4a - 4c were not supported. However, significant results were found for external ethics as a predictor of return on investment (Model 13). Consequently, the mediation tests that follow only pursued the hypothesis that examined the role of external ethics on the diversity management-return on investment relationship (H4d).

Furthermore, pursuant to Baron and Kenny (1986), when there are other variables that correlate with either the independent, mediator, or dependent variable, these variables are commonly called covariates and should be included in all equations (Baron & Kenny, 1986). A covariate would not be removed from one equation unless it is dropped from all of the other equations (Baron & Kenny, 1986). Consequently, all control variables that were used in the previously related analyses were retained in Hypothesis 4d.

Lastly, the diversity literature suggests that the three components of diversity management serve functional aspects (Pitts, 2009), whereas the one-dimensional variable relates to strategic organizational outcomes (e.g., Gilbert et al., 1999; Thomas, 1990). Consequently, when performing analyses of direct relationships of diversity with normative or functional aspects of the organization such as internal and external ethics in H1a - H1c and H2a - H2c, I examined each functional component of diversity management separately. When assessing diversity management in relations to organizational level outcomes such as financial performance or board of directors' racial diversity, I utilized the one-dimensional variable of strategic diversity management.

The coefficient for diversity management was statistically significant in predicting return on investment, $b = .020$, $p = .001$ (Table 4.5: Model 14). Step 1 of the Baron and Kenny's (1986) approach was thus met. Model 6 in Table 4.3 showed that diversity management significantly predicted external ethics ($b = .296$, $p = .000$), which fulfilled step 2 of Baron and Kenny's (1986) approach. The three components (Model 5) and the overall diversity management factor (Model 6) showed similar results on external ethics. In step 3, the effect of the diversity management is controlled for to evaluate the relationship between the mediator and the outcome variable. When diversity management was included in the model, the coefficient for external ethics remained a significant predictor of return on investment, $b = .016$, $p < .05$ (Model 15). These results satisfied step 3 of the Baron and Kenny's (1986) procedure. As for step 4, the diversity management–return on investment relationship should be reduced or eliminated in the equation or model that includes the mediator (Baron & Kenny, 1986). As observed in Model 15, the coefficient for diversity management reduced and became non-significant

when external ethics was present in the model, $b = .007$, $p > .05$. External ethics mediates that relationship. Therefore, Hypothesis 4d was supported.

Board of directors and diversity management: A hierarchical regression analysis was also performed to assess the relationship between board of directors' racial diversity and diversity management. On the first step of the analysis (Model 16, Table 4.6), the diversity characteristics of the TMTs and the board of directors were entered as control variables. As Table 4-6 shows, the overall control model was significant ($R^2 = .237$, $p = .001$). Consistent with prior research, gender diversity on the board of directors was confirmed to be significant as a control variable ($b = 3.295$, $p = .000$). Age heterogeneity on the board of directors had a negative correlation with diversity management, whereas higher level of age heterogeneity on the board correlated with lower level of diversity management ($b = -6.789$, $p = .034$). Model 17 added the independent variable of racial diversity on the board of directors. This overall model was also statistically significant ($R^2 = .379$, $p = .000$) and represents a significant change in R^2 over Model 1 ($\Delta R^2 = .142$, $p = .000$). The coefficient for age heterogeneity when racial diversity was present on the board of directors reduced, its significance rose slightly above the acceptable level ($b = -5.558$, $p = .056$). These results showed that higher level of racial diversity on the board of directors related to higher level of diversity management ($b = 2.751$, $p = .000$).

Hypothesis 5 was thus supported.

TABLE 4.6. Hierarchical regression results for diversity management

<i>Variables</i>	<i>Model 16</i>		<i>Model 17</i>	
Intercept	-.436	(.720)	-.645	(.654)
TMT Age	.056	(2.226)	.214	(2.018)
TMT Function	-.211	(.687)	-.485	(.625)
TMT Gender	-.051	(.533)	-.264	(.486)
TMT Race	1.104*	(.485)	.712	(.447)
TMT Tenure	.007	(.032)	.004	(.029)
BoD Age	-6.789*	(3.163)	-5.558	(2.879)
BoD Gender	3.295***	(.876)	1.908*	(.846)
BoD Tenure	.289	(.473)	.273	(.429)
BoD Race			2.751***	(.578)
R^2		.237**		.379***
Adjusted R^2		.176*		.323***
Change in R^2		-		.142***
F-Test		3.886*		6.720***

* $p < .05$; ** $p < .01$, *** $p < .001$; $n = 109$, Unstandardized coefficients with corresponding standard errors in parentheses

Conclusion

Table 4.7 summarizes the conclusions for the hypotheses in light of the empirical outputs.

TABLE 4.7. Summary of findings

Hypotheses	Decision
Hypothesis 1a: A firm's diversity management recruitment is positively related to that firm's internal ethics.	Supported
Hypothesis 1b: A firm's diversity management staffing structures are positively related to that firm's internal ethics.	Not supported
Hypothesis 1c: A firm's diversity management valuing diversity is positively related to that firm's internal ethics.	Supported
Hypothesis 2a: A firm's diversity management recruitment is positively related to that firm's external ethics.	Supported
Hypothesis 2b: A firm's diversity management staffing structure is positively related to that firm's external ethics.	Supported
Hypothesis 2c: A firm's diversity management valuing diversity is positively related to that firm's external ethics.	Not Supported
Hypothesis 3a: There is a positive relationship between a firm's internal ethics program and its revenue.	Not Supported
Hypothesis 3b: There is a positive relationship between a firm's internal ethics programs and its return on investment.	Not Supported
Hypothesis 3c: There is a positive relationship between a firm's external ethics programs and its revenue.	Not Supported
Hypothesis 3d: There is a positive relationship between a firm's external ethics programs and its return of investment.	Supported
Hypothesis 4a: A firm's internal ethics partially mediates the relationship between its diversity management and its financial performance such that internal ethics positively enhances diversity management's contributions to revenue.	Not Supported
Hypothesis 4b: A firm's internal ethics partially mediates the relationship between its diversity management and its financial performance such that external ethics positively enhances diversity	Not Supported

management's contributions to return on investment.	
Hypothesis 4c: A firm's external ethics partially mediates the relationship between its diversity management and its financial performance such that external ethics positively enhances diversity management's contributions to revenue.	Not Supported
Hypothesis 4d: A firm's external ethics partially mediates the relationship between its diversity management and its financial performance such that external ethics positively enhances diversity management's contributions to return on investment.	Supported
Hypothesis 5: There is a positive relationship between racial diversity on the board of directors and overall diversity management.	Supported

CHAPTER 5

DISCUSSION, LIMITATIONS, AND FUTURE RESEARCH

Most of the literature that links diversity to ethics involves theoretical propositions that had not been investigated empirically (e.g., Alder & Gilbert, 2006; Gilbert et al., 1999; van Dijk, et al., 2012). This study was motivated not only by this dearth of empirical research linking diversity and ethics, but also by the lack of research on diversity management in general (Yang & Konrad, 2011). Consequently, this study extends previous research by investigating the impact of organizational diversity management processes on corporate ethics, and ultimately on firm performance.

This study drew from the social cognitive theory's modeling effect (Bandura, 1986; 1989) in order to explain how diversity processes that are put in place by a firm could have a spillover effect on other organizational endeavors. Diversity management in this dissertation thus refers to workplace diversity processes, and not to numerical diversity. As a result, this study departs from the "diversity as a numerical construct" that has dominated the diversity literature (e.g., Andreovski et al., 2014; Pelled et al., 1999; Richard et al., 1989; Webber & Donahue, 2001), and empirically investigates the neglected "diversity as strategy" view (e.g., Pitts, 2006; 2009; Singh & Point, 2004). Such an approach contributes to, and supports, long-held but overlooked propositions that management of diversity is an important aspect of a firm's diversity strategies (Gilbert et al. 1999; Thomas, 1990). Another virtue of this approach is its potential

for reconciling previously conflicting empirical findings (see reviews, Kochan et al., 2003; Williams & O'Reilly, 1998), while highlighting the valuable role of diversity management on other organizational functions. As such, regression analyses were conducted in hierarchical steps on a sample of Fortune 500 firms to understand the contributions that each of the three components of diversity management (i.e., diversity recruitment, diversity staffing structures, and valuing diversity) on internal and external ethics. To assess this value in diversity hypothesis, this paper specifically investigated three research questions:

RQ1: Whether diversity management relates to corporate ethics?

RQ2: Whether financial benefits of diversity are contingent upon corporate ethics?

RQ3: Whether racial diversity on the board of directors has an impact on the level of diversity management within a firm?

Contribution

Through the investigation of the above questions, this study makes noteworthy contributions in the following three areas of the management literature: ethics, diversity, and corporate social performance. In response to the first research question, the findings from this study show overall support for the value in diversity hypothesis by demonstrating that aspects of diversity management relate to internal and external ethics. These results also support the social cognitive theory's modeling and spillover explanation (Bandura, 1986; 1988; 1989), which this study drew from. Specifically, I hypothesized that established processes within the first and third components of diversity management, diversity recruitment and valuing diversity, provide models for the

standards that make up internal ethics. Given that the diversity recruitment practices target external applicants, I also proposed that they spillover and strengthen external ethics by projecting an image of an organization that abides to societal standards. The results supported these premises. Additionally, the findings that valuing diversity correlated with internal ethics are in line with the social cognitive theory's notion that observed information are stored in categories that are then used to retrieve cues when dealing with related issues (Schneider, 1991; Weaver & Treviño, 2001). Both diversity and ethics share common values, such as fairness, sincerity, and a concern for the common good (Chun et al., 2013; Dexter, 2010; Kaptein, 2009; Martin & Cullen, 2006; Sims, 1991). Thus, in the course of conducting day-to-day business, employees may be pulling ethical cues from their experiences and observations of the way the firm treats and values diversity. Furthermore, the second component of diversity management, diversity staffing structures correlated with external ethics suggesting that a high-level diversity personnel reinforces external ethics by portraying to external stakeholders that the firm and its leaders care about societal concerns. The significant coefficients between aspects of diversity management and corporate ethics are consistent with prior findings in ethics research that there are many other contextual factors associated with a firm's ethical functioning (e.g., Martin & Cullen, 2006; Treviño, 1986; Treviño et al., 1998). The present study is the first, however, to empirically demonstrate that diversity management in one such contextual factor, and in the process contributes to the ethics literature.

In response to the second research question of whether financial benefits of diversity are contingent upon corporate ethics, I found that higher level of diversity

management is associated with higher level of return on investment, and that external ethics acts as a mediator between diversity management and return on investment. These findings are consistent with the suggestion that socially responsible behaviors contribute to firm performance through promoting trust between the firm and its stakeholders (Donker et al., 2008; Hosmer, 1996; Roberts & Dowling, 2002). This study, however, offers an additional explanation for the various mixed findings from past research on diversity's contributions to firm's performance (see review, Kochan et al., 2003) by demonstrating that the concurrent examination of diversity and ethics offers a deeper understanding of how diversity management brings value to the firms.

Additionally, the empirical testing of diversity management as strategies, and at the firm level, in and by itself constitutes a meaningful contribution to the diversity literature, which practically has hundreds of studies that have focused on the “diversity as number” conceptualization. This study is the only one to conduct an empirical investigation on how the three combined initiatives within diversity management relate to firm-level outcomes. Beyond the examination of the diversity as strategy construct, this study further tested two measures of diversity management, diversity management as a continuum (Thomas, 1990), and as three primary diversity initiatives (Pitts, 2006; 2009). It found similar results for tests that used both measures to investigate their relationships with firm performance. The results imply that both approaches are appropriate manifestations of a firm's diversity management.

Similarly, by measuring two distinct aspects of firm performance, revenue and return on investment, this study confirms that diversity's link to firm performance is not only contextual but also depends on what aspects of firm performance are being

measured. For example, while significant relationships were found between diversity management and return on investment, my data showed that diversity management, as well as internal and external ethics, did not significantly predict revenue. This pattern is consistent with previous empirical results that assessed the relationships between corporate social performance and financial performance, which have shown that the results depend largely on which measures of firm performance are used (Margolis, Elfenbein, & Walsh, 2007). Revenue may be a factor of supply and demand that does not depend on such social performance. It may also be possible that, as suggested by McWilliams and Siegel (2000), the relationship between social performance initiatives and revenue is moderated by other factors that were not assessed in this study, such as research and development.

I also did not find support that the level of the diversity staffing structure related to internal ethics. One possible explanation for this lack of finding is that a dedicated high-level diversity personnel who is successful at directing internal resources towards diversity may also be diverting them from internal ethics, given that both initiatives vie for a firm's competing resources (Stewart et al., 2011). It may also be that the influence of the diversity personnel on internal ethics becomes significant after they have successfully implemented diversity management throughout the firm. Only a longitudinal or experimental study could provide insight that is more definitive.

Furthermore, this study hypothesized a relationship between valuing diversity and external ethics based on prior research that showed that there are spillovers from the positive experiences of employees that affect their external citizenship behaviors (i.e., Kaptein & Van Dalen, 2000; Masterson et al., 2000; Moorman 1991). The results did not

support such a relationship. One possible explanation for this lack of finding may be that the spillover effect from valuing diversity to external ethics may be limited to employees' actions and not permeate firm's actions. External ethics, as measured in this study, represented a firm's actions.

The third and last research question considered whether racial diversity on the board of directors had an impact on level of diversity management. The findings showed that racial diversity on the board of directors related to the level of diversity management within a firm. These results are in line with the social cognitive theory, which predicted that organizational norms and values are learned primarily through association, modeling, and reinforcement (Bandura, 1977; 1986; Brown et al., 2005). This study's unique contribution is that racially diverse boards of directors set the tone for the effective management of diversity in organizations. Thus, observations of diversity at the highest level of the organization may reinforce consistency and signal the importance of diversity in the organization. One noteworthy remark from these results is that when racial diversity was significantly present on the board of directors, the negative impact of high age heterogeneity on diversity management diminished, thus confirming previous findings that board of directors' composition influences important initiatives (Finkelstein & Hambrick, 1990; Forbes & Milliken, 1999). This finding, along with the others, has several practical and managerial implications, which I discuss next.

Practical Implications

Practitioner literature often positions diversity successes in firms as contingent upon the chief executive officers' (CEO) commitment to diversity (e.g., Childs Jr., 2005; Cox Jr. & Beale, 1997; Ireland & Hitt, 1999; Thomas, 2004). Such case studies also

highlight the frustrations and challenges faced by CEOs in dealing with a constantly evolving diversity landscape (Childs Jr., 2005) and the continuous need for getting buy-in from others (Ireland & Hitt, 1999). One practical implication of this study is that CEOs should take advantage of the leadership roles their board of directors, especially minority directors, can play in driving diversity management, even beyond modeling and observations. Directors cannot be expected to be good role models if they themselves are not knowledgeable and comfortable talking about their firms' diversity engagement. Thus, CEOs should ensure that there are boards' discussions on the state of diversity at the firm in order to prepare board members to be champions for the firm's diversity management initiatives. Such roles fall within the board's functions as enhancers of a firm's legitimacy and reputation (Roberts et al., 2005).

Another implication relates to the findings that benefits from diversity management carry into corporate ethics, and subsequently bring significant returns to the firm. These findings answer the question of whether diversity is worth the investment and offer firms additional incentives to invest in voluntary diversity management. Furthermore, the indication that diversity management is both a business and a moral value enhancing strategy, substantiated van Dijk and colleagues' (2011) arguments that values are important in aligning virtues with each other and with corporate strategy, in order to enhance firm performance. Managers should thus take note that the fairness, equity, and societal good "values" that are inherent to diversity management create alignment with the values of corporate ethics. Managers should also maximize on the interconnectedness between the two initiatives. For instance, the lack of relationships between diversity staffing structures and internal ethics suggest that there might be lost

opportunities in capturing potential benefits to firm performance, given that internal consistency among related activities maximized organizational outcomes (Doty, Glick & Huber, 1993; Porter, 1980).

Limitations

Despite the aforementioned implications, this study has several limitations. First, in order to limit potential bias that is often associated with surveys (Harris, 2001), this study relied on corporate websites to gather information about firms' social performance initiatives. The use of corporate websites, however, only captures the existence of the measures rather than quality characteristics that might offer insights into the companies' actual practices and routines. For instance, although research has shown that firms who are committed to diversity tended to publicize their diversity efforts (Kirby & Harter, 2003), in an evaluation of 15 firms in the chemical sector, Delmas and Blass (2010) reported that firms with major environmental challenges exhibited the highest attention to the environment. It is thus reasonable to think that firms facing diversity or ethical challenges would also pay greater attention to these social initiatives. Therefore, this study does not make any conclusion about the effectiveness of the identified practices, and acknowledges that the findings could further vary if a distinction were made between the content, quality, and implementation of the practices.

A second limitation of this study is that it was not able to determine with certainty that the information gathered from the websites temporally preceded the financial reports. The study therefore offers no evidence of a causal relationship. Causality was further limited given this study's cross-sectional design. A cross-sectional design is one that examines a set of firms at a particular time and offers no evidence of a causal

relationship. Additionally, there is also the question of reverse causal interpretation: might ethics program characteristics influence diversity management practices? Although it is sensible to suggest that diversity management processes impact corporate ethics programs, as is done in this study, it is also possible that a firm's ethical culture set the tone for diversity. Reverse causality is further conceivable since there is significant interaction between ethics program and ethical culture (Kaptein, 2009). This study is therefore limited given it was not designed to capture the role of ethical culture.

However, one of the reasons this study specifically examines corporate ethics processes, as opposed to ethical culture, is because diversity programs in the workplace, which preceded those in business ethics can serve as models for ethics. Workplace diversity practices stem from the 1964 Title VII of the Civil Rights Act (Berg, 1964), whereas workplace ethics programs began to formalize during the 1990's (Weaver & Treviño, 2001), and were codified with the passage of the 2002 the Sarbanes-Oxley Act (U.S. House of Representatives, 2002). Another example of the likely impact of ethics on diversity comes from Valentine and Fleischman (2002). They studied the impact of business codes in improving individuals' tolerance of societal diversity and concluded that companies' policies to, some degree, influence societal norms. However, they did not examine ethics codes, causality, or whether the business codes specifically addressed the issue of social diversity. A longitudinal or experimental study in the future might help to confirm or refute these various relationships' assumptions.

A third set of limitations relates to the use of financial performance measures from a sample of large and publicly listed firms. The financial performance measures utilized in this study, revenue and return on investment, are readily available through

secondary databases. As such, the need to be able to access these performance measures excluded the examination of other social performance outcomes such as sustainability, corporate social responsibility, environment performance, or reputation. These other social performance measures might have added insights since they have been shown to contribute to financial performance either directly (van Beurden & Gössling, 2008) or as intermediaries between diversity management and firm performance (Miller & del Carmen, 20009).

Additionally, the sample, which although covered all 10 sectors in the Global Industry Classification, did not include firms beyond those that were publicly listed. As such, findings from these large US corporations may not generalize to privately-held or smaller companies. It may also be possible that diversity's effects, especially at the board of directors' level, would be more significant in smaller companies. Future research that can integrate small and medium enterprises in the sample would be fruitful. Furthermore, given the need to collect data on the amount of corporate donations, only firms that have established private foundations for corporate giving were considered, which in turn further limit the generalizability of the findings. These limitations, along with the findings from this study, present opportunities for future research in several directions, which I address next.

Opportunities for Future Research

First, as referred to earlier, longitudinal or experimental studies in the future might help to confirm or refute the relationships assumed in the study. Researchers could explore whether diversity management actually contributes to corporate ethics, and also whether it works the other way round. Similarly, future investigation would also offer

researchers the opportunity to weigh in on the debate of whether social initiatives contribute to financial performance or whether firms with higher financial performance have more flexibility in engaging in social performance (McGuire et al, 1988; Van Beurden & Gossling, 2008). This remains an important endeavor in management literature given the continuing debate on the relation between social and financial performance (e.g., Van Beurden and Gossling, 2008).

Future research could also benefit not only from articulating but also from further refining the existing measure of external ethics. External ethics represents a firm's contributions to society through its ethical activities (Chen et al., 2008; Chun et al., 2013). The measure used in this study derived from one study that categorized a firm's ethical activities into three internal ethics and four external ethics items (Basil & Erlandson, 2008), and from another study that assessed external ethics with two items (Chun et al, 2013). The present study found minor correlations among the three items that were used in this study to measure external ethics, which suggest that firms may be channeling their contributions to society through one and not to all three aspects of external ethics. The findings also suggest that perhaps corporate donations might not be an appropriate proxy of external ethics but, as other literature shows (e.g., Carroll, 1979; Wang & Qiang, 2011), a measure of corporate philanthropy. Research is needed to develop and test external ethics measures that consider these issues and allow for the examination of firms that have not set up private foundations. Such a larger pool would in turn offer future opportunities to compare this study's finding of a relationship between racial diversity on the board of directors and diversity management in firms that set up private foundations, with findings from firms that do not have such foundations.

Despite these constraints, this study was the first to test widely accepted assumptions of diversity management's relationship to corporate ethics. It affirmed that the management of diversity is a significant factor to consider in business ethics research. In doing so, the study also responded to repeated calls for empirical studies that integrate the business case for diversity with its moral imperative (Alder & Gilbert, 2006; Gilbert et al., 1999; van Dijk, et al., 2012). It demonstrated that the call for workplace diversity does not need to be positioned either as a business necessity or as an ethical issue; diversity contributes to both the moral and the business obligations of the firm. Furthermore, by combining two approaches to measuring the construct of diversity management in a single analysis, this study helped towards establishing and validating the construct. As a result, this study has advanced theory and aided current practice.

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APPENDICES

Appendix A: A Model of Effective Diversity Management (Gilbert et al., 1999)

Figure 1. A model of effective diversity management. Reprinted from “Diversity Management: A New Organizational Paradigm,” by J. A. Gilbert, B. A. Stead, and J. M. Ivancevich, 1999. *Journal of Business Ethics*, 21(1), p. 67. Copyright 1999 by Springer. Reprinted with permission.

Appendix B: Comprehensive Model of Diversity Management (Pitts, 2006)

Figure 1. Comprehensive Model of Diversity Management. Reprinted from “Modeling the Impact of Diversity Management,” by D. W. Pitts, 2006. *Review of Public Personnel Administration*, 26(3), p. 35. 5-268. Copyright 2006 by Sage Publications. Reprinted with permission.