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**Diversity and inclusion (D&I) practices and its relationship
with firm performance**

Master thesis by 2st year student

Concentration – MIM

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ABSTARCT

Master Student's name	Darja Firsova
Academic Advisor's name	Marina O. Latukha
Master Thesis title	Diversity and inclusion (D&I) practices and its relationship with firm performance
Description of the goal, tasks and main results	<p>The goal of the master thesis is to identify existence of the relationship between D&I practices and firm performance</p> <ul style="list-style-type: none"> • For achieving research goal following tasks were done: • Analyzing literature about diversity and inclusion • Identifying research gaps and creating research questions • Overview of the effect of diversity, inclusion and firm performance • Conducting a questionnaire for the managers who work in the companies with diversity inclusion practices • Preform an analysis of the results <p>The result of the research will be based on answering the question of relationship between D&I practices and firm performance and identifying factors influencing D&I practices.</p>
Keywords	Diversity, inclusion, diversity and inclusion practices, diversity management

АННОТАЦИЯ

Автор	Дарья Фирсова
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Название ВКР	Практики разнообразия и инклюзивности и их влияние на результаты деятельности компании
Описание целей, задач и результатов	<p>Цель ВКР состоит в том, чтобы определить наличие взаимосвязи между практиками D&I и эффективностью работы фирмы.</p> <p>Для достижения цели исследования были поставлены следующие задачи:</p> <ul style="list-style-type: none">• Анализ литературы о разнообразии и инклюзивности• Выявление пробелов в исследованиях и создание исследовательских вопросов• Обзор влияния разнообразия и инклюзивности и эффективности работы фирмы• Проведение анкетирования менеджеров, работающих в компаниях с практиками инклюзивности и разнообразия• Проведение анализа собранных данных <p>Результат исследования будет основан на ответе на вопрос о связи между практиками D&I и эффективностью работы фирмы, а</p>

	также на выявлении факторов, влияющих на практики D&I.
Ключевые слова	Разнообразие, инклюзивность, практики разнообразия и инклюзивности, управление разнообразием

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Introduction

The research discusses diversity and inclusion (D&I) practices and its relationship with firm performance. The work will help companies to understand the value of D&I programs (practices) and its relationship with firm's outcomes, such as innovation activities, absorptive capacity, and performance.

Researchers claim about importance D&I practices in an organizational context by investigating positive effects on companies, teams, and employees, including building human resource management (HRM) systems to implement D&I as a long – term strategy (Budhwar, 2015).

D&I is about how people with diverse background feel at work. The company strives to create an inclusive environment where employees are open minded, free from prejudice, flexible and adaptive. Thus, D&I culture has a positive effect on personal level (involvement, motivation, job satisfaction); social level (innovativeness and creativity of teams); organizational level (company growth, profitability).

D&I practices are applied at different stages of employee development in a company: recruitment, adaptation, development, assessment, talent management, promotion/dismissal.

According to a 2015 Deloitte study, companies that embrace diversity are more adaptable to a changing environment, they have more chances to achieve their financial goals and more likely will show good business results (Bourke, 2015).

Diversity improves not only financial performance, but also innovative solutions. According to BCG research, organizations with a low level of diversity increased revenue from implemented innovations by 26%, and in companies with a high level - by 45%. Six criteria for diversity were taken into consideration: age, gender, ethnicity, career path, industrial experience, and educational level. (Lorenzo, Voigt, et al., 2017).

Since we performed a literature review, we can see the overall gap which shows the lack of evidence of relationship between the diversity and inclusion practices and work performance. Main issue is little knowledge about operationalization and limited studies of empirical research. Different

researchers draw attention that a companies with diverse team perform better, but it is not completely clear which factors influence the success of the company.

Research goal: To investigate the relationship between D&I practices and firm performance.

Following from the research goal we can assume that the research questions might be following:

Is there any relationship between diversity and inclusion practices and firm performance?

Other research questions that shape the research are:

- What are determinants of D&I programs that moderate firm performance?
- How D&I practices shape firm's innovation activity and absorptive capacity?

Object: Companies with diversity and inclusion practices.

Subject: Diversity and inclusion practices.

Aiming to answer those questions quantitative method of the research will be applied. For quantitative method a questionnaire was created. We selected respondents based on presence of diversity and inclusion practices inside the company and their positions were primarily from Human resource and Talent management departments. Mainly it is important to find the answers for the research questions and practices companies implement.

Chapter 1. Diversity and inclusion specifically as the part of organizational structure

1.1. Definition of diversity and inclusion

Diversity management is relatively new field of study which gain it popularity in professional community recently. Diversity includes the basic aspects with which person is born: age, gender, race and ethnicity, sexual orientation, physical and mental characteristics and limitations. And acquired: education, place of residence, social status, place of work, income and much more (Syed, Ozbilgin, 2019).

D&I are seen as a policy of involving a wide variety of people in business processes: different ethnic groups, women, people with disabilities. In general, this policy is aimed to make the business as diverse as possible (Ezbilgin, 2009).

The first who started to apply D&I practices where multinational IT companies. The IT industry is one of the fastest growing in the world. In this industry, as in many others, companies are constantly competing for the top workers. This is an industry with a constant shortage of quality personnel, so finding and retaining the best is a top priority. That is why IT companies started to apply new practices in order to attract the best talent (Steele, Derven, 2015).

1.2. Diversity as the phenomena

Today, the policy in personnel management is shifting towards the search for not just professional employees, but a variety of personnel, and not only based on gender. Diversity in the work community is believed to create a healthier communication environment. Programs related to diversity management are actively used in large corporations. The more diverse the workforce is the more beneficial it is for the corporation (Gomez-Mejia, et al., 2007).

Moreover, diversity management is built on the idea that all people are different - and these individual differences need to be recognized and accurately assessed in the context of the company's work. At the same time, it would be wrong to equate diversity management and tolerance: diversity

management is not just tolerance towards certain people, but the ability to work and interact with them (Kilduff, et al., 2000).

As the separate field of study diversity management started to develop in the middle of the last century. The prerequisites for the emergence of the concept of diversity management appeared in United States of America in the late 1960s, when active attempts were made to overcome racial and gender discrimination (McDonald, Dimmick, 2003).

Particular attention to diversity management began to grow in the 90s of the last century. In 1990, the first study on this topic was published - "From Affirmative Action to Affirmative Diversity", authored by Thomas Roosevelt Jr. In his work, he defined diversity management as the responsibility of an organization to recruit, retain, develop, and promote a diverse workforce that includes African Americans, women and people with disabilities (McDonald, Dimmick, 2003).

Following from this interest in diversity management began to grow. The D&I practices owe much of its beginning to charitable projects that existed primarily on grants. It took business a while to see that inclusiveness does not contradict, but rather contributes to success, and social justice can have its financial benefits for the company.

Since then, diversity management has become more often an object of research. In 1991, Taylor Cox and Stacy Blake of the University of Michigan, in their study "Managing cultural diversity: implications for organizational competitiveness", stated that increasing the value of workers with different cultural backgrounds and creating an enabling environment for the inclusion of absolutely all employees in the work process is one of the main tasks in organizational culture (Kilduff, et al., 2000).

And in 1996, Francis Mailiken and Louis Martins from New York University suggested that a diverse workforce could offer better ideas for products and services for a multicultural community. Already by 1997, there were about three dozen works in which this phenomenon was examined in detail: various approaches were created to the formation of a diverse composition of employees, an analysis of successful and unsuccessful initiatives for the implementation of this policy in different companies was carried out, common mistakes were identified (McDonald, Dimmick, 2003).

Further research of diversity management introduced to new concepts in the study. In the book published by Syed, J. and Ozbilgin, M. certain key concepts are identified. For the main concepts author's name stereotypes (cognition), prejudice (affect), discrimination (behavior). Stereotypes are identified as biased generalization about the group. Prejudice is often based on the stereotypes and affects the way we think. And discrimination is about that someone in the group is treated differently due to some characteristics they have (Syed, Ozbilgin, 2019).

For further research, researchers from the center of advanced human resource studies in Cornell conducted a survey in order to participants could tell what in their opinion are the differences between the term's 'diversity' and 'inclusion'. They found out that the terms describe separate types of work environments.

"Specifically, definitions of diversity focused primarily on differences and the demographic composition of groups or organizations, while definitions of inclusion focused on organizational objectives designed to increase the organizational participation of all employees and to leverage diversity effects on the organization." ¹

Diversity
"The unique differences and similarities that our employees, customers, suppliers and communities bring to our global business environment."
"Diversity encompasses the many ways people may differ, including gender, race, nationality, education, sexual orientation, style, functional expertise and a wide array of other characteristics and backgrounds that make a person unique."
"Variation in the human capital profile of the organization/people from different races, religions, perspectives, etc, therefore different cultures, values, beliefs, and reactions to the organizational environment."
Inclusion
"We define inclusion as seeking out, valuing and using the knowledge and experiences of diverse employees for business benefit."
"Recognizing, understanding and respecting all the ways we differ, and leveraging those differences for competitive business advantage."
"A competitive business advantage that we build and maintain by leveraging the awareness, understanding and appreciation of differences in the workplace to enable individuals, teams and businesses to perform at their full potential."

Fig. 1. Sample definition of diversity and inclusion. Source author (Roberson, 2006) ²

¹ Roberson, Q. M. (2006). Disentangling the meanings of diversity and inclusion in organizations. *Group & Organization Management*, 31(2), 212-236.

² Roberson, Q. M. (2006). Disentangling the meanings of diversity and inclusion in organizations. *Group & Organization Management*, 31(2), 212-236.

Another definition of diversity and inclusion is offered by Ezbilgin. In his work he mentions that D&I is a policy of involving a wide variety of people in business processes: different ethnic groups, women, people with disabilities. In general, this policy is aimed at making the business as diverse as possible (Ezbilgin, 2009).

Usually, diversity is defined “characteristics what make human being different.” (Gomez – Mejia, et al., 2007). Richard L. Daft identifies diversity by two possible dimensions – basic and secondary. Basic dimension differences with which person is born such as ethnicity, race, gender, etc. They have influence and impact on person during their whole life. Secondary dimension are those, what individual have gained through their live. Those qualities are changeable. Those characteristics are more influence how others see us, rather than how we self – identify ourselves (Draft, 2003).

In his work Draft claims that companies that embrace the idea of diversity are more sensitive to the individual characteristics of employees. Those, in return, understand that they are appreciated, and feel happier, they have fewer reasons to leave the company (Draft, 2003).

Furthermore, it is suggested that the diversity can be studied through four different categories. Those categories are visible demographic attributes (gender), relational attributes (organizational tenure), status attributes (marital status), personal attributes (personal beliefs) (Lawrence, 1997).

In another point of view we can see that researches claim that successful organizations that emphasize diverse work environments have proven that people learn to channel their differences to make them strong when given a common challenge (Theodorakopoulos, et al., 2015). This phenomenon is different from assimilation, where people change their lifestyles to adopt the lifestyles of those with whom they work (Suharnomo, et al., 2017).

In the case of diversity, people still maintain their individual values and mutual respect as individuals, even if they work as a team on a common task, combining their skills, experiences, and ideas. In a sense, diversity is a difference. How you analyze and exploit these differences will determine whether diversity is an asset or a liability for the organization (Seymen, 2006).

Recently many companies have already started providing diversity training for their employees, however, diversity is not really a ability or skill that can be learned through specific training. If a

person does not have a broad mentality, they will always notice differences between people, which will affect how they handle relationships in their workplace (McMahon, 2010).

When people of different skin colors, gender, and ethnicity are put into the same workplace, companies take advantage of the different ways of thinking these people bring with them. Many of these factors may not have an immediate noticeable impact, but different groups bring great diversity through their personality, thought process, information processing, self-confidence, values, educational backgrounds, experience, goals, political views, lifestyle, and social status, among many others (Arredondo, 1996).

1.3. Current trends in D&I research

As we mentioned before, diversity only recently became a topic of interest for the research. John Bersin, analyst and writer, names D&I as one of the hottest topics in human resource management. Based on all surveys and studies, the main thing is communication and collaboration, which provides an opportunity for creativity and joint development.

Moreover, certain number of the companies is committed to hire more women and BIPOC employees, but D&I's true range goes beyond that and includes the following metrics (Ferdman, Deane, 2014): gender identity outside the binary system; personality type; ethnicity; immigrant status; physical ability; religion; language.

As in any research topic, in the field of studying diversity and inclusion Ferdman and Dean offer a concept beyond recruiting, a culture of D&I which can include the following (Ferdman, Deane, 2014) : changes in the design of corporate gifts that are suitable for all employees regardless of their faith, gender, etc. creating offices and meeting rooms that are accessible to all employees and guests; developing a code of conduct that all employees must read and accept as part of their employment contract.

1.4. Diversity and work performance

Many researchers try to draw attention to importance of diversity at workplace. There is number of research done trying to prove the relationship between the diversity and firm performance.

In this paragraph we will cover literature which main aim is to prove that relationship (Nielsen, Nielsen, 2013).

The literature in this topic of research can be divided into two parts. One of them focuses of finding evidence between the firm results and application of diversity. Whereas second main aim is to identify the positive aspect diversity brings into the firm and what results it presents (Erhardt, et al., 2003).

Often in the researches attention is drawn to team cohesion and diversity with the main idea of improving the quality of the work environment. Such an environment can be an inspiration for every employee, and this will contribute to more effective building of relationships between employees, as well as contributes to an overall increase of performance (Erhardt, et al., 2003).

Moreover, a diversity of perspectives combined with an inclusive corporate culture helps make informed decisions, stimulates innovation, increases the agility of an organization, and strengthens its resilience to disruptive change. According to Roberson and Park (2007) a key benefit of diversity is that employees with different perspectives are better at things like innovation and decision making (Roberson, Park, 2007).

Researchers additionally draw attention to the fact that a diverse group will have different talents, skills, strengths, and experiences. Various skills, abilities, experience become useful when it comes to helping each other achieve a common goal. Employees can learn from each other, improving communication and teamwork. Diverse group will as well lead to diverse way of approaching and solving a problem. Experience and knowledge of a diverse team will force team members to solve problems in different ways trying to reduce risk, increase efficiency and productivity (Roberson, Park, 2007).

Additionally, diversity means not only that team members differ in nationality, gender, cultural code, or beliefs, but also that they are different when it comes to personal character and opinion. Researchers claim that it may be easier to collaborate with people who are more similar to us, but often teams built around diversity produce better results. The more different people are, the more strengths the team might have. Different ideas enrich the discussion and lead to better results

(Roberson, et al., 2017). Thus, individuality of each team member can be used for good, especially when it comes to working in international companies, whose target audience is the modern society (Marinova, et al., 2016).

Following from that, it is crucial to have a fast at making decisions and this can be identified as the main factor of efficiency. Today, success is achieved by companies that are fast at making decision but are taking time to think. Those are the companies who weight all possible risks and take into consideration different circumstances. The more diverse the knowledge, life experience and abilities of the team members, the higher the chances for an objective assessment of the situation and a solution that considers the interests of the maximum number of people in the group (Marinova, et al., 2016).

In modern inclusive organizations companies are trying to turn difference into an advantage and leverage the full potential of all employees. Creating a particular atmosphere might help to remove barriers in the organization, misunderstandings and alienation and encourage innovative and out of the box thinking (Boone, Hendriks, 2009).

Another factor of efficiency which needs to be taken into the consideration is the level of acceptance of each employee of the company. If in the team people feel accepted and heard, feel included and have an option to voice opinion for the common cause, their efficiency grows, and the company's reputation can grow (Kirton, 2020). The corporate culture is formed from the behavior of each employee of the company, which means that all employees must share, if not common values, then at least common knowledge (Boone, Hendriks, 2009).

Research has shown that diverse groups are more effective at solving problems than peer groups, and policies that foster diversity and inclusion will enhance our ability to draw from the broadest range of talent, solve your toughest challenges, maximize employee engagement and innovation (Jiang, Tao, et al., 2010).

Additionally, applying diversity practices in the workplace might help in order to create a positive brand image. In the work published by Porcena, et al. the main highlight is on the fact that it is especially important for a company to seek to hire and retain talented young employees. Diversity

can play a huge role in attracting candidates to terms business, especially in terms of recruiting graduates (Porcena, et al., 2020).

Following from this, when employees realize that differences can be seen as the benefit in the company, they are more likely to be more confident in their personal traits and qualities. Encouraging diversity can help increase the confidence and productivity of individual team members who can more easily express their ideas (Schwab, Werbel, et al., 2016).

Additionally, we can see that companies with diversity approach tend to retain employees for longer time than other companies. Ultimately, employees who feel accepted and appreciated are much less likely to leave due to the feeling of belonging (Schwab, Werbel, et al., 2016).

Another research done by Gartner experts claims that by 2022, 75% of companies with diverse and inclusive decision-making teams will exceed their financial goals. The study found that gender-diverse and inclusive teams outperformed their less-inclusive peers by 50% (Porcena, et al., 2020).

As for attraction of people with different diverse backgrounds companies try to use different tools of attracting specialists. For example, millennials are attracted to those companies who identify themselves as the socially responsible companies (Madera, Dawson, et al., 2018). Thus, it's necessary for companies to develop HR – branding for different diversity groups for promotion. The concept of an HR brand implies a comprehensive offer of the employer, which the employee sees as the potential workplace (Lopez, et al, 2006). Depending on the size and specifics of the company, it may include a decent salary, bonuses or social packages, medical insurance, corporate discounts to fitness clubs, training, and internship opportunities, as well as a friendly team and even a future advantage in the resume (Jonsen, et al., 2021).

Recent surveys have shown that among the priority criteria for young professionals in choosing an employer, the leading position is occupied by the "balance of work and personal life." The current generation is not ready to "live" at work, they have other interests and hobbies. If the company is able to provide "work – life balance" for an employee, then it will not take so much – to balance the number of staff and set up business processes in such a way as to minimize overwork. Such company can become a desirable place for a new generation of specialists (Schroth, 2019).

In many international companies HR managers draw attention to the fact that every person in the teams is asset. Thus, it is necessary to treat everyone fairly and give the opportunity to actively participate in the meeting, team works and decision-making process. The more involved each person of the team is the better result they show in the end of the project.

Even though there already are some of the researches done from analyzed literature we can see a lack of evidence of the relationship between diversity and firm performance. Additionally, we can say there is little known about the operationalization. Thus, from this we can raise research question 1, which is Is there any relationship between D&I diversity and inclusion practices and firm performance? Since there is a lack of empirical evidence between diversity and inclusion practices and firm performance, we could analyse empirically the evidence of this relationship and try to answer to this research question. To summarise we will move from secondary source to primary source of data by doing the research ourselves.

Chapter 2. Factors that influence diversity and inclusion

2.1. Internal and external factors influencing diversity and inclusion in the organization

As we discussed before in a previous chapter, research has shown that diversity increases the probability of the organization's success. To be effective, companies need to develop synergy and trust among employees and managers, which can only happen if the work environment is inclusive and diverse (Sparkman, 2019). When the team is involved and working at full capacity, the easier process communication happens within the team. Preconceived notions about people as well as cultural barriers hinder a team's ability to be productive and self-sufficient. Interaction starts at the individual level, but only when organizations create an environment in which everyone can be free and safe (Daya, 2014).

Moreover, there are number of researchers that suggest that one of the factors which influence diversity at the workplace is the availability of education, as it highlights the choice of job options and other perspectives, which then lead to the formation of ideas about who should exist in which environment. People often start discussing their future careers in their late teens, but by that age, many skills and aspirations are predetermined (Shin, Park, 2013).

Following from that, human resource management also plays a significant role in changing an organization's ability to objectively balance employment opportunities and needs and the employment life cycle to promote diversity and inclusion (Shin, Park, 2013).

Thus, Harvard Business Review did their own experiment where different teams did the same task which was given to them. The teams included senior executives, MBA students, general managers, academics, teachers, and teenagers. As a result, gender and ethnic, cultural affiliation did not affect the results in any way. Different teams performed the tasks equally well or poorly, the result did not depend on the percentage of diversity (Brown, 2018).

The findings helped to look at diversity more broadly. The HBR team found that task success is influenced by cognitive diversity — the way people think differently in uncertain and complex situations. Cognitive diversity does not depend on gender, age, or ethnicity, it is more difficult to detect,

but it is precisely this that increases efficiency (Brown, 2018). The choice of personnel policy depends on the factors of the external and internal environment of the functioning of the organization, so to say from external and internal factors of influence.

At the same time, it is necessary to refer to external factors, for example those are, the economic situation, prospects for the development of the labor market, the territorial location of the company, etc. Internal factors include the structure and goals of the organization, the technologies used, relationships and the moral and psychological climate in the team, organizational culture, etc (Sue, Sue, 1990).

The main environmental factors can be combined into two main groups. First one are the regulatory restrictions which are happening on the country level and thus are not in the control of the company. Second, the situation in the labor market which occurs on the firm level, and which can be changed if needed.

Thus, the presence in the legal norms of some countries obligates companies to use system of tests in hiring, which makes employees of HRM services to be very resourceful in designing programs for selection process of personnel (Marhold, Kang, 2017).

When it comes to considering the situation on the market, it is necessary to analyze the presence of competition, the sources of recruitment, the structural and professional composition of the labor force (Reddy, Jadhav, 2019).

Necessary to highlight importance of the fact that external factors are those which the organization as a subject of management is not able to change and thus must consider in order to correctly determine the need for personnel and the optimal sources for covering this need. Those are additionally scientific and technological progress which includes the nature and content of labor, which affects the needs for certain specialists, the possibility of retraining working staff (Page, 2010).

For external factors we can also mention professional and public associations, in which employees of the enterprise are involved in a particular way. The strategy of such associations, their traditions, and priorities in the means of struggle must be considered to create and implement effective personnel programs (de Castro, 2019).

Factors of the internal environment are those factors that can be controlled by the organization. One of the main internal factors that we can name is the goals of the company, their time perspective and degree of development. It can be also the size of the company (de Castro, 2019).

Another internal factor that needs to be taken into consideration is management style which a company has, which is usually fixed and is included in the structure of the organization. A comparison of an organization built in a highly centralized manner, as opposed to one that prefers the principle of decentralization, shows that these enterprises require a different composition of professionals (Lopez, Peon, et al., 2006).

Additionally, we can add working conditions. As an example, required physical and professional income, degree of harmfulness of work for health, place of work, duration and structure of work, interaction with other people at work, degree of freedom in decision making, understanding and acceptance of the purpose of the organization. Typically, having enough work – unattractive tasks require from manager to create specific types of involvement and participation in organizations (Gooderham, Parry, et al., 2008).

Qualitative characteristics of the workplace can be another factor of internal environment. Thus, working as part of a successful team can be an additional incentive that contributes to stable productive work and job satisfaction (Nair, Vohra, 2015). The more successful the image of the company is the more attractive the workplace may seem to a potential employee. Furthermore, it makes existing employees put more effort in their work to maintain the image of the company if they are motivated enough (Panayotopoulou, Bourantas, et al., 2003).

And most importantly, leadership style is one of the internal factors as well. It is important that no matter what leadership style is preferred by a particular manager, the existing goals in the field of work with employees are achieved. It also means that with applying the right leadership style it can lead to maximization of inclusion skills and experiences of each employee (Leo, Barton, 2006). It also helps to ensure constructive interaction of group members, obtain healthy relationship within the team. If leadership style is supported by the employees, it helps to contribute to the formulation of goals and maintain main objectives of personnel policy in the programs of the organization (Laursen, Foss, 2003).

Since we could identify main factors what influence implementing diversity and inclusion practices on the country and firm level from the literature, we could raise a research question 2 “What are the determinants of D&I programs that moderate firm performance?”. In our research we will try to find the answer which factors are more important and have the biggest effect on implementing diversity and inclusion practices in the company.

Chapter 3. Effects of diversity and inclusion management

3.1. D&I practices, and its effect on work performance

As was presented in the literature above, we see some of the positive effect on implementing diversity and inclusion practices at the workplace. More and more international companies are adopting the D&I practices for their corporate culture. Those are for example, General Electrics, Philipp Morris, Johnson & Johnson, Sanofi, Hogan Lovells, PepsiCo, IBM, Microsoft, Apple, L'oreal and many others.

One of the examples of implementing diversity and inclusion practices is Baker Hughes, an energy technology company based in Texas, United States. Company has developed the D&I Council. Main goal of this council is to promote a culture of equality, acceptance, and diversity inside the company. The company has created such departments as a women's club, wellbeing, etc. Each of the directions is promoted and led by the company's top managers. Employees of the company joined the topic of interest to them and themselves organize and conduct events aimed at supporting representatives of the group and educational activities (Derven, 2014).

Others who tried to prove positive effect of diversity and inclusion practices on firm performance were analysts from BCG and Munich Technical university. In this particular study analyst show the direct dependence of income from the launch of innovative products and services on the level of D&I in companies. The study was performed in the 171 German, Swiss and Austrian companies, but the analysts believe that the results can be applicable globally. The finding showed that the positive relationship between the innovation and management diversity is significant, which means that companies with the higher levels of diversity have more revenue from products and services (Lorenzo, et al., 2017).

Another study on D&I shows that diverse teams are more innovative, smarter, and more profitable. They encourage their members to better process their ideas to help protect them in a multi-vision team (Henderson, 2019). In his work, Henderson claims that any innovation-driven company needs people to make up its collegiate mind. The more diverse team a company has, the more likely it will deliver innovative results and find innovative approaches in the solution of existing problem (O'Donovan, 2018).

From another point of view personnel policies and gender diversity is an opportunity for men and women to occupy equal working positions in which they will receive equal wages (Henderson, 2019). Two-thirds of executives (68%) believe they have created a supportive, free environment in which employees can be themselves, express their opinions and innovate without fear of making mistakes. But only a third of employees (36%) agree with this (O'Donovan, 2018).

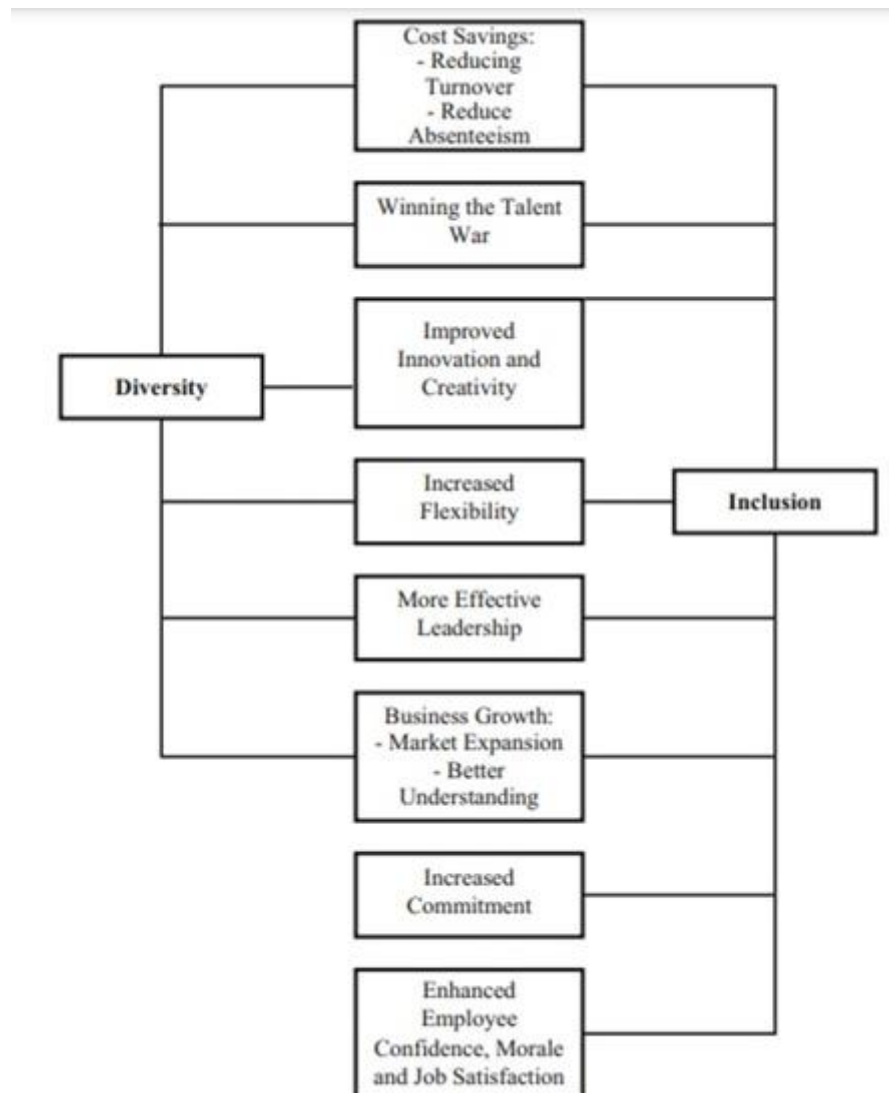


Fig. 2. Advantages associated with Diversity and Inclusion. Source Author (O'Donovan, 2017)

Additionally, O'Donovan highlights the advantages of diversity and inclusion practices in the company. Author claims that having those practices gives company not only better branding, but

moreover makes workers more satisfied and thus trying to perform better. In it is important to mention, then in his work author draws attention to the reasons why diversity and inclusion grown in the companies: Due to demographic changes more women and different minorities start to appear more often as the workforce; Increase of globalization increases the number of businesses who decides to expand to the foreign markets; Improvement of information technology; The more international companies are presented on the market the more diverse teams work there; Communication between different nationalities and cultures; Companies try to attract people with different cultural background in order to bring different opinions in the decision making. (O'Donovan, 2018)

Additionally, it is required to look on a diversity management for theoretical perspective. Science diversity management research is linked to research done in human resource management and talent management there are certain frameworks which focus on diversity inside the company. In the research done by Susanna Bairo she suggests that there are different approaches for managing diversity teams for the company benefits. Those approaches are: The Practitioner/Consultant Approach; The Mainstream Approach; Critical Approach (Bairoh, 2008).

As for research done in talent management was developed four main approaches in recruiting diverse talent: Exclusive – elitist people; Exclusive – elitist position; Inclusive – people; A social capital (Sheehan, Anderson, 2015).

Following from that we can take closer look at other reaches done. For example, Hays-Thomas in his book highlights the idea that diversity is a tool in the company which helps to keep ideas fresh and offers new innovative solutions. Whole groups of similar people from similar backgrounds are more likely to share points of view and are less likely to identify gaps in their own knowledge, teams that differ in race and ethnicity are likely to be less susceptible to this bias. Thus, diversity in people means diversity in thoughts (Hyas-Thomas, 2016).

In addition, the corporate culture is becoming increasingly important in the eyes of employees, and they believe that they should be helped to achieve success at work (this is reported by 77% of women and 67% of men). Which make companies recognize the importance of equality (Woolley, Malone, 2011).

Some of the authors also mention challenges what companies might face in the diverse team. When everyone has freedom of speech begin to take on new roles in the company, they begin to want more of their voice sensitivity. This might scare the other works who are less capable of freely expressing themselves. This might lead to fear of expressing ideas. And finally, lead to a conflict between the co – workers (Giovannini, 2004).

At this stage, the number of conflicts increases, and the classical corporate culture tries to bypass this phenomenon a mile away (Nkomo, Bell, et al., 2019). Conflicts seem to be harbingers of the end, a crisis to be overcome. Here, one of the first solutions to become simple is to return everything to the moment when there were no conflicts, that is, to reduce the level of diversity (Chakravarthi, Muralidaran, 2021).

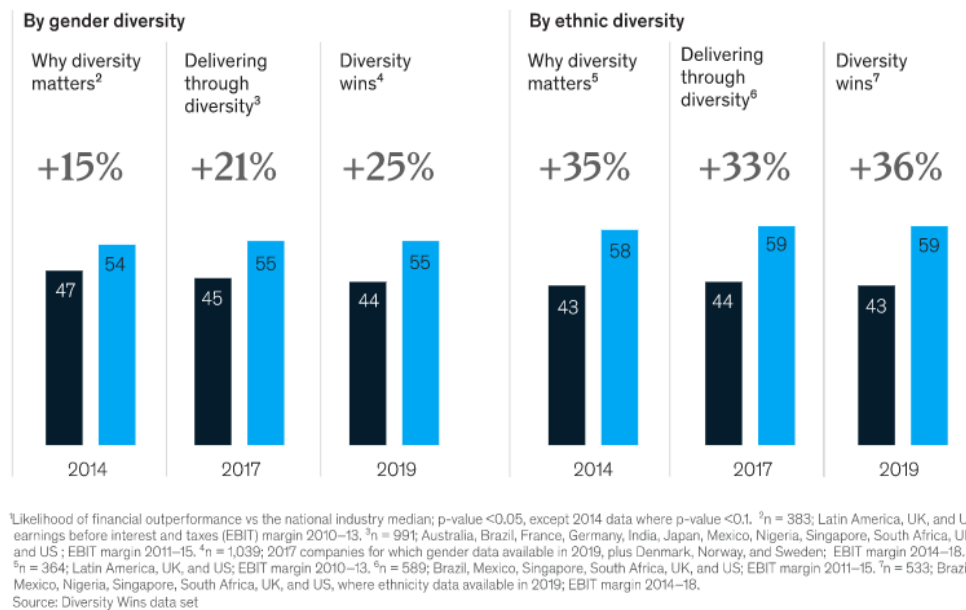
In fact, conflicts should not be always seen as something crucial. Conflicts show that different people are in the process of discussion, and, therefore, have access to an open discussion and have an opportunity to voice their opinion. Also, ambiguous situations and disputes can increase the likelihood of making better decisions for the business. Thus, if the decision is made by one person, it is subject to less analysis, in contrast to the situation when the decision is evaluated by a group in which there are both supporters and opponents of the idea. Such a discussion reveals more viable options for the development of the situation, evaluation criteria, related opportunities, and problems (Steele, Derven, 2015).

3.2. Managing diversity and inclusion through practices

Diversity improves not only financial performance, but also innovative solutions. According to BCG research, organizations with a low level of diversity increased revenue from implemented innovations by 26%, and in companies with an elevated level – by 45%. Six criteria for diversity were taken: age, gender, ethnicity, career path, industrial experience, and educational level (Lorenzo, Voigt, et al., 2017). As we already discussed more diverse teams can offer more innovation solutions.

Since the main goal of the research is to understand is there any relationship between D&I practices and the worker performance the reviewed literature should be dedicated to the same exact goal.

McKinsey study of 366 companies for the most diversely managed organization found that the chance of earning more than industry average profits is 35% higher than that of peer-to-peer companies (Hunt, Layton, et al., 2017).



Overall sentiment on diversity was more positive than negative, but sentiment on inclusion was markedly worse.

Sentiment on diversity and inclusion, %

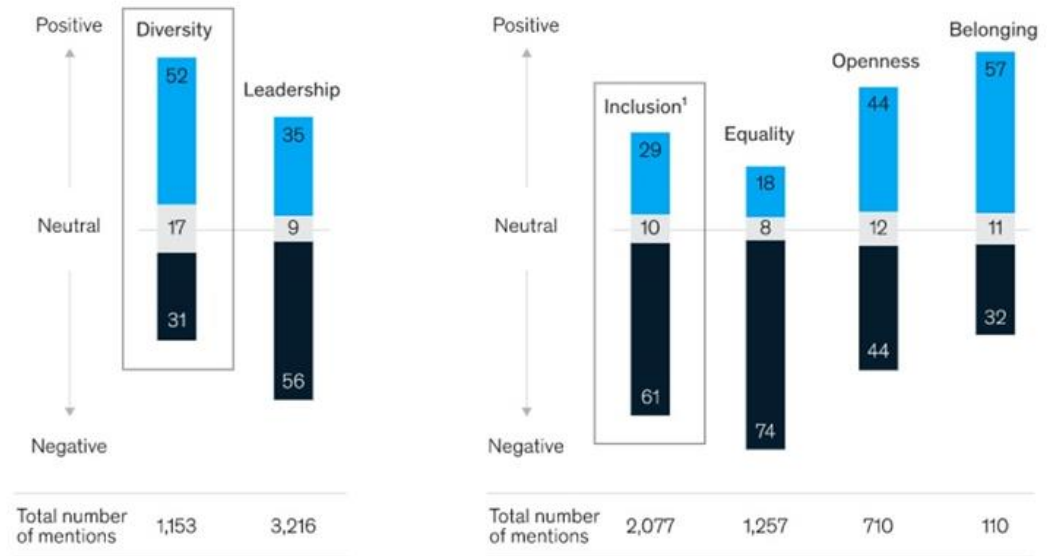


Fig. 4. Sentiment on diversity and inclusion. Source author (Hunt, Prince, et al., 2020)

And in a recent study by Credit Suisse shows that companies with diverse gender management teams have higher earnings per share and higher net income (Johnson, Lambert, 2020).

Another study on D&I shows that diverse teams are more innovative, smarter, and more profitable. They encourage their members to better process their ideas to help protect them in a multi-vision team (Henderson, 2019).

The Harvard Business Review has published a case study that shows that the inclusion of men and women in work groups increases the overall IQ of the team. This happens due to the emergence of an opportunity to propose and discuss ideas that are relevant to both sexes. This creates a "creative space" in which a product is born that is equally interesting to both men and women (De Anca, et al, 2018).

Another point which should be taken into consideration is certain limitations which are presented in the studies. According to a Hays – Thomas study, 60% of employees faced career restrictions due to age, gender, nationality, religion, or disability (Hays-Thomas, 2016).

For employees with disabilities - 41% - say they find it difficult to answer that there is equality of career opportunities for people with disabilities in their organization. The presence of equal career opportunities for employees with disabilities, according to - 32%. 25% - employees with disabilities have fewer career opportunities and only 2% - more career opportunities (Hays-Thomas, 2016).

Following from this, it is also necessary to take into consideration another perspective. Millennial's view diversity in the workplace as a combination of diverse backgrounds, experiences and perspectives, and they believe that exploiting these differences is what drives innovation. Generations X and Y, on the other hand, view diversity in the workplace as a fair situation, not always considering its relationship to business outcomes (Smith, Turner, 2015).

If the D&I practices are working sufficiently, they could bring following results: innovation in product and solution development; mutual training of different groups (for example, intergenerational ones, where some teach modern technologies, and others help to gain expertise in the profession); expanding the scope of the possible and the concept of the norm (study of the political structure, historical and cultural context, the current economic, social, political situation); original options for solving problems and making decisions (through the culture of constructive conflict, new ideas and solutions can be born); reduced turnover, sick leave and time off; increasing the level of involvement; improving the employer's brand in the market; increasing profits and entering new markets.

Moreover, the experts from McKinsey concluded that companies with a gender diversity among top managers are 15 - 21% more likely to demonstrate above average profits in comparison with those where there is no such practice. And companies that track ethnic and cultural diversity perform 33 - 36% better (Hunt, Prince, et al., 2018).

What could be seen as another advantage is that companies that perceives “diversity” as equality in the workforce of all participants in the labor process - “standard” and “people with special needs” – creates many changes in society and brings additional bonuses to the business. Among them

– access to talented professionals, the effectiveness of innovation, understanding customer needs (Cooke, Olive, et al., 2019).

In addition, number of people with disabilities are much more assiduous and involved in work, they often apply for a lower salary, guided by the main motivation - the possibility of self – realization, the desire to be in demand and to be in a team (Downey, van der Werff, et al., 2015).

This is confirmed by the experience of L'Oreal, where they employ people with disabilities and use various modern educational and coaching practices to develop communication skills in a team and increase the efficiency of integration processes. For the third year in a row, L'Oreal ranked among the leaders of over 7,000 international organizations in terms of diversity and inclusion. At the end of 2018, 1,177 people with disabilities were employed at L'Oréal. With 71% of disability invisible, company offices around the world are implementing awareness programs to ensure that people with disabilities are in a friendly environment and that workplaces are meeting their needs (Goxe, Viegas Pires, 2019).

Another example of beneficial practices for diversity is rewarding systems. Appreciating and rewarding people who have worked for a company several decades is just as important as creating policy and opportunities for new employees and future leaders. Diversity can cover many dimensions, but every country, company, and even a group of leaders has different ideas about diversity (Downey, van der Werff, et al., 2015).

The topic of diversity and inclusion is highly popular in leading corporations. The development of such a culture has a positive effect on all processes in the company: the more open and involved employees are, the higher their performance is.

In modern world reality managers try to produce inclusive leadership practices to help employees and move teams forward. It is important to highlight key principles and definitions. The approach to inclusion in the company is to create an environment where differences are accepted and where everyone can be themselves. One of the key values of an inclusive culture is tolerance for distinctive styles of thinking, psychological safety, respect for the authenticity of a person with an individual set of values, the ability to openly express a point of view, including one that differs from

the opinion of the majority (Dovidio, et al., 2017). The culture of diversity, equal opportunities and inclusion has a significant impact on the microclimate within the company, which, in turn, affects the psychological comfort of a person. People feel safe, as a team that works together to overcome difficulties and achieve high results (Farndale, Biron, et al., 2015).

Another of McKinsey studies have shown that companies in the top quartile for racial and ethnic diversity are 35% more likely to have an average financial return. For gender diversity, this number is 15%. And companies in the bottom quartile for diversity were less likely to achieve above-average results (Dolan, Hunt, et al., 2020).

Moreover, in the US, a study found that for every 10% increase in racial and ethnic diversity in the senior leadership team, earnings before interest and taxes (EBIT) increased by 0.8%. This increase was even higher (3.5%) in the UK (Dolan, Hunt, et al., 2020; Andrevski, et al., 2014).

Even though most of the researchers try to prove that diversity and inclusion practices have positive impact on the work performance some of them criticizes this particular method and try to prove that it mostly fails.

In the article by Frank Dobbin and Alexandra Kalev authors claim that the practices companies use to increase the diversity does not change much in the company environment. The practices are the same as the 50 years ago and do not have an positive impact on the worker performance. Companies get better results when they ease up on the control tactics. It's more effective to engage managers in solving the problem, increase their on-the-job contact with female and minority workers, and promote social accountability — the desire to look fair-minded (Dobbin, Kalev, 2016).

Both middle sized and large businesses use annual performance ratings. This is done for checking how successfully managers are dealing with their work and to make decisions on the promotion. But in study published on Journal of the Organizational behaviour it's shown that the raters tend to left out women and minorities in the reviews of the performance. Additionally, some managers give every worker higher result in order to avoid the conflict or to keep their options open when it comes to the promotion (Elvira, Town, 2001).

Mostly when it comes to the criticism of the diversity and inclusion it is not connected with the performance results. Mainly it comes to the lack of diversity in some companies which are not connected to the research but criticizes the companies or the methods there are using.

Overall, even though there are some criticisms of the diversity and inclusion programs most of the research shows that it has more positive impact for the company, including the higher performance results.

Firstly, companies seek to equalize the number of men and women in the state and in leadership positions. Now women in the staff of international companies are 30 - 40%, and the American office of Apple has crept closest to gender equality. Among all employees hired by the company this year, slightly more than half (53%) are women. For women who want to take leadership positions, special trainings and courses are held around the world (Khan, et al., 2015). Studies have shown that if a candidate had the opportunity to nominate himself to a better position, it is more likely that will men take the initiative if they met the requirements by at least 60%, and women - only if they considered 100% success (Farndale, et al., 2015).

Also in the annual reports of companies you can find statistics on ethnic diversity, data on equal pay, data on the age of employees, as well as success and failure, information about what goals the company set for itself last year and what it would like to achieve in the future. Employees of companies share their experience and tell how they see their company now and in the future. The data is published openly, including as proof that the new direction of development is not a social mission, but a successful business strategy that brings visible economic results. A 2018 study by consulting firm McKinsey & Company surveyed more than 1,000 companies in 12 countries and confirmed that organizations with the highest gender and ethnic diversity scores in management are likely to outperform companies by industry by 21% in the first and 33% in the second case (Kaur, Arora, 2020).

The individuality of each team member can be used for good, especially when it comes to working in international companies, whose target audience is the entire modern society. Eli Yoffe, Amazon Senior Manager, in an official statement from the company, calls diversity the main driver of the company and society: "Diversity of personalities in the team helps us think bigger and innovate faster." In the modern world, speed is one of the main indicators of efficiency (Tritt, Teschner, 2019).

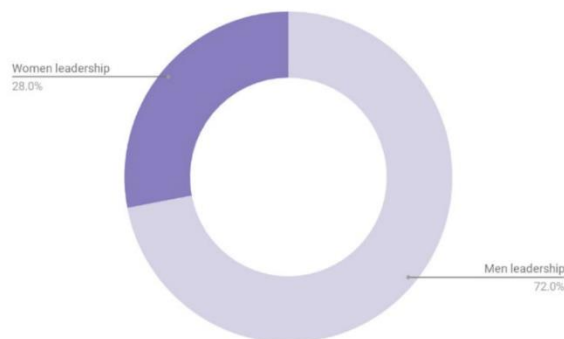
From the moment the Diversity & Inclusion strategy begins to work, a new corporate culture is formed in the company, based on equality and acceptance of the characteristics of another person. And acceptance begins with the fact that a person accumulates enough knowledge so that he can independently decide what is right and what is not (Daya, 2014).

Uber, for example, conducts an anonymous survey to find out how employees define themselves, what is important to them, and what prejudices they may face in the workplace. Based on the results of the survey, the company decides what activities need to be carried out so that employees learn more about each other: these are lectures and seminars on the health of employees and their relatives, lectures on the availability of education or the difficulties faced by young parents (Rosenblat, Hwang, 2016).

Our leadership workforce⁴

Global gender representation

Leadership overall



US race/ethnicity representation⁵

Leadership overall

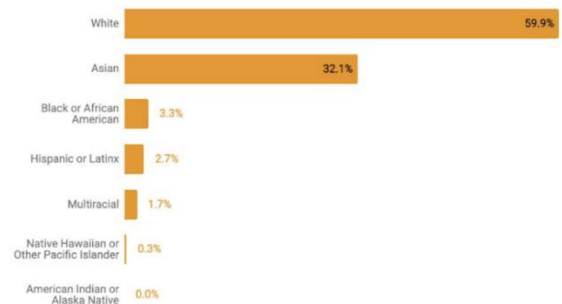


Fig. 5. Diversity representation in Uber. Source author (Dickey, 2019)

Particular attention is now being paid to ensuring that each employee has the opportunity to learn. Uber is collaborating with OpenClassroom and Harvard Business School to provide every full-time employee with access to online education. In a team where everyone feels accepted and heard, people feel included in the common cause, their efficiency grows, and the company's reputation improves. The corporate culture is made up of the behavior of each employee of the company, which

means that all employees should share, if not common values, then at least common knowledge (Rosenblat, Hwang, 2016).

3.3. Effects of diversity management

Earlier we were speaking about how diversity and inclusion practices can positively influence not only the work environment but additionally the performance of the workers. There are multiple researchers presented what try to prove positive relationship between diversity and inclusion and work performance.

There are many goals in diversity management that can significantly improve and promote an organization through skillful management or have a negative impact on incompetent management (Gilbert, Ivancevich, 2001). One of the main goals of diversity management is to contribute to the success and sustainability of the organization by ensuring the hiring and continuous training of competent employees with diverse backgrounds and skills (Ashikali, Groeneveld, 2015).

Another purpose of diversity management is to ensure coordination between people with different diversity backgrounds in an organization efficiently. Additionally, it is important that employees do not face biases regarding their nationality, race, religion, age and etc. (Ashikali, Groeneveld, 2015).

The most important goal of diversity management is to retain and ensure the satisfaction of employees by keeping abreast of social and ethical models, creating a psychologically healthy work culture, maintaining the mental and physical health of employees, and maintaining a work-life balance (Kochan, et al., 2003).

Some researchers argue that the only indicator for analyzing diversity management is how well and how far the staff of the organization has been used to achieve the goals of the organization. Ideally, the effectiveness of diversity management is demonstrated by the fact that all functions have been successfully met and then the objectives have been achieved (Choi, Rainey, 2010).

It has been proven by number researchers that diversity and inclusion culture can be achieved when everyone in the team is involved and engaged into the process. Employees, top managers, and

the HR department play a special role in implementing and expanding diversity initiatives (Choi, Rainey, 2010).

A culture of communication in which employees in all locations communicate with each other on a variety of topics allows the company to create environmentally friendly and healthy working environment (Choi, 2009).

Efforts put into diversity management must be built into every aspect of employee interaction, from the language used in email to the way meetings are conducted. Companies that want to build a diverse workforce will have to work hard to create a thoughtful diversity culture inside (Choi, 2009).

In addition to recruiting, a culture of diversity and inclusion can include: changes in the design of corporate gifts that will suit all employees regardless of their faith, gender, etc.; creating offices and meeting spaces that are accessible to all employees; development of a code of conduct that all employees must read and accept as part of the employment contract.

If diversity management is effective, it effectively results on the work performance as well. When diversity is properly managed it gives the opportunity to workers to grown inside the company bringing better performance (Bleijenbergh, Peters, et al., 2010).

The research suggests that the effective leadership help to value different opinions and ideas. If each member of the team is concerned about personal achievements, the common goal fades into the background. Effective management implies the orientation of employees towards interaction, the desire for the joint implementation of tasks (Bleijenbergh, Peters, Poutsma, 2010). Innovative ideas for business development often comes from teamwork. It is necessary to encourage the desire of employees to contribute to improving the efficiency of the company. Additionally, the leader should serve as a model for subordinates – both in terms of discipline and in their attitude to work duties (Bleijenbergh, Peters, et al., 2010).

In the research done by Ensari and Miller authors drew the attention to personalization model in diversity management. When this model is applies inside the organization it is expected that it will help to decrease stress level and pressure regarding the performance which often experienced by the minority employees (Ensari, Miller, 2006).

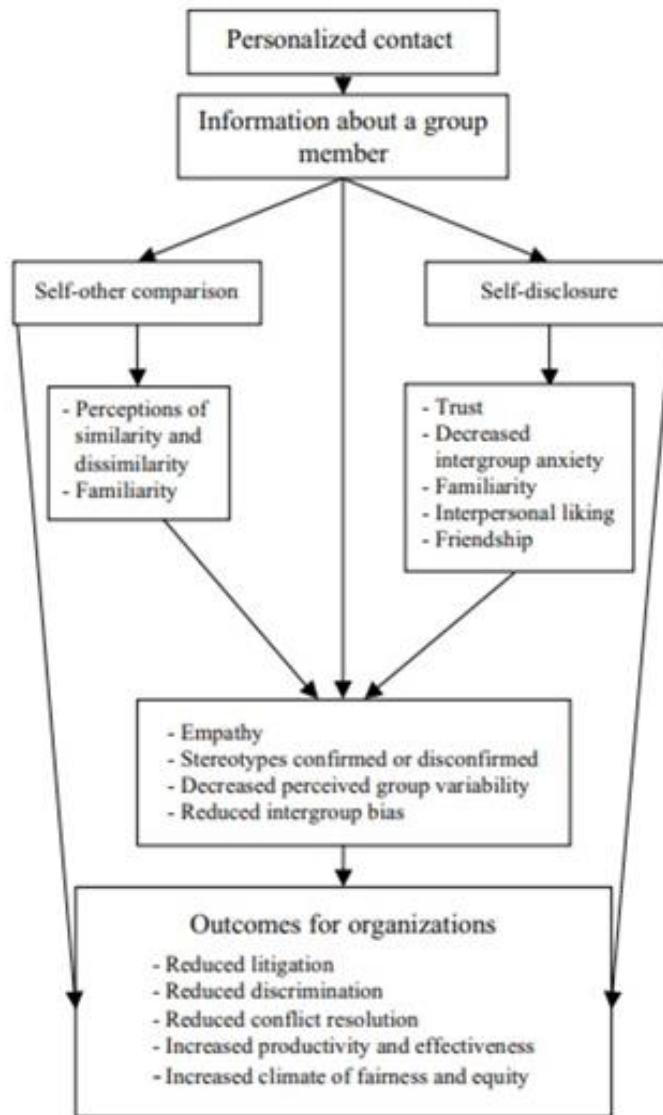


Fig. 6. The personalized model. Source author (Ensari, Miller, 2006)

"Personalization Model suggests that contact between group members should be more personalized, thus allowing the development of perceptions which reflect the unique characteristics of out-group members and at the same time, generate feelings of familiarity between the members of the groups. There are several conceptually distinguishable components of personalized interaction.

Specifically, these are: self – other comparison, self-disclosure, and perspective taking, including the sympathy or empathy that ensues from it. The following sections discuss these components." ⁴

Most of researchers analyzed show us the more divers the team in a workplace is more result in brings. As was said before more diverse team can bring up different ideas in a task solution. Thus, diverse team is more efficient for companies to receive more options of choice for the task solution. But unfortunately, there is certain lack of research when it comes to identifying the relationship between diversity and inclusion practices and firm performance.

We additionally discussed the effect of diversity on innovation activity. As it is highlighted in many researches, the more diverse team is the more likely they will offer some innovational approach for problem solution. For implementing more sufficient innovation activity it's necessary to take a closer look at absorptive capacity. Absorptive capacity is identified as company ability to recognize the value the innovation knowledge and apply it (Lambert, 2016). In the research of Ely and Thomas (2001) are presented three different perspectives what can be adopted by the companies for managing diversity. Those are the fairness – and – discrimination, access – and – legitimacy and integration – and – learning perspective. In the research was found that the one who has positive impact is integration – and – learning perspective. Companies who applied this perspective showed that as the method of the learning high in value was cultural identity (Ely, Thomas, 2001). Additionally, the more diverse team the more diverse background they have, which means that different views and approached can be added to the solution of the problem (Men, Fong, et al, 2019).

In another research it is suggested that interaction with another diverse company can benefit another from witnessing the knowledge of implementing the diversity practices for the companies advantage. From this companies get experience from applying existing knowledge and seeing results of it (Roberts, et al, 2012).

It is necessary to highlight that there is a certain lack of research of absorptive capacity and diversity in the last few years. Research done before focuses on methods of implication of absorptive

⁴ Ensari, N. K., & Miller, N. (2006). The application of the personalization model in diversity management. *Group Processes & Intergroup Relations*, 9(4), 589-607.

capacity in the companies with diverse background. Thus, we could research question 3 How D&I practices shape firm's innovation activity and absorptive capacity?

Chapter 4. Research results

4.1. Data collection

In the presented overview we could see different results of the research about the relationship between D&I and the workers performance. In some of them was also stated that the more diverse the team, the better results for the company it brings.

Most of them tried to prove the positive influence of applying different diversity programs which highly effected the workers results. In the study done by McKinsey we could see that diversity companies have more chances to get the higher earnings than those who stick to the traditional management methods. In others where proven that more diverse teams can bring more innovative results in the problem solving.

On the other hand, some of the research tried to prove that there is no evident relationship between D&I and the work performance. Sometimes in could do more harm to company than the benefit.

From the literature review we can see the following research gap. Even though there is number of research already performed it is not clear how exactly diversity and inclusion practices are influencing the firm performance. Moreover, we could see the lack of empirical research and additionally there is a little known about the operationalization.

The research questions raised above should be addressed using appropriate tool of the research. Particularly, research question requires special methods to be defined and applied. For this we are going to use the questionnaire.

The questionnaire contains six parts which all are dedicated to various aspects of diversity and inclusion. Most importantly, we ask our respondents about what factors influence diversity and inclusion practices in the company. Additionally, there are parts where respondents ask how company attracts, develops, and retains the talent. And overall explain the diversity and inclusion environment in the company.

A questionnaire was conducted in which we got 35 responses. The respondents were from different countries working in different companies. Thus, in our case one respondent means one company. We sent our questionnaire through different channels to get responses. Those were alumni community who now work in different countries as HR or talent managers and additionally we shared the questionnaire in professional communities of diversity and inclusion in different social media channels.

As we mentioned above, we were targeting either HR or talent managers. Those were managers from different fields, such as IT solutions, marketing, finance, e-commerce, clinical research, consulting, education services, etc. The respondents work for following companies Unilever, EY, Deloitte, IQVIA, Procter&Gamble, Dataduck, IQ option, Wipro Ltd., Deborah, etc. Questionnaire was 9 pages long and has 143 questions which were divided into several parts (Appendices 1). Mostly questionnaire contains the questions where respondent need by themselves rate the answer and some open questions which are asking about specific practices inside the company. Questionnaire contained from following parts:

- Respondents and company profile
- Diversity and inclusion environment in the company
- Diversity and inclusion environment practices (attraction, development, retaining)
- Factors influencing diversity and inclusion practices
- Company performance, innovations, and absorptive capacity
- Company performance

In all of the sections, we ask respondents their opinion on what company does to make workplace diverse and inclusive, how employees feel on their current position, what companies do to attract different talent, develop and retain it. We measure these statements with 7-point Likert scale to measure to what extent they agree with the presented statement. Where 1 is being as the lowest and 7 is the highest. On the first segment respondents share their personal information such as position, management level, years on the current position, country of origin, age, and gender whereas at the companies profile companies name and industry, headquarters location, number of employees and returnees, year of foundation, geographic scope of operations. In the second part respondents are asked

to rate their agreement with each statement on diversity and inclusion environment in the company where 1 is “strongly disagree” and 7 “strongly agree”. Respondents are asked to share the overall view about the company diversity and inclusion environment. In the third part respondents are asked to rate diversity and inclusion environment practices (attraction, development, retention) where 1 is “strongly disagree” and 7 “strongly agree”. As in the second part, we give certain statements which respondents rate. After following the part of the closed questions about attraction, development, and retention there we open questions were asked to share what practices their companies exist for attracting, developing and retaining diverse talents. In the fourth part respondents are supposed to rate the factors influencing diversity and inclusion practices on country and firm level where 1 is “small degree” and 7 “high degree”. In the fifth part respondents rate innovations and absorptive capacity where 1 is “strongly disagree” and 7 “strongly agree”. For the absorptive capacity, respondents needed to specify to what extent they agree with the statements about the use external resources to obtain information (e.g., personal networks, consultants, seminars, internet, database, professional journals, academic publications, market research, regulations, and laws concerning environment/ technique/ health/security) and the knowledge processing by their company. And in the final sixth part respondents rate company performance relative to primary industry’s average. where 1 is “well below industry average” and 7 “well above industry average”. Questionnaire was created on bases of the previous studies (Artyukh, 2016) which was also dedicated to research of different diverse talent. Those were the parts environment, practices of attraction, development and retention, factors, absorptive capacity, firm performance. Additionally, some of the questions were presented in the papers published in journals dedicated to diversity and inclusion and measurements of it inside the company (Garvey, 2019; Pearson, et al., 2015).

We have chosen the questionnaire as the tool for data collection because each respondent could share their opinion on diversity and inclusion level inside the company and share their opinion how it is presented in their company. Additionally, most of the questions presented in questionnaire were close ended and since we had 143 questions it would be more comfortable for the respondents. Thus, questionnaire seems as the more convenient tool because it would save the respondents time and they are more likely to answer honestly since there is no need to type the answer.

4.2. Methodology and analysis

For results to be more trustworthy the data was collected from the following sources:

1. secondary data: internal reports, consultancy reports, market research reports to gain general idea about factors influencing diversity and inclusion.
2. primary data: a questionnaire was developed.

For getting the data for analysis the questionnaire was conducted. Questionnaire was sent out in mid-March 2022 to get the results. The respondents were chosen quite thoroughly. Those are supposed to be HR and talent managers whose company has and implements different diversity and inclusion practices. It's necessary to see how respondents' rate their company diversity and inclusion practices to get the full understanding on the current situation.

There is a positive tendency that on the firm level the respondents agree that diversity is important on the different management levels and positively effects the work environment.

For analyzing the primary data, we needed to perform a quantitative analysis. For this analysis we decided to use fsQCA. Additionally, fsQCA can help identifying different configurations which create sufficient condition to get necessary outcome (Pappas, Woodside, 2021). It is designed to work with a smaller number of samples and can identify the different configurations that are sufficient and necessary for the outcome interest. For analyzing the data, it was needed to transform data for fsQCA. Since we were gathering data in the Likert scale we needed to change it to calibrated casual conditions (scores between 0 and 1). First question we analyzed was "Is there any relationship between D&I practices and firm performance?". To analyze the data what we got from the questionnaire responses we run the sufficient data analysis for all of our three research questions and for this truth table was generated. For the next step we identified the frequency threshold of the number of cases which are included into each confederation. Following from that we preform standard analysis, and we got the output. We got three types of solutions which are complex solution, parsimonious solution, and intermediate solution. And as the final step we run the necessary condition analysis which showed

that our result for the first research question is positive because all our five outcomes were more than 0.90 which must be present always.

	Consistency
Market share growth over the past three years	0,923001
Sales growth over the past three years	0,910356
Average return on investment over the past three years	0,906214
Average profit over the past three years	0,915412
Average profit growth over the past three years	0,908720

Table 1. Analysis of the first research question in fsQCA

For the second research question which is “What are determinants of D&I programs that moderate firm performance?” the same analysis was performed. We had two main factors which we were analysing on this stage those are firm level and company level factors. Through this analysis we identified that on the firm level two out of three outcomes more than 0.90, which means that two of them pass the necessary condition analysis. Thus, the factors „Diversity stereotypes “and “National culture” are the main determinants of D&I programs that moderate firm performance. For the firm level we had more statements from our questionnaire to test and thus we divided our factors into small groups and tested them separately. We tested them by five outcomes because this is the most convenient way when it comes to fsQCA software. The outcomes that pass the necessary condition analysis are stated in the table 3.

Country level	Consistency

There are a lot of gender, nationality, age or other types of diversity stereotypes related to the recruitment process in the country where I work	0.923014
National culture influences the introduction of diversity and inclusion practices in the country where I work	0.902454
There are economic conditions, including the cost of human capital and the situation on the labor market related to generational diverse talent management practices	0.835221

Table 2. Country level factors influencing diversity and inclusion

Firm level	Consistency
There is a need for an innovation in my firm	0.912538
There is a need for a creativity and agility in my firm	0.900452
There is a need for a diverse background of talents	0.925406
There is a demand for diverse skills of talents	0.922149
There is a demand for diverse style of leadership and management	0.901462
There is a demand for diverse style of communication	0.902537
Internal climate of my firm affects the implementation of practices to attraction, development and retention diverse talents	0.914982
There is a need to operate and compete in the global market	0.941220

Business competition in the market stimulates the implementation of generational diverse talent management practices	0.91462
There is a need for an innovation in my firm	0.940938

Table 3. Country level factors influencing diversity and inclusion

Our third question was “How D&I practices shape firm’s innovation activity and absorptive capacity?”. We started analyzing received data from the innovation activity. For the innovation activity out of five three outcomes had a positive result. Those were “Our management supports the development of prototypes”, “Our company strives to convert innovative ideas into patents” and “Our company has the ability to work more effective by adopting new technologies”. For the absorptive capacity “The search for relevant information concerning our industry is every-day business in our company” and “Our management motivates the employees to use information sources within our industry” had the positive outcome. For the absorptive capacity we needed to test more outcomes we as well checked them by five to see what of the outcomes will have a positive result. Thus, we need to run necessary condition analysis again to get the result. The outcomes that passed the necessary condition analysis are presented in the table 5.

Innovation activity	Consistency
Our company launches innovative product/ services promptly with regards to its research.	0.841002
Our management supports the development of prototypes.	0.940163
Our company strives to convert innovative ideas into patents.	0.910220
Our company regularly reconsiders technologies and adapts them accordant to new knowledge.	0.632420
Our company has the ability to work more effective by adopting new technologies.	0.930192

Table 4. Analysis of innovation activity statements

Absorptive capacity	Consistency
Our management emphasizes the exchange of information and experience with companies within the same industry.	0.950361
Our management engages in joint research projects with companies and research institutions beyond the industry.	0.914237
Our management motivates the employees to use information sources within our industry.	0.922749
In our company it is appreciated when employees procure information from other industries as well.	0.936100
Our management emphasizes cross-departmental support to solve problems.	0.915735
Our company tools (e.g. internet, internal studies/ reports) to spread knowledge in the whole organization.	0.901182
Our employees of diverse departments get along well, when communicating with each other on a cross-departmental basis.	0.907381
In our company there is informal contact between employees of all levels and departments.	0.9241022
Our employees share their knowledge, their information and their experience willingly with their colleagues.	0.909816
Our management is a good role model regarding the distribution of knowledge.	0.917398

Our employees have the ability to structure and to use collected knowledge.	0.941055
Our management emphasizes the systematic reuse of insights out of the past projects.	0.904412
Our employees are used to absorb new knowledge as well as to prepare it for further purposes and to make it available.	0.920501
Our employees successfully transform information from internal and external sources into valuable knowledge in our company.	0.907351
Our employees are able to apply new knowledge in their practical work.	0.938214

Table 5. Analysis of absorptive capacity statements

Additionally, through our survey we got the answer for which practices companies use for attraction, development and retaining diversity talent.

Attraction practices which respondents name in their answers were following:

- Internships
- Partnerships with universities
- Building strong employer brand in the social media
- Target diverse people through different social media with advertising posts

Development practices:

- Learning platforms with gamified coins
- Mentoring system
- Team building events
- Personalization
- Inclusive leadership programs
- Flexible office

Retaining practices:

- Awarding systems
- Every month bonuses
- Remote work options
- Mental health support
- Feedback on the performance

4.3. Conclusion

The focus of this research is on relationship between diversity and inclusion and firm performance. The main goal was to identify the existence of this relationship and analyze its effect. In the master thesis we observe the literature on the topic and view the existing results of the diversity and inclusion effect on the firm performance. In the first part of master thesis, we focus on the research questions and the existing gap. Following from that we observe the literature were practices are discussed and it's results on work performance.

From identifying research gap from the literature, we formulated research questions. They are focused on searching the link between diversity and inclusion and firm performance, factors effecting diversity practices on the country and firm level, and how D&I practices shape firm's innovation activity and absorptive capacity. Following from the literature review we describe chosen methodology, the processes of data collection and respondent answers. As a result, we analyzed three research questions to which we found what outcomes have a positive result through fsQCA analysis. Additionally, the main practices of attracting, developing, and retaining diverse talent were identified. From the analysis we preformed we can see that the outcome from the survey results positively supports the conclusion.

As for theoretical contribution, the master thesis is covering the above-mentioned research gap and provide insights about D&I practices in the companies. Moreover, the study is contributing to research of trends of the D&I in the companies, its implications, effect of the working environment and lack academic research. Since we witness the lack of academic research this master thesis provides basis for the future research. Additionally, besides analyzing the effect of diversity and

inclusion practices on the company's performance it additionally identifies factors which influence formation and application of diversity and inclusion practices in the company on country and firm level. Our study contributes by extending the knowledge about operationalization of the diversity management in organizational environment. We managed to find the positive relationship between diversity and inclusion practices by performing necessary condition analysis in which all of the five outcomes have a positive result, meaning diversity and inclusion practices can positively influence firm performance.

Managerial implications of the study are paying attention to the different diversity practices in the companies and its implication. Particularly, managers could understand which D&I practices are the most used in the companies and how differently all of them effect companies' performance. From analyzing results of questionnaire, we could identify the main practices in the companies that help attract, develop and retain talent. Those practices are:

Attraction practices:

- Internships
- Partnerships with universities
- Building strong employer brand in the social media
- Target diverse people through different social media with advertising posts

Development practices:

- Learning platforms with gamified coins
- Mentoring system
- Team building events
- Personalization
- Inclusive leadership programs
- Flexible office

Retaining practices:

- Awarding systems
- Every month bonuses
- Remote work options

- Mental health support
- Feedback on the performance

These particular practices were the most popular by the respondents, meaning that those practices are more often used by the companies than others. This knowledge could be helpful for managers who plan to implement diversity and inclusion in their company. As mentioned above, we identified main factors on country and firm level influence forming and adapting diversity and inclusion practices. Thus, these factors should be taken into the consideration before applying diversity and inclusion practices. Moreover, we covered that diversity and inclusion practices have a positive impact on innovation activity and absorptive capacity. As for innovation activity we found out that three out of five outcomes have a positive result, thus they are positively affecting implementation of diversity and inclusion practices. For absorptive capacity we saw that most of the outcomes have a more than 0.90 consistency which means that those outcomes have a positive effect on the implementation of diversity and inclusion practices.

Our results can be a base for the further research. Research in the future could be based on the bigger sample of respondents. Diversity is very specific area of study which can be divided in the future studies by the countries and industries. Additionally, specific practices for the different industries could be researched further.

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Appendices

Appendices 1. Questionnaire

I. General information

Respondent's profile:	Please fill in or select appropriate response
1. Your position	
2. Management level	<ul style="list-style-type: none"> • Specialist • Middle manager • Top manager
3. Years on current position	<ul style="list-style-type: none"> • Less than a year • 1 – 3 years • 4 – 6 years • More than 7 years
4. Country of origin	
5. Age	<ul style="list-style-type: none"> • 23 or younger • 24 – 39 • 40 – 55 • 56 or older
6. Gender:	<ul style="list-style-type: none"> • Male • Female

Company's profile:	Please fill in or select appropriate response
7. Name	
8. Industry	
9. Headquarters location (country)	
10. Number of employees	
11. Number of returnees	
12. Age (year of foundation)	
13. Geographic scope of operations (Global/regional/domestic)	
14. Does your company have diversity and inclusion practices?	

II. Diversity and inclusion environment in the company

Overall approach: Please rate your agreement with each of the following statements		1= Strongly disagree				7= Strongly agree		
1	Company provides an environment for the free and open expression of ideas, opinions and beliefs.	1	2	3	4	5	6	7
2	Racial, ethnic, and gender-based jokes are not tolerated at this company.	1	2	3	4	5	6	7

3	I am comfortable talking about my background and cultural experiences with my colleagues.	1	2	3	4	5	6	7
4	Management demonstrates a commitment to meeting the needs of employees with disabilities.	1	2	3	4	5	6	7
5	I can voice a contrary opinion without fear of negative consequences.	1	2	3	4	5	6	7
6	This organization vouches to take strict action against discrimination.	1	2	3	4	5	6	7
7	My manager handles diversity matters appropriately and demonstrates a commitment to diversity and inclusion.	1	2	3	4	5	6	7
8	My organization publicly communicates information about its diversity goals.	1	2	3	4	5	6	7
9	Diversity & inclusion is one of my organization's stated values and/or priority areas.	1	2	3	4	5	6	7
10	My organization regularly makes available to me information about how diverse our employees and leadership team are.	1	2	3	4	5	6	7
11	Do you feel that this organization values your unique background and experiences?	1	2	3	4	5	6	7
12	Do you think this organization offers equal opportunities for career growth?	1	2	3	4	5	6	7
13	I feel supported in my role.	1	2	3	4	5	6	7
14	People of all cultures and backgrounds are valued here.	1	2	3	4	5	6	7
15	If I had a concern about harassment or racism, I know where to lay my complaints.	1	2	3	4	5	6	7
16	When I speak up, my opinion is valued.	1	2	3	4	5	6	7
17	People here are managed as if they can always improve their talents and abilities.	1	2	3	4	5	6	7
18	I trust this organization to be fair to all employees.	1	2	3	4	5	6	7
19	If I raised a concern about discrimination, I am confident my employer would do what is right.	1	2	3	4	5	6	7
20	There are leaders here that I can relate to.	1	2	3	4	5	6	7
21	Senior leadership is prepared to effectively manage a culturally diverse workforce.	1	2	3	4	5	6	7
23	The people I work with treat each other with respect.	1	2	3	4	5	6	7
24	Workforce diversity is valued at your organization.	1	2	3	4	5	6	7
25	You can comfortably talk about your social and cultural background in the workplace.	1	2	3	4	5	6	7
26	Companies training and induction programs promote inclusivity.	1	2	3	4	5	6	7
27	I feel confident in voicing a contrary opinion in a meeting.	1	2	3	4	5	6	7

28	This organization provides an environment for the free and open expression of ideas, opinions and beliefs.	1	2	3	4	5	6	7
29	Everyone has access to equal employment opportunities regardless of their differences.	1	2	3	4	5	6	7
30	I have positive emotions towards my workplace	1	2	3	4	5	6	7
31	I am satisfied with my job's duties, responsibilities, and description.	1	2	3	4	5	6	7
32	I am satisfied with my current salary, development opportunities and career aspirations.	1	2	3	4	5	6	7
33	I feel passionate to engage, integrate and effectively participate with my colleagues in performing our job responsibilities.	1	2	3	4	5	6	7
34	I feel pride in being affiliated with my current workplace and work with my current colleagues.	1	2	3	4	5	6	7
35	I feel a sense of involvement, equality, security, safety and harmony in my current workplace.	1	2	3	4	5	6	7

III. Diversity and inclusion environment practices

Attraction: Please, rate your agreement with each of the following statements		1=Strongly disagree				7= Strongly agree		
1	Attraction talent from different diverse background is very important and is of high priority to the organization	1	2	3	4	5	6	7
2	There is a balance in terms of diversity between the candidates in the recruitment process	1	2	3	4	5	6	7
3	Our organization has no difficulty attracting diverse talents	1	2	3	4	5	6	7
4	Our organization can predict both short- and long-term diverse talent requirements	1	2	3	4	5	6	7
5	Our organization's profile is attractive enough for diverse potential employees	1	2	3	4	5	6	7
6	Salary of new recruits is competitive enough	1	2	3	4	5	6	7
7	Advertising methods promote our organization's vision of a diverse workforce	1	2	3	4	5	6	7
8	Recruitment methods are based on different approaches to ensure a diverse pool of candidates	1	2	3	4	5	6	7
9	Recruitment campaigns of our organization are sensitive to diversity differences	1	2	3	4	5	6	7

Attraction: Please, rate your agreement with each of the following statements		1=Strongly disagree				7= Strongly agree		
10	In screening applications, our organization considers possible career gaps due to family responsibilities	1	2	3	4	5	6	7
11	To ensure unbiased and fair hiring, our organization avoids using diversity stereotypes	1	2	3	4	5	6	7
12	The interview questions of our organization are carefully examined for diversity biases and stereotypes	1	2	3	4	5	6	7
13	Our organization has different talent management practices aiming to attract diverse talent groups	1	2	3	4	5	6	7

What specific practices of attracting diverse talent groups do exist in your organization? Please, provide examples:

Development: Please, rate your agreement with each of the following statements		1=Strongly disagree				7= Strongly agree		
1	Development talent from different diverse backgrounds is very important and is of high priority to the organization	1	2	3	4	5	6	7
2	The quality of learning and development programs for employees is high	1	2	3	4	5	6	7
3	Our organization has mentorship program specially designed for employees of different age, gender or race	1	2	3	4	5	6	7
4	Our organization provides equal access to the necessary learning and development programs for all employees	1	2	3	4	5	6	7
5	Our organization provides enough financial assistance to all employees to upgrade their skills	1	2	3	4	5	6	7
6	There are many career advancement opportunities for all employees	1	2	3	4	5	6	7
7	Career advancement opportunities in our organization are not influenced by the gender, nationality, or race of the employee	1	2	3	4	5	6	7
8	All recruits receive the same training that is appropriate to their jobs	1	2	3	4	5	6	7
9	Performance evaluation in our organization is free from any bias	1	2	3	4	5	6	7

Development: Please, rate your agreement with each of the following statements		1=Strongly disagree				7= Strongly agree		
10	Information about job rotations, special assignments and opportunities for promotion is freely available to the employees	1	2	3	4	5	6	7
11	Performance evaluation allows fair distribution of promotions and lateral moves for employees with diverse background	1	2	3	4	5	6	7
12	Employee promotion processes are transparent and employee selection criteria for promotion are free from any bias and stereotypes, available and accessible to everyone	1	2	3	4	5	6	7
13	Our organization actively encourages employees to apply for internal job opportunities	1	2	3	4	5	6	7
14	Our organization has customized development practices for every employee	1	2	3	4	5	6	7

What specific practices of developing diverse talent groups do exist in your organization? Please, provide examples:

Retention: Please, rate your agreement with each of the following statements		1=Strongly disagree				7= Strongly agree		
1	Retention talent is very important and is of high priority to the organization	1	2	3	4	5	6	7
2	All of our employees are motivated	1	2	3	4	5	6	7
3	All of our employees are as fully engaged in the working process	1	2	3	4	5	6	7
4	All of our employees are given enough autonomy and responsibility for decision-making	1	2	3	4	5	6	7
5	Monetary rewards and/or compensation and benefit programs for all employees are clear and transparent	1	2	3	4	5	6	7
6	Non-monetary rewards and recognition for all employees are clear and transparent	1	2	3	4	5	6	7
7	Our organization has no difficulties creating a secure and safe workplace	1	2	3	4	5	6	7
8	Our organization conducts surveys to identify issues related to attitudes and behaviors in the workplace as they are relevant to progress in diversity	1	2	3	4	5	6	7

Retention: Please, rate your agreement with each of the following statements		1=Strongly disagree				7= Strongly agree		
9	The disciplinary procedures of our organization are applied equally to all employees	1	2	3	4	5	6	7
10	Our organization has a policy on part-time and flex-time employment for all employees	1	2	3	4	5	6	7
11	Our organization provides equal pay	1	2	3	4	5	6	7
12	Our organization provides equal non-monetary rewards and recognition	1	2	3	4	5	6	7

What specific practices of retaining diverse talent groups do exist in your organization? Please, provide examples:

IV. Factors influencing diversity and inclusion practices

Driving factors of diverse talent management system: To what extent do you agree with the following statements		1=Small degree				7= High degree		
Country level								
1	There are a lot of gender, nationality, age or other types of diversity stereotypes related to the recruitment process in the country where I work	1	2	3	4	5	6	7
2	National culture influences the introduction of diversity and inclusion practices in the country where I work	1	2	3	4	5	6	7
3	There are economic conditions, including the cost of human capital and the situation on the labor market related to generational diverse talent management practices	1	2	3	4	5	6	7
Firm level								
4	There is a need for an innovation in my firm	1	2	3	4	5	6	7
5	There is a need for a creativity and agility in my firm	1	2	3	4	5	6	7
6	There is a need for a diverse background of talents	1	2	3	4	5	6	7
7	There is a demand for diverse skills of talents	1	2	3	4	5	6	7
8	There is a demand for diverse style of leadership and management	1	2	3	4	5	6	7
9	There is a demand for diverse style of communication	1	2	3	4	5	6	7
10	Internal climate of my firm affects the implementation of practices to attraction, development and retention diverse talents	1	2	3	4	5	6	7

Driving factors of diverse talent management system: To what extent do you agree with the following statements		1=Small degree	7= High degree
11	There is a need to operate and compete in the global market	1	2 3 4 5 6 7
12	Personal attitude of the CEO and heads of departments affects the implementation of practices to attraction, development, and retention diverse talents	1	2 3 4 5 6 7
13	Generational structure of workforce influences diversity management practices	1	2 3 4 5 6 7
14	Formal corporate culture impacts the implementation of diversity management practices	1	2 3 4 5 6 7
15	There is a need to meet customer expectations	1	2 3 4 5 6 7
16	There is a need to meet strategic partners expectations	1	2 3 4 5 6 7
17	There is a need to meet suppliers expectations	1	2 3 4 5 6 7
18	There is a need to maintain positive public perception and reputation of my firm	1	2 3 4 5 6 7
19	Business competition in the market stimulates the implementation of generational diverse talent management practices	1	2 3 4 5 6 7

V. Company performance, innovations and absorptive capacity

Absorptive capacity			
Acquisition: Please specify to what extent you agree with the statements about the use external resources to obtain information (e.g., personal networks, consultants, seminars, internet, database, professional journals, academic publications, market research, regulations, and laws concerning environment/ technique/ health/security) by your company.		1=Strongly disagree	7= Strongly agree
1	Our management emphasizes the exchange of information and experience with companies within the same industry.	1	2 3 4 5 6 7
2	Our management engages in joint research projects with companies and research institutions beyond the industry.	1	2 3 4 5 6 7
3	A periodical meeting with external experts within our industry for the accumulation of relevant information are regular in our company.	1	2 3 4 5 6 7

4	The search for relevant information concerning our industry is every-day business in our company.	1 2 3 4 5 6 7
5	Our management motivates the employees to use information sources within our industry.	1 2 3 4 5 6 7
6	In our company it is appreciated when employees procure information from other industries as well.	1 2 3 4 5 6 7
7	Our management expects that the employees deal with information beyond our industry.	1 2 3 4 5 6 7
Assimilation: Please rate to what extent you agree with the following statements about the communication structure in your company		1=Strongly disagree 7= Strongly agree
1	In our company ideas and concepts are communicated cross-departmental.	1 2 3 4 5 6 7
2	Our management emphasizes cross-departmental support to solve problems.	1 2 3 4 5 6 7
3	Our company tools (e.g. internet, internal studies/ reports) to spread knowledge in the whole organization.	1 2 3 4 5 6 7
4	In our company there is a quick information flow, e.g., if a business unit obtains important information it communicates this information promptly to all other business units or departments.	1 2 3 4 5 6 7
5	Our management demands periodical cross-departmental meetings to interchange new developments, problems, and achievements.	1 2 3 4 5 6 7
6	Our employees of diverse departments get along well, when communicating with each other on a cross-departmental basis.	1 2 3 4 5 6 7
7	For projects our management supports temporary exchange of personnel between departments.	1 2 3 4 5 6 7
8	In our company there is informal contact between employees of all levels and departments.	1 2 3 4 5 6 7
9	Our management emphasizes a shared lingo (unique professional language) for intra-company communication.	1 2 3 4 5 6 7
10	In our company employees are conscious about who possesses special skills and knowledge and for who certain information is of interest.	1 2 3 4 5 6 7

11	Our employees share their knowledge, their information and their experience willingly with their colleagues.	1 2 3 4 5 6 7	
12	Our management is a good role model regarding the distribution of knowledge.	1 2 3 4 5 6 7	
Transformation: Please rate to what extent you agree with the following statements about the knowledge processing in your company		1=Strongly disagree	7= Strongly agree
1	Our employees have the ability to structure and to use collected knowledge.	1 2 3 4 5 6 7	
2	Our management emphasizes the systematic reuse of insights out of the past projects.	1 2 3 4 5 6 7	
3	Our company policy encourages our employees to engage in further training and continuous learning.	1 2 3 4 5 6 7	
4	Our employees are used to absorb new knowledge as well as to prepare it for further purposes and to make it available.	1 2 3 4 5 6 7	
5	Our employees successfully link existing knowledge with new insights.	1 2 3 4 5 6 7	
6	Our employees successfully transform information from internal and external sources into valuable knowledge in our company.	1 2 3 4 5 6 7	
7	Our management encourages employees to combine ideas cross-departmentally.	1 2 3 4 5 6 7	
8	Our management thinks that our learning capabilities are a competitive advantage for our company.	1 2 3 4 5 6 7	
9	Our company owns tools to enhance knowledge in their practical work.	1 2 3 4 5 6 7	
10	Our employees are able to apply new knowledge in their practical work.	1 2 3 4 5 6 7	
11	Our management encourages employees to generate knowledge.	1 2 3 4 5 6 7	
12	Our management provides employees with enough scope for development to use the aggregated information for experimenting with alternative solution possibilities.	1 2 3 4 5 6 7	
Exploitation: Please rate to what extent you agree with the following statements about the commercial exploitation of new knowledge in your company		1=Strongly disagree	7= Strongly agree

(NB: Please think about all company divisions such as R&D, production, marketing, and accounting).			
1	Our company launches innovative product/ services promptly with regards to its research.	1	2 3 4 5 6 7
2	Our management supports the development of prototypes.	1	2 3 4 5 6 7
3	Our company strives to convert innovative ideas into patents.	1	2 3 4 5 6 7
4	Our company regularly reconsiders technologies and adapts them accordant to new knowledge.	1	2 3 4 5 6 7
5	Our company has the ability to work more effective by adopting new technologies.	1	2 3 4 5 6 7

VI Company performance

Performance: Please rate your company performance relative to your primary industry's average.		1=Well below industry average				7= Well above industry average		
1	Market share growth over the past three years	1	2	3	4	5	6	7
2	Sales growth over the past three years	1	2	3	4	5	6	7
3	Average return on investment over the past three years	1	2	3	4	5	6	7
4	Average profit over the past three years	1	2	3	4	5	6	7
5	Average profit growth over the past three years	1	2	3	4	5	6	7