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The Impact of Store-Unit–Community Racial Diversity Congruence on Store-Unit Sales Performance

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We introduce the racial diversity congruence concept to examine how matching levels of racial diversity between store-unit employees and community members relate to store-unit sales performance. In a field study of 220 retail store units, we found evidence supporting social identity theory and information-based perspectives on the racial diversity congruence–sales performance relationship. Specifically, results show that a match between store-unit racial diversity and community racial diversity positively related to store-unit sales performance. In addition, superior store-unit performance emerged when store units and communities had congruent levels of diversity at high (i.e., high-high racial diversity congruence) rather than low (i.e., low-low racial diversity congruence) levels. Moreover, we found asymmetrical incongruence effects whereby racially diverse store units in less-diverse communities outperformed store units with lower levels of racial diversity operating in diverse communities. The implications of our results are discussed in light of study limitations and future research needs.

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Over the past decade, the U.S. workforce has become more racially diverse (Toossi, 2012). Also, racial diversity in communities has increased (Colby & Ortman, 2015), suggesting the potential for greater diversity in the U.S. consumer market. Accordingly, firms must devise ways to leverage their increased labor force diversity in serving a more-diverse clientele. In response to the above trends, organizational diversity scholars have begun to study the implications of employee–customer demographic matching for business performance (Avery, McKay, Tonidandel, Volpone, & Morris, 2012; E. B. King, West, Gilrane, Peddie, & Bastin, 2011; Leonard, Levine, & Joshi, 2004; Sacco & Schmitt, 2005). This work is based largely upon Thomas and Ely's (1996) access-and-legitimacy paradigm, which proposes that a firm can enjoy performance advantages when its workforce demography matches that of its clientele (e.g., a high proportion of Hispanic employees serving a largely Hispanic customer base).

Subsequent research has conceptualized demographic matching in one of two ways: the interaction method (Leonard et al., 2004; Sacco & Schmitt, 2005) and the racial representativeness approach (Avery et al., 2012; E. B. King et al., 2011). The interaction method constructs separate interaction terms to represent the extent of employee–customer demographic match for each racial group present in a context (e.g., Proportion of Asian Employees × Proportion of Asian Customers). The racial representativeness approach provides a numerical index, ranging from 0 (low) to 1 (high), that indicates the degree that a firm's overall demographic profile (i.e., proportion of White, African American, Hispanic, Native American, and Asian employees) matches customers' demographic profile (i.e., proportion of White, African American, Hispanic, Native American, and Asian customers). For the representativeness approach, demographic matching is evident when the racial profile among employees (e.g., 75% White, 12% Black, 10% Hispanic, and 3% Asian) is highly similar to the racial profile of customers (e.g., 79% White, 10% Black, 9% Hispanic, and 2% Asian). Yet a mixed pattern of results has emerged regarding demographic matching and organizational performance. The interaction method has failed to provide evidence that matching demographics among employees and customers enhances performance (Leonard et al.; Sacco & Schmitt). By contrast, high levels of racial representativeness (i.e., matching racial profiles among employees and customers) have been linked to increased sales productivity and higher-quality patient care (Avery et al.; E. B. King et al.).

In an attempt to reconcile the mixed findings above, we introduce the racial diversity congruence approach to demographic matching. We conceptualize congruence as high similarity between employee racial diversity and community racial diversity (i.e., high [low] store-unit racial diversity paired with high [low] community racial diversity) where diversity is defined as the degree of variation in racial category group membership (Blau, 1977; Harrison & Klein, 2007). Incongruence is evident when the diversity among employees and community members is dissimilar (i.e., high [low] store-unit racial diversity coupled with low [high] community racial diversity). Prior research using the interaction method and

racial representativeness approach utilized social identity theory logic (Tajfel & Turner, 1986) to propose that performance is maximized only when employee and customer demographic compositions are highly matched, yet our racial diversity congruence method is premised upon not only social identity logic but also the information-based approach (Cox & Blake, 1991; Thomas & Ely, 1996; cf. Harrison & Klein; Sommers, 2006). The latter perspective proposes that employee diversity offers knowledge-based advantages that enhance performance irrespective of community racial composition.

The present study contributes to diversity research by considering community racial diversity as a potential moderator of the employee (or store-unit) racial diversity–store-unit sales performance relationship. Our study aligns with earlier studies of contextual factors (e.g., firm strategy) shown to influence diversity effects on performance (Gonzalez & DeNisi, 2009; Richard, Barnett, Dwyer, & Chadwick, 2004). Furthermore, our racial diversity congruence approach, unlike the interaction method and the racial representativeness approach, is a useful means to assess whether employee diversity offers unique value to firms by providing knowledge-based advantages in serving a potentially wide consumer market. Because the racial congruence approach is examined with polynomial regression analyses, we can consider the potential asymmetrical and nonlinear effects of employee–customer base demographic matching on business performance. That is, matching employee and community racial diversity at high levels may be more advantageous for business performance than demographic matching at low levels of racial diversity. Likewise, a high level of employee diversity may result in performance advantages for businesses that operate in less-diverse communities relative to firms with low employee diversity that serve a highly diverse clientele. Importantly, the interaction method and racial representativeness approach do not allow examination of the above examples of potentially nonlinear and asymmetrical effects of demographic matching. Instead, these perspectives conceive employee–customer demographic matching, irrespective of the extent of employee or customer diversity, as beneficial to performance. In the following sections, we introduce the racial diversity congruence construct and present formal hypotheses related to social identity and/or the information-based perspectives where applicable.

Theoretical Background and Hypotheses

Social Identity Theory

According to social identity theory (Tajfel & Turner, 1986), people sort themselves and others into social categories on the basis of their salient characteristics (e.g., race-ethnicity, age, gender). As part of this process, a target person is categorized as either a member of a perceiver's in-group (e.g., racially similar) or out-group (e.g., racially dissimilar). Typically, individuals prefer in-group interactions as perceived similarity with others breeds a strong sense of shared history, which enhances trust and rapport (McPherson, Smith-Lovin, & Cook, 2001). Also, people seek out contexts that are conducive to their membership groups (Ashforth & Mael, 1989; Hogg & Terry, 2000; Tajfel & Turner). In support of this reasoning, research has shown that employees who work in organizations with a confluence of demographically similar colleagues report higher levels of inclusion and support (Foley, Linnehan, Greenhaus, & Weer, 2006; Pelled, Ledford, & Mohrman, 1999). Similar findings have been observed for women and minorities, such that they display higher sales performance (Joshi,

Table 1
Store-Unit to Community Racial Diversity Congruence and Incongruence Effects on Store-Unit Sales Performance

Store-Unit Racial Diversity	Community Racial Diversity	
	Low	High
Low	Quadrant 1 (congruence) + Social Identity – Information Based	Quadrant 2 (incongruence) – Social Identity – Information Based
High	Quadrant 3 (incongruence) – Social Identity + Information Based	Quadrant 4 (congruence) + Social Identity + Information Based

Note: The positive sign (+) indicates higher level/beneficial, whereas the negative sign (–) indicates lower level/detrimental.

Liao, & Jackson, 2006) and lower turnover (Zatzick, Elvira, & Cohen, 2003) and report fewer instances of discrimination (Avery, McKay, & Wilson, 2008) when they work with higher proportions of female and minority personnel, respectively.

Additionally, social identification logic has been used to examine the business ramifications of employee–customer demographic matching. The underlying premise of such work is that stronger social attachments, heightened understanding of customer preferences, and enhanced service delivery should result when employees and customers belong to similar demographic groups (Thomas & Ely, 1996). Yet subsequent research on employee–customer demographic matching has yielded mixed results. Using the interaction method, Leonard et al. (2004) and Sacco and Schmitt (2005) did not find that demographic matching among employees and customers improved business performance in fast-food restaurants and supermarkets, respectively. However, a key limitation of the interaction method is that it does not take into account potentially offsetting effects of various employee–customer racial composition combinations. For instance, if Whites are overrepresented among employees and clients, then another racial-ethnic group (at minimum) will have relatively lower representation (e.g., Blacks), leading to potentially mismatching demographics between personnel and clients (e.g., fewer Black sales associates than Black customers in a store). Subsequently, the performance gains associated with the stronger demographic match between White employees and White customers will be offset by performance losses for another racial-ethnic group (e.g., Blacks) that is underrepresented among personnel compared to customers.

In contrast, the racial representativeness approach is less prone to the limitations of the interaction method. Studies of representativeness have supported the performance benefits of employee–customer demographic matching (Avery et al., 2012; E. B. King et al., 2011). For instance, Avery et al. showed that high levels of representativeness were associated with greater customer satisfaction, thus resulting in improved sales productivity. Similarly, E. B. King et al. found that high representativeness was linked to reduced incivility in employee–customer interactions and higher-quality patient care.

In light of the mixed findings reviewed above, we introduce our racial diversity congruence approach as a more comprehensive approach to studying demographic matching effects on business performance. As shown in Table 1, racial diversity congruence captures both the

social identification and information-based processes that could emerge during the employee racial diversity–community racial diversity interface. On the basis of previous work (Avery et al., 2012; E. B. King et al., 2011), we expect matching levels of diversity at high (i.e., high store-unit racial diversity–high community racial diversity; Quadrant 4) or low (i.e., low store-unit racial diversity–low community racial diversity; Quadrant 1) levels to foster stronger in-group attraction processes than mismatching levels of diversity consisting of high store-unit racial diversity–low community racial diversity (Quadrant 3) or low store-unit racial diversity–high community racial diversity (Quadrant 2).

Owing to the stronger in-group attachment associated with demographic matching, diversity congruence should have more beneficial effects on subsequent store-unit sales performance than diversity incongruence.

Hypothesis 1: Racial diversity congruence will be associated with higher store-unit sales performance than racial diversity incongruence.

The Information-Based Perspective

Research based upon the interaction method and racial representativeness approach assumes that employee–customer demographic matching is beneficial to business performance. Alternatively, our racial diversity congruence concept allows us to consider whether demographic matching at low levels of diversity result in similar business performance as demographic matching at high levels of diversity. Below, we utilize the information-based perspective to contend that high levels of employee diversity offer unique advantages to firms that operate within highly diverse communities.

The information-based perspective argues that as diversity increases, a greater array of viewpoints is represented in the social unit. Whereas social identity theory places emphasis on in-group attachment motives (Ashforth & Mael, 1989; Hogg & Terry, 2000), the information-based perspective emphasizes task- and knowledge-related characteristics of unit members (Cox & Blake, 1991; Thomas & Ely, 1996; cf. Harrison & Klein, 2007; Sommers, 2006). Individuals from diverse backgrounds bring with them a greater variety of knowledge, skills, and abilities; experience; and perspectives to bear on work tasks. Subsequently, these worker attributes lead to information processing advantages, such as enhanced creativity and problem solving (Harrison & Klein; cf. van Knippenberg, De Breu, & Homan, 2004, for analysis at the workgroup level).

Effective service provision is an important part of retailers' competitive strategy. Sales associates are trained to approach store patrons, greet them, and inquire about items sought. Diversity can enhance task performance when employees share ideas about ways to complete their work more effectively. Increased intergroup contact between personnel should enhance familiarity and liking (Emerson, Kimbro, & Yancey, 2002), thereby increasing employees' propensities to cooperate and share information across demographic lines. Furthermore, employees in diverse contexts benefit from more opportunities to observe, overhear, and even participate in intergroup coworker interactions between colleagues and prospective customers. These observations and experiences contribute to each unit member's repertoire of skills in effectively managing intergroup employee–customer exchanges (Ely & Thomas, 2001; Jackson & Joshi, 2004). Moreover, employees who are in proximity to overhear, observe, and/or participate in these exchanges can learn how to better serve a host of clientele

vicariously (cf. social learning; Bandura, 1986). Consequently, the organization's labor force develops higher competence in service provision to a racially diverse clientele, thereby improving organization (or business unit) performance (Cox & Beale, 1997).

Thus, in contrast to earlier work, we expect asymmetrical effects of racial diversity congruence depending upon whether racial diversity matches at low or high levels. Extending Hypothesis 1, we posit that relative to low-low racial diversity congruence (see Table 1, Quadrant 1), high-high racial diversity congruence (see Table 1, Quadrant 4) will be associated with superior performance. This is possible owing to the combination of employee–community member in-group attraction and information-based advantages associated with store-unit diversity. In contrast, store units in the low-low condition will benefit from employee and community member social identification yet fail to garner information-based advantages because of a lack of diversity among personnel. In summary, we propose an asymmetrical congruence effect such that racial diversity congruence at high-high levels results in superior performance relative to congruence at low-low levels.

Hypothesis 2: High store-unit–high community racial diversity congruence will be associated with higher store-unit sales performance than low store-unit–low community racial diversity congruence.

Diversity *in*congruence is apt to compromise social identification between employees and community members. If this assumption is true, then these demographic mismatches possibly lead to lower store-unit performance for both (a) low store-unit–high community racial diversity incongruence and (b) high store-unit–low community racial diversity incongruence (Avery et al., 2012; E. B. King et al., 2011). As indicated in Table 1, store units faced with low employee–high community racial diversity incongruence (Quadrant 2) will be less equipped to yield information-based advantages than units with high employee–low community racial diversity incongruence (Quadrant 3). We reason that stores with high employee racial diversity will have broader expertise to apply to work-related issues, ultimately leading to performance advantages that transcend community demographic composition (Andrevski, Richard, Shaw, & Ferrier, 2014; Antonio, Chang, Hakuta, Kenny, Levin, & Milem, 2004; Cox, 1993; Joshi & Roh, 2009; Richard, 2000; Richard & Miller, 2013). By contrast, a homogeneous store unit located in a diverse community will lack both in-group affinity among employees and community members and the requisite knowledge to serve its diverse clientele effectively. Therefore, we expect asymmetrical effects of store-unit–community racial diversity incongruence on store-unit performance.

Hypothesis 3: High store-unit–low community racial diversity incongruence will be associated with higher store-unit sales performance than low store-unit–high community racial diversity incongruence.

Method

Study Overview

Study data were collected from a large retailer that operates more than 200 store outlets with greater than 5,100 nonexempt employees. The organization is a multistate department

store that carries similar products as the giant "big box" retailers like Wal-Mart, Kmart, and Target; however, the firm focuses on towns and regions that cannot sustain such large-scale retailers. Each general merchandise store unit supports a fully functioning pharmacy, as well as "soft lines" (brand-name and private-label men's, women's, and children's clothing), basic hardware, dry-good grocery, small appliances and electronics, sporting goods, jewelry, health and beauty aids, lawn and garden supplies, and other merchandise. Each individual retail store has one store manager who leads a team of employees all located at the same hierarchical level, resulting in a relatively flat company structure.

The store units ranged in size from 9 employees to 53 employees ($M = 23.72$, $SD = 8.26$), and are located in 19 states throughout the greater Midwest and West. The store-unit data for the independent variables (e.g., store-unit and community racial diversity), dependent variable (sales performance), and control variables (e.g., employee retention, expenditures) were collected via the organization's human resources and operations records. Personnel files, coded by store unit, included beginning-of-year employee demographic background data, such as birth date (age), date of hire (tenure), sex, race, and level of education. Community racial diversity was collected from the U.S. Census Bureau Web site (i.e., http://www.factfinder.census.gov). We defined community as the town in which the store is located. The strategy of this retailer was to avoid direct competition with other retailers (i.e., average distance to a Wal-Mart was 23 miles) and minimize within-region competition among their own store units. Thus, there was only one store location per community or town. Generally, a store's target market was the town in which it resided, so we are confident that our definition of community adequately captures the potential customer base.

Measures

Store-unit racial diversity. Store-unit race diversity was calculated using Blau's (1977) index of heterogeneity (Harrison & Klein, 2007):

$$SRD_j = 1 - \sum_{i=1}^{5} P^2_j,$$

where SRD represents racial diversity in store unit j, P represents proportion of group members in each racial category in store unit j, and i represents number of different categories in store unit j. Blau's index values range from 0 to 1, which correspond to complete homogeneity (i.e., no diversity) and complete heterogeneity (i.e., equal representation of members from each demographic group), respectively. We utilized five categories for racial diversity (i.e., White, African American, Asian American, American Indian, and Hispanic) that are consistent with Equal Employment Opportunity Commission and U.S. Census Bureau categories. The minimum and maximum values for racial diversity were 0 and 0.48 ($M = 0.05$).

Community racial diversity. Collected from the U.S. Census Bureau Web site (i.e., http://www.factfinder.census.gov), community racial diversity was composed of the same categories (White, African American, Asian American, American Indian, and Hispanic) employed for store-unit diversity. It was also calculated using Blau's (1977) index of heterogeneity as previously described. The community racial diversity ranged from a low of 0 to a high of 0.48 ($M = 0.09$).

Store-unit–community racial diversity congruence. In line with polynomial regression estimation procedures (Edwards & Parry, 1993), our procedure indexed store racial diversity congruence in the following manner. Congruence effects are operative under the following two conditions: (a) a significant Store-Unit Racial Diversity × Community Racial Diversity interaction and (b) negative quadratic terms for store-unit racial diversity and community racial diversity. Further explanation of how to interpret racial diversity congruence is provided in the Analyses section.

Store-unit sales performance. Consistent with previous researchers (Avery et al., 2012), we used sales productivity as our measure of sales performance. To show that store-unit diversity is predictive of sales performance, we lagged the performance measure (i.e., the natural log of store-unit sales divided by number of employees) 4 months after the independent variables. The sales information was collected from the month-end April quarterly report. Sales productivity is a key financial performance metric for service firms as well as those with human capital costs (Richard, 2000).

Statistical controls. Several controls were included because of their known or likely associations with the dependent measure (Bono & McNamara, 2011) and demographic measures. Store-unit size (measured as number of employees) was controlled for in all analyses. Because the measure was slightly skewed, we used a logarithmic transformation of store-unit size in statistical analyses. Expenses incurred from January through April were also accounted for in the model to partial out store-unit variation in expenditures (e.g., advertising) that could influence revenues. Employee retention, measured as the percentage of employees retained from January through the end of April, was also a control variable. Finally, using census data, we controlled for community population (M = 4,297), owing to its likely correlation with store-unit sales (Mazze, 1972).

Analyses

Because racial diversity has been shown to exhibit nonlinear effects on performance (Richard et al., 2004; Richard, Murthi, & Ismail, 2007), we employed polynomial regression and response surface techniques (Edwards, 1994, 2007). These methods allowed us to assess both linear and nonlinear effects, assess the interaction of store-unit and community racial diversity in three-dimensional space, and thereby specify the combination of store-unit racial diversity and community racial diversity that optimizes store-unit performance (Edwards & Parry, 1993). In contrast, the interaction method and racial representativeness approach assess only linear effects, thus precluding estimation of asymmetrical demographic matching (or mismatching) effects (i.e., racial diversity congruence and incongruence).

Polynomial regression analyses include quadratic (squared) terms for store-unit and community racial diversity beyond their respective linear and interactive terms (Cohen, Nahum-Shani, & Doveh, 2010). The Store-Unit Racial Diversity × Community Racial Diversity interaction was constructed as a multiplicative function of the two mean-centered main effects terms. We created the following hierarchical regression equation of the form:

$$Y = b_0 + b_1\text{SRD} + b_2\text{CRD} + b_3\text{SRD}^2 + b_4(\text{SRD} * \text{CRD}) + b_5\text{CRD}^2 + e,$$

where SRD represents store-unit racial diversity and CRD represents community racial diversity. Consistent with earlier researchers (Bashur, Hernandez, & Gonzalez-Roma, 2011; Bono & Colbert, 2005), we entered variables into the analyses sequentially, including controls along with SRD and CRD (Step 1) and higher-order polynomials including SRD^2, SRD * CRD, and CRD^2 (Step 2). A significant and positive Store-Unit Diversity × Community Diversity interaction term (SRD * CRD), accompanied by two negative squared terms (SRD^2 and CRD^2), denotes a potential congruence effect (Edwards & Parry, 1993).

Following earlier work (Shanock, Baran, Gentry, Pattison, & Heggestad, 2010), we conducted surface tests to examine the curvatures and slopes along the congruence line (i.e., SRD = CRD) and the incongruence line (i.e., SRD = –CRD). In contrast to standard regression analyses, polynomial regression results are evaluated using four surface test values (Edwards, 2007; Shanock et. al.): (a) slope along the congruence line (SRD = CRD), (b) curvature along the congruence line (SRD = CRD), (c) slope along the incongruence line (SRD = –CRD), and (d) curvature along the incongruence line (SRD = –CRD). The curvature along the incongruence line tests whether congruence is significantly different from incongruence (Hypothesis 1). The slope along the congruence line assesses whether congruence at high levels differs from congruence at low levels (Hypotheses 2). The slope along the incongruence line allows examination of possible asymmetrical incongruence. Specifically, asymmetrical incongruence is evident when high store-unit diversity and low community diversity incongruence has a significantly different effect on sales performance than low store-unit diversity and high community diversity incongruence (Hypothesis 3).

Results

Descriptive statistics and correlations among the study variables are presented in Table 2. Table 3 displays the polynomial regression results.

Hypothesis 1 posited congruence effects of store-unit and community racial diversity on sales performance such that high-high and low-low racial diversity congruence would be associated with higher store-unit sales performance than high-low and low-high racial diversity incongruence. Model 3 in Table 3 shows the polynomial regression results, including the unstandardized coefficients, and the four curvatures and slopes along the congruence and incongruence lines. Figure 1 depicts the response surface based on the reported coefficients. The incongruence line (SRD = –CRD) runs from the left corner to the right corner of the plane, whereas the congruence line (SRD = CRD) extends from the front corner to the rear corner. As displayed in Table 3, the three second-order polynomial terms were significant as a block ($\Delta R^2 = .05$, $p < .001$), and the surface along the incongruence line reflected an inverted U-shape (curvature test statistic = –5.60, $p < .001$). Figure 1 reveals that it is indeed curved downward along the incongruence line, showing that increased congruence is associated with higher sales performance, thus supporting Hypothesis 1.

Hypothesis 2 proposed an asymmetrical congruence effect such that higher store-unit sales performance would be observed when store-unit and community racial diversity are congruent at high as opposed to low levels of racial diversity. As shown in Table 3, the slope along the congruence line (SRD = CRD) is significant and positive (slope test statistic = 3.70, $p < .001$), confirming that high-high racial diversity congruence resulted in superior store sales performance relative to low-low racial diversity congruence. In Figure 1, the congruence line

Table 2
Means, Standard Deviations, and Correlations Among Variables ($N = 220$)

Variables	1	2	3	4	5	6	7	*M*	*SD*
1. Store-unit size	—							3.10	0.37
2. Expenditures	.57**	—						43.30	19.14
3. Retention	.15*	−.02	—					0.88	0.12
4. Community population	.26**	.07	.07	—				4,297.17	2,315.41
5. Store-unit racial diversity	.09	.09	−.11	.09	—			0.05	0.08
6. Community racial diversity	.04	−.06	−.01	.20**	.42**	—		0.09	0.07
7. Store-unit sales performance	.35**	.41**	.14*	.25**	.13	.08	—	3.41	0.37

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

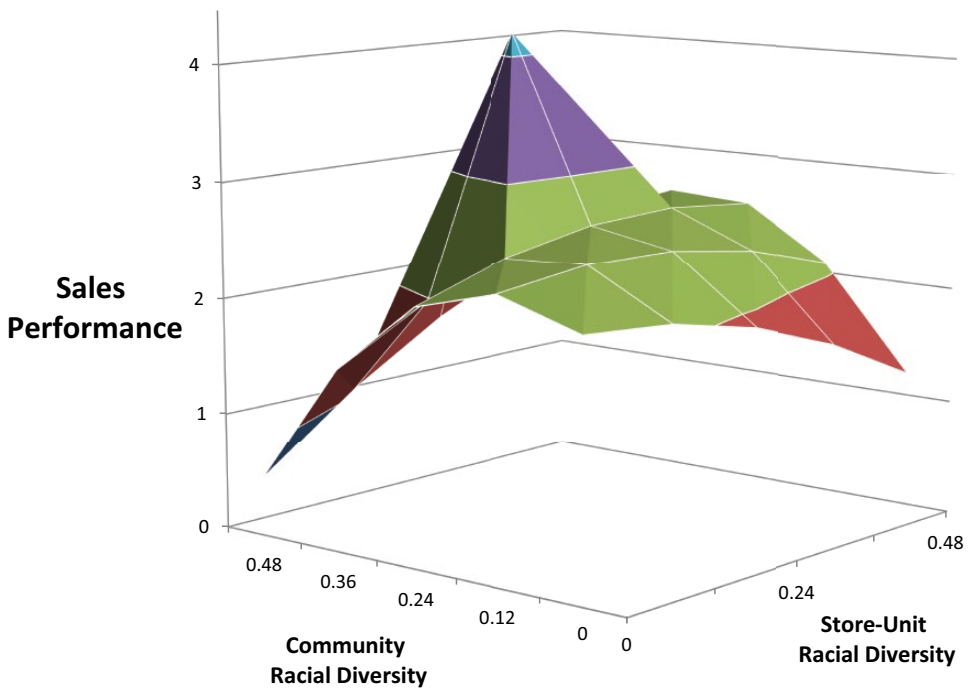
Table 3
Racial Diversity Congruence Effects on Store-Unit Sales Performance

	1	2	3
Store-unit size	0.08 (0.08)	0.08 (0.08)	0.05 (0.01)
Expenditures	0.01*** (0.01)	0.01*** (0.01)	0.01*** (0.00)
Retention	0.39* (0.19)	0.42* (0.19)	0.51** (0.19)
Community population	0.00*** (0.00)	0.00*** (0.00)	0.00*** (0.00)
Store-unit racial diversity (SRD)		0.34 (0.31)	−0.11 (0.62)
Community racial diversity (CRD)		0.18 (0.36)	3.60*** (0.93)
SRD^2			−3.98 (2.86)
SRD × CRD			11.59* (4.70)
CRD^2			−14.63*** (3.77)
$R^2/\Delta R^2$	.24	.25/.01	.30/.05***
Congruence line			
Slope			3.70***
Curvature			−2.73**
Incongruence line			
Slope			−2.90**
Curvature			−5.60***

Note: $N = 220$. Unstandardized coefficients and standard errors (in parentheses) are reported.
*$p < .05$.
**$p < .01$.
***$p < .001$.

extends from the nearest (front) to the farthest (rear) corners of the plane. The response surface indicates that sales performance is higher at the rear corner (high-high congruence) than at the front corner (low-low congruence). Therefore, Hypothesis 2 is supported. Furthermore, post hoc analysis reveals that the response surface along this congruence line is significantly curvilinear (curvature test statistic = –2.73, $p < .01$). This suggests that although performance increases as average levels of diversity congruence rise, it does so at a decelerating rate. In sum, the pattern of results corroborates Hypothesis 2.

Figure 1
Store-Unit Racial Diversity–Community Racial Diversity Congruence Effects on Store-Unit Sales Performance



Hypothesis 3 predicted higher store-unit sales performance would occur for high store-unit–low community racial diversity incongruence than for low store-unit–high community racial diversity incongruence. The slope along the incongruence line is significant (slope test statistic = –2.90, $p < .01$), which is indicative of an asymmetrical incongruence effect. In addition, Figure 1 shows a U-shaped surface along the incongruence line. This form of surface plot indicates that high store-unit–low community racial diversity incongruence is more positively related to sales performance than low store-unit–high community racial diversity incongruence. Therefore, Hypothesis 3 was supported.

For post hoc robustness analyses, we used regression model beta coefficients to estimate the change in store-unit raw sales associated with increments in store-unit and community racial diversity. Because our congruence effects are asymmetrical, we derived separate estimates of changes in store-unit sales that result from changes in store-unit racial diversity (community racial diversity), holding community racial diversity (store-unit racial diversity) constant at its mean value. These calculations were based upon the following formulae for

the partial derivatives of Y with respect to SRD (d_Y/d_{SRD}) and CRD (d_Y/d_{CRD}), where SRD is store-unit racial diversity and CRD is community racial diversity:

$$Y = b_0 + b_1SRD + b_2CRD + b_3SRD^2 + b_4(SRD*CRD) + b_5CRD^2 + e,$$

$$d_Y / d_{SRD} = 0 + b_1(1) + b_2(0) + 2*b_3(SRD) + b_4(1*CRD) + b_5(0) + 0,$$

$$d_Y / d_{CRD} = 0 + b_1(0) + b_2(1) + b_3(0) + b_4(SRD*1) + 2*b_5(CRD) + 0.$$

To determine the congruence effects, we calculated sales on the basis of a 1% change as community racial diversity (store-unit racial diversity) approaches store-unit racial diversity (community racial diversity) when using d_Y/d_{SRD} (d_Y/d_{CRD}). The results of these calculations indicate that a 1% increase in either type of diversity toward congruence (e.g., CRD = SRD) increases sales by $66,855. These estimates offer evidence that improved store-unit–community racial diversity congruence is associated with meaningful gains in store-unit sales performance (Thomas & Ely, 1996).

Supplementary Analyses

We conducted additional analyses to compare our racial diversity congruence results with those derived from the interaction method and racial representativeness analyses (e.g., Avery et al., 2012; Leonard et al., 2004). We tested the interaction method using traditional moderated regression (Leonard et al.) accounting for store size, expenditures, retention, community population, main effects (e.g., proportion of White employees and proportion of Whites in community), and interaction terms (e.g., Proportion of White Employees × Proportion of Whites in Community). Nonsignificant interaction effects on store performance were observed across all five racial category pairings: Proportion of White Employees × Proportion of Whites in Community ($b = –7.787$, $p = .067$), Proportion of Black Employees × Proportion of Blacks in Community ($b = 0.0005$, $p = .692$), Proportion of Hispanic Employees × Proportion of Hispanics in Community ($b = –11.796$, $p = .549$), Proportion of Asian Employees × Proportion of Asians in Community ($b = 0.002$, $p = .257$), and Proportion of Native American Employees × Proportion of Native Americans in Community ($b = –0.0001$, $p = .195$).

In addition, we tested the racial representativeness approach using the Avery and colleagues (2012) measure:

$$\text{Representativeness} = 1 - (|\text{proportion in unit of group 1} - \text{proportion in population of group 1}| + |\text{proportion in unit of group 2} - \text{proportion in population of group 2}| + |\text{proportion in unit of group 3} - \text{proportion in population of group 3}| \ldots + |\text{proportion in unit of group } j - \text{proportion in population of group } j|) / 2$$

As the formula shows, racial representativeness is an additive function of the relative differences in the proportions of employees and customers from each racial group present in a setting. In our study, data were available for White, Black, Hispanic, Asian, and Native American employees and community members. After controlling for store size, expenditures, retention, and community population, we found that racial representativeness was not significantly related to sales performance ($b = –0.359$, $p = .565$). We conclude that racial diversity congruence represents an alternative and possibly more suitable way to examine the joint effects of employee and community racial diversity on performance.

Discussion

The current study examined employee–community demographic matching in predicting store-unit sales performance. Previous work on demographic matching has employed the interaction method (Leonard et al., 2004; Sacco & Schmitt, 2005) or the racial representativeness approach (Avery et al., 2012; E. B. King et al., 2011). Viewing these methods as restrictive, we introduced the racial diversity congruence construct to account for not only benefits associated with social identification but also the unique, informational advantages possible with employee diversity (Richard et al., 2007; Richard, Kirby, & Chadwick, 2013). The use of polynomial regression analyses also enabled us to assess the prospective nonlinear and asymmetrical effects of racial diversity congruence (and incongruence) on store-unit sales performance.

Three key findings emerged from our analyses. First, consistent with social identity theory predictions, our results showed that racial diversity congruence resulted in significantly higher store-unit sales performance than racial diversity incongruence. Second, we observed that store-unit sales performance was highest when racially diverse store units operated in diverse communities. In other words, asymmetrical congruence was evident such that high store-unit–high community racial diversity contexts were associated with significantly higher store performance than low store-unit–low community racial diversity environments. Third, higher store-unit sales performance emerged under conditions of high store-unit–low community racial diversity incongruence than low store-unit–high community racial diversity incongruence. These findings have a number of research and practical implications, which are elaborated upon in the following sections.

Research Implications

First, we show that racial diversity congruence is a distinct approach to assessing the influence of demographic matching on business performance. Although the racial representativeness approach has received support (Avery et al., 2012; E. B. King et al., 2011), it emphasizes the degree of match between employee and customer demographic composition as the key determinant of business success. So, a retail establishment that contains 90% White, 5% Black, 3% Hispanic, 1% Asian, and 1% Native American employees is highly representative of a customer base that is 80% White, 15% Black, 10% Hispanic, 4% Asian, and 0% Native American (representativeness = 0.92). Yet the lack of diversity in this establishment precludes it from capitalizing on the information-based advantages associated with workforce diversity. This is evident from our findings, as stores with low-low racial diversity congruence, and similar to the above representativeness example, were outperformed by those with high-high racial diversity congruence. Furthermore, even highly diverse store units situated in less-diverse communities (i.e., high-low racial diversity incongruence) performed superior to less-diverse establishments located in diverse communities. This pattern of findings contradicts theorizing that proposes uniformly beneficial (detrimental) effects of employee–customer demographic matching (mismatching) on the bottom line. Instead, we show that employee racial diversity is an information-based resource that can still improve business performance even at low levels of community diversity.

Notably, although not hypothesized, our response surface plot showed store-unit sales performance differences between the low store-unit–low community racial diversity

congruence (i.e., Quadrant 1 in Table 1) and high store-unit–low community racial diversity incongruence (i.e., Quadrant 3 in Table 1) contexts. Specifically, it appeared that stores in Quadrant 1, where social identification between employees and the community should prevail, outperformed store units in Quadrant 3 wherein information-based resources should surpass social identification processes (log store-unit sales productivity = 2.21 and 1.24, respectively). On the basis of this finding, we assert that social identification could be a stronger predictor of store-unit sales performance than information-based advantages associated with employee diversity. These results may reflect what has been found in diversity research, namely, that highly diverse workgroups experienced reduced cohesion and higher intergroup conflict between members than groups with lower levels of diversity (Jehn, Northcraft, & Neale, 1999; Pelled, Eisenhardt, & Xin, 1999). Typically, people prefer to interact with people considered to be similar to themselves. More importantly, however, superior sales performance emerged for store units positioned to capitalize on both social identification and the information-based advantages of diversity (i.e., Quadrant 4 in Table 1).

An additional contribution of our study is that it used an alternative approach to examine the effects of employee–customer demographic matching. Polynomial regression analyses and response curve plotting methodology allowed us to pinpoint when racial diversity congruence effects are optimized. Our analyses demonstrate that the racial diversity congruence construct enables scholars to estimate how relative levels of employee and community diversity affect business performance. The methodology used here might be fruitfully applied to other forms of diversity among patrons and other organizational stakeholders (e.g., suppliers).

Limitations and Future Research

Our study findings should be interpreted in regard to the following limitations. First, we did not examine the underlying processes theorized to account for racial diversity congruence effects on store-unit sales performance. Additional work is necessary to determine whether the proposed social identification and information-based mechanisms truly explain our results. Moreover, knowledge sharing (Collins & Smith, 2006), elaboration of task relevant information (van Knippenberg et al., 2004), and the nature of leader-team exchange relationships (Stewart & Johnson, 2009) are plausible mediators of our observed effects statically as well as over time (Harrison, Price, & Bell, 1998; Harrison, Price, Gavin, & Florey, 2002). Notably, research has shown that placing a high value on diversity is linked with increased knowledge sharing, which has facilitative effects on workgroup performance (Ely & Thomas, 2001; Homan, van Knippenberg, Van Kleef, & De Dreu, 2007).

A second shortcoming is that we studied the racial diversity congruence–business performance relationship within a single firm and industry. The collection of data from a single firm mitigated various between-firm and industry confounds (Becker & Gerhart, 1996). Yet our focus on a single organization raises concerns of whether the study findings will generalize to other firms and industries (e.g., manufacturing, technology). Furthermore, our study has limited generalizability as we consider only the effects of racial diversity congruence on business performance. Future research might apply our congruence framework to other dimensions of diversity, such as religion, wherein social identification processes have been shown to perpetuate in-group favoritism and out-group bias (e.g., J. King, McKay, & Stewart,

2014). These intergroup dynamics could have implications for the employee–customer interface and, ultimately, organizational performance.

Finally, in contrast to earlier work on employee–customer demographic matching, we examined the match between store-unit racial diversity and community diversity. Although customer data would have been valuable, our study findings shed new light on how community matters when studying organizational phenomena (Ragins, Gonzalez, Ehrhardt, & Singh, 2012). Nevertheless, firms could use the analyses employed here to estimate the potential business implications of diversifying personnel and/or expanding into new markets of varying client diversity. While our results are suggestive, additional work is necessary to determine whether the racial diversity congruence effects reported are replicable when congruence is composed of employee *and* customer racial diversity.

Practical Implications

The study findings also have implications for practitioners. Primarily, the results indicate that employee diversity provides unique, informational advantages that benefit the corporate bottom line. It is especially informative that workforce diversity enhanced sales performance to a stronger extent in more-diverse communities than less-diverse communities. In contrast, racially homogeneous stores that served diverse communities suffered the worst performance of all store units. This finding suggests that firms should diversify their workforces when attempting to market their products and services in diverse locales and perhaps even when operating in a relatively homogeneous locale. Research has shown that strategies such as establishing responsibility for diversity outcomes (e.g., goals and timetables), affirmative action programs, and diversity committees are associated with increased hiring of underrepresented minorities and women (Kalev, Dobbin, & Kelly, 2006; Konrad & Linnehan, 1995; Richard, Roh, & Pieper, 2013). Thus, management is encouraged to adopt strategies such as those identified above to enhance the likelihood of hiring and retaining a diverse workforce.

Furthermore, increasing diversity among employees may not automatically yield substantial performance advantages (Richard, Kirby, & Chadwick, 2013). Companies should consider their diversity climates when embarking upon efforts to recruit and retain a diverse workforce (McKay & Avery, 2005). Supportive diversity climates, defined as workplaces that are viewed as fair and inclusive of underrepresented personnel (McKay, Avery, Liao, & Morris, 2011), have been linked to enhanced recruitment and retention outcomes (Avery et al., 2013; McKay, Avery, Tonidandel, Morris, Hernandez, & Hebl, 2007). For instance, Avery et al. found that job seekers reported stronger job pursuit intentions when organizations were viewed as highly supportive of diversity. Likewise, White, African American, and Hispanic management personnel reported lower turnover intentions and higher organizational commitment when they worked in hospitable diversity climates (McKay et al., 2007). Limited research on the antecedents of diversity climate suggests that the presence of diversity programs (i.e., the extent that a firm has formal diversity policies and programs, recruitment programs targeting minorities, and methods for considering a broad array of viewpoints) and high management team (racial) diversity are associated with employee perceptions that a work setting maintains a supportive diversity climate (Herdman & McMillan-Capehart, 2010). Thus, before embarking upon diversity initiatives, firms should conduct diversity

audits to gauge the nature of their existing diversity climates to ensure that their work environments are diversity friendly. Otherwise, hiring diverse personnel to work in inhospitable climates may perpetuate a cycle of costly, reputation-damaging turnover (McKay & Avery).

Conclusion

The current investigation introduces the racial diversity congruence concept as an alternative method of examining the effects of employee–customer demographic matching on business performance and highlights the importance of studying the organizational-community interface (Brief, Umphress, Dietz, Butz, Burrows, & Scholten, 2005; Pugh, Dietz, Brief, & Wiley, 2008). In contrast to the interaction method and racial representative approach, racial diversity congruence revealed both nonlinear and asymmetrical effects of demographic matching on store-unit sales performance. The key take-away from our study is that employee diversity offers informational advantages that have previously not been considered in demographic matching research. Furthermore, our research provides business leaders greater insights for understanding not only the bottom-line effects of racial diversity within the organizational context but also how diversity in the external environment works in conjunction with workforce diversity for firms to more fully realize a financial "diversity advantage." We encourage additional work designed to uncover further boundary conditions of the racial diversity congruence–business performance relationship.

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