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Evidence from firms operating in Sri Lanka during the ethnic

conflict

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Abstract

Ethnic conflict is a defining characteristic of the post-Cold War era and is prevalent particularly in emerging economies, areas of increasing interest to multinational enterprises. Yet little is known about the international human resource management challenges arising from such societal context. Utilizing social identity theory, we propose that ethnic homophily perceptions in the workplace—an employee's assessment that colleagues prefer working with ethnically similar others— is a reflection of the societal context and can be detrimental to the organization if not managed appropriately. We investigate whether contact theory offers insights to manage such perceptions. Drawing on a sample of 550 managers in Sri Lanka during a period of protracted ethnic conflict, we found that employee sensitivity to ethnic conflict in the societal context is positively related to ethnic homophily perceptions in the workplace, and that both ethnic diversity in workgroups and quality of work relationships serve to reduce perceptions of ethnic homophily.

Keywords : Ethnic conflict, homophily perceptions, social identity theory, contact theory, emerging economies, Sri Lanka

Introduction

Emerging economies have received growing attention in the international business literature because of the opportunities they offer for trade, technology transfer, and investment (Hoskinsson, Eden, Lau and Wright 2000). Indeed, global economic activity has shifted from the markets of Europe and North America to emerging economy markets in Africa, Asia, and Latin America, which are expected to account for nearly half of global growth over the next decade or so (Dewhurst, Harris and Heywood 2012). While this trend has benefited multinational enterprises with a greater scope of business opportunities, the operating environments pose largely unfamiliar risks and challenges. Many emerging economy markets, for instance, are located in conflict regions where the aim of the conflict is to change the political, socioeconomic, or cultural order (Heidelberg Institute 2013). Operating environments characterized by threat, conflict, or adversity are thought to impact employees with implications for organizational functioning (Kastenmueller, Greitemeyer, Aydin, Tattersall, Peus, Bussmann, Fischer, Frey and Fischer 2011; Woolley 2011; Reade and Lee 2012). Little is known, however, about the social complexities of ethnic conflict in emerging market societies, the influence on human dynamics within the workplace, and the implications for human resource management.

The literature indicates that the nature of relationships between groups of people in society, including ethnic groups, can affect relationships, and perceptions of those relationships, inside the organization (eg., Pugh, Dietz, Brief and Wiley 2008). The societal context, in other words, has a bearing on employee attitudes and behavior in the workplace (Dietz, Robinson, Folger, Baron and Schulz 2003; Brief, Butz and Deitch 2005a; Brief et al. 2005b; Johns 2006; McKay and Avery 2006; Pugh et al. 2008). A likely workplace manifestation of societal ethnic conflict is homophilous patterns of relationships based on ethnicity. Homophily is the tendency to interact with others who are similar on given

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attributes such as race, ethnicity and sex (Rogers and Kincaid 1981; McPherson, Smith-Lovin and Cook 2001). We propose that the more employees are sensitive to violent ethnic conflict in the societal context, the more likely they are to perceive ethnic-based homophily behavior in the workplace via ethnic identity salience, as suggested by social identity theory (Tajfel and Turner 1979).

Much of the evidence indicates that homophily behavior in the workplace, particularly racial and ethnic-based homophily, has detrimental effects on the organization. This includes compromised workplace integration at the organizational level due to a tendency among the different racial or ethnic groups to form subgroups, hence a reduced opportunity for individuals to interact and collaborate with colleagues from different racial or ethnic groups (eg., Ibarra 1995; Van der Vegt 2002; Reade 2003; McKay, Avery, Tonidandel, Morris, Hernandez, and Hebl 2007; Stathi and Crisp 2010). We propose that workgroup ethnic diversity and the quality of work relationships may enhance ethnic relations and help to manage ethnic homophily perceptions, as suggested by contact theory (1954) and its subsequent development (eg., Pettigrew and Tropp 2006),

Our research objectives are as follows. First, we investigate the relationship between the societal context and the workplace through employee sensitivity to ethnic conflict and perceptions of ethnic homophily in the workplace. Second, we examine the extent to which ethnic diversity in workgroups and the quality of work relationships might reduce workplace ethnic homophily perceptions. We submit that employee perceptions of workplace ethnic homophily and their management constitutes an emergent human resource management challenge for firms operating in ethnic conflict zones. To the best of our knowledge, there has not been a study that examines these issues.

The paper proceeds with an overview of the influence of societal context on the workplace, and ethnic conflict in Sri Lanka as the societal context under study. Next, we

present our theoretical framework and research hypotheses. Methods are given followed by an analysis of the results. The paper concludes with implications for research and management practice.

Societal context and the workplace

It is argued that the societal context in which an organization is embedded has been largely neglected and underappreciated by management scholars even though it has potential impacts on organizational behavior and intergroup relations in the workplace (Johns 2006; Pugh et al. 2008; Joshi and Roh 2009). Context is broadly construed as the "situational factors that surround a phenomenon of interest" (Pugh et al. 2008, p.1422). The societal context has garnered growing interest as a consideration to better understand employee attitudes and behavior in the workplace (e.g. Brief et al. 2005a; Johns 2006; McKay and Avery 2006; Pugh et al. 2008). The literature suggests that the nature of relationships between groups of people in society, including ethnic groups, can affect relationships inside the organization (Dieta et al. 2003; Brief et al. 2005b; McKay et al. 2007).

Several studies have begun to address the role of societal context as a means to better understand racial and ethnic diversity phenomena in workplaces, for example, by examining community racial demographic composition (Brief et al. 2005b; McKay and Avery 2006; Pugh et al. 2008). Employee reaction to ethnic diversity in the organization, for instance, is said to be reflective, at least in part, of ethnic relations in the communal environment in which the organization is embedded (Brief et al.2005a; Brief et al.2005b; Pugh et al. 2008). We build on these studies by proposing that a societal context of ethnic conflict is likely to be reflected in the workplace through homophilous patterns of relationships based on ethnicity. The following introduces ethnic conflict with specific reference to Sri Lanka, our research setting.

Ethnic conflict as societal context

Ethnic conflict generally refers to large-scale conflict between ethnic groups (Esman 2004; Wimmer, Cederman and Min 2009). It is a leading cause of violence and instability around the world (Carment and James 1998; Esman 2004; Carter 2009). Some of the better known ethnic conflicts include Israel and Palestine, Northern Ireland, Kashmir, Greece and Turkey, Bosnia, South Africa, and Rwanda (Carter 2009; Coakley 2009). Sri Lanka is also well known for having had one of the world's longest and most intractable civil wars. The violent ethnic conflict ended in 2009 after 26 years, with an estimated 70,000 deaths and another one million persons displaced (Kriesberg 1998; Kumar 2002; Hironaka 2005; Shastri 2009). The country exemplifies an emerging economy that has attracted MNEs through economic liberalization, a relatively well-developed capital market infrastructure, relatively low labor costs, and a dynamic investment climate (Chandrakumara and Budhwar 2005). It is also a country where firms have had to deal with ethnic conflict as part of the operating environment (Gamage 2009).

Ethnic conflict revolves around ethnicity which is both a cognitive and group phenomenon (Le Vine 1997). The cognitive aspects of ethnicity include ideas, perceptions and attitudes about the self, the group, and others (Le Vine 1997). An awareness of one's ethnicity is a form of collective identity or membership in a group that shares certain attributes (Esman 2004). As a group phenomenon, individuals identify themselves as members of a reference group which, collectively, characterizes itself as distinct from other groups (Le Vine 1997; Bar-Tal 2007). Group boundary markers include language, names, physical appearance, race, and religion (Le Vine 1997; Coakley 2009). The two ethnic groups that were at the centre of the ethnic conflict in Sri Lanka were the Sri Lankan Tamils who

speak Tamil and are primarily Hindu, and the majority Sinhalese who speak Sinhala and are primarily Buddhist.

Conflict between ethnic groups can erupt when the goals and/or actions of the ethnic groups are perceived to be incompatible or when there is a perceived grievance of a minority ethnic group in relation to the dominant ethnic group in society (eg., Bar-Tal 2007). Ethnic conflicts can be long-lasting and severe with confrontation typically accompanied by physical violence and an accumulation of animosity and hostility that can result in war or terrorist activities (Kriesberg 1998; Pyszczynski, Solomon and Greenberg 2003; Bar-Tal 2007). In the case of Sri Lanka, the war was fought between government forces and Tamil separatists in the north and northeast of the country, while terrorist attacks became prevalent in Colombo, the commercial capital located in the south of the country where the Sinhalese are the majority ethnic group. Heavily armed police manned checkpoints at city intersections and highways contributed to ethnic tensions (Ratnavale, 2009).

These are the ethnicity-related animosities and fears that members of a society engaged in ethnic conflict are likely to bring to their workplace. The idea is supported by Brief et al. (2005b, p. 839) who state that if the social environment is characterized by conflict between ethnic groups, producing ethnocentrism, for instance, then it should be expected that workplace communities will be "marked by the same problems." In the following sections we relate ethnic conflict to our theoretical framework and research hypotheses.

Theoretical Framework and Research Hypotheses

Social identity theory and ethnic conflict

The overarching theory in our framework is social identity theory (SIT) (Tajfel and Turner 1979). SIT submits that there is a basic human tendency to engage in social categorization as a means to increase one's sense of self-esteem through belonging to a group of similar others.

Identification with the group of similar others leads to a bias toward those who are part of the ingroup, and a bias against those who are members of the outgroup. SIT also submits that individuals can belong to and identify with a number of groups simultaneously, for instance, gender, age, ethnicity, and occupation, and that the salience of these social categories depends on circumstances and can change over time.

In circumstances of ethnic conflict, where violence occurs between ethnic groups, individuals are driven to express long-standing values and to seek safety and psychological security in their ingroup (McDermott and Zimbardo 2007). This results in ethnic homophily, where people are drawn to those who share their cultural worldview since it not only bolsters self-esteem but reduces anxiety under severe conditions of intergroup violence (eg., Pyszczynski et al. 2003). When individuals are exposed to a societal context of ethnic conflict they are likely to see ethnicity as a salient social identity category, such that their perceptions of the world (and workplace) accentuate social groupings based on ethnicity. In other words, perceptions of differences between ethnic groups are sharpened. We propose that, in a societal context of ethnic conflict, perceptions of ethnic homophily are likely to exist in the workplace that are reflective of ethnic tensions and divisions in society. Figure 1 presents our research model.

INSERT FIGURE 1 ABOUT HERE

As shown, we posit a positive link between perceptions of ethnic homophily in the workplace, our dependent variable, and employee sensitivity to ethnic conflict in the societal context outside the firm. Conversely, we posit a negative link between our dependent variable and interethnic contact inside the firm through workgroup ethnic diversity and quality of work relationships. We reason that by having the opportunity to directly interact and work with

members of other ethnic groups in the workplace, ethnicity is likely to become a less prominent category for an individual's social identity and that other social identity categories based on, for example, gender, age group, work orientations and interests might become more salient for individuals. In essence, our research model captures two opposing forces, one that sharpens ethnic identity reflected from the societal context and heightens perceptions of ethnic homophily in the workplace, and one that reduces ethnic bias through interethnic contact and lessens perceptions of ethnic homophily in the workplace. The following sections, beginning with our dependent variable, detail these relationships and present our research hypotheses.

Ethnic homophily perceptions in the workplace

Homophily is the tendency to interact with others who are similar on given attributes such as race, ethnicity and sex (Rogers and Kincaid 1981; McPherson, Smith-Lovin and Cook 2001). Similarity implies common interests and worldviews, and therefore makes it easier to communicate, and to foster trust and friendship. Field experiments have shown that people with similar values, beliefs and attitudes are more likely to be attracted to one another, to become friends, and to form enduring groups (for more details on the similarity-attraction paradigm see Byrne 1971; Handy 1993; Reis 1996). A common history is also thought to bind individuals to a group (Tolman 1943; Ashforth and Mael 1989), suggesting that individuals can form enduring groups based on a shared culture of ethnicity, language and religion (Bar-Tal 2007).

In diverse societies, race and ethnicity create the starkest divides, with religion, sex, age, and education also playing a critical role in structuring our social relations (McPherson et al. 2001). Social identity theory, as noted above, suggests that while similarity cultivates connection, it also breeds exclusion of people who are dissimilar (Tajfel and Turner 1979).

The result is the development of subgroupings, or homophilous groups, based on similarity categories such as race, ethnicity, religion, sex, age, educational background, and values. The significance of particular categories will vary by societal and cultural context. Interethnic attitudes, stereotypes, prejudices, and hostilities are typically formed outside the workplace, yet are carried into the organization by employees who are members of society. The ethnicity-related 'baggage' that employees bring to their workplace has been found to influence the way they view and interact with both ingroup and outgroup members within the organization as suggested by social identity theory, resulting in homophilous patterns of interaction (Brief et al. 2005b).

We define ethnic homophily perceptions in the workplace as an employee's assessment that colleagues prefer to work with ethnically similar others. In other words, ethnic homophily perceptions are an individual's cognitive appraisal of workplace attributes, in this case ethnic sub-groupings. Our conceptualization of ethnic homophily perceptions is thus similar to what the organizational climate literature refers to as "psychological climate" (eg., James, James and Ashe 1990). In the same way that psychological climate is important because of its association with employee attitudes and behavior, we believe that ethnic homophily perceptions can affect employee attitudes and behavior in a way detrimental to the organization if not managed appropriately.

The cognitive social psychology literature emphasizes the importance of studying perceived (or subjective) reality. The literature generally endorses the fact that an individual's perceived reality, rather than the objective reality, of what goes on in the workplace affects the individual's decision to act in certain ways (Markus and Zajonc 1994). This view is also supported in recent developments in the social networks literature that recognizes the importance of the "cognitive social structure" of an organization (Krackhardt 1987). The cognitive social structure is derived from a third person perceiver's assessment of

relationships between other individuals. An individual's perception of other people's social networks (i.e., cognitive social networks) may or may not be accurate. However, rather than treating perceptions as "errors" or "inaccuracies," individual perceptions about other people's friendship ties are themselves an important phenomenon to explain (e.g. Krackhardt 1987). Krackhardt (1987, p. 128) states that "perceptions are real in their consequences, even if they do not map one-to-one onto observed behaviors."

Similarly, individual perceptions of ethnic homophily may or may not map onto 'objective' patterns of ethnic sub-groupings in the organization, yet are still an important phenomenon to investigate. This is because perceptions of ethnic homophily are likely to lead to selective social contact as well as selective information seeking behaviors towards colleagues of different ethnic groups. Social exchange theory provides an explanation (Blau 1964). Individuals exchange resources in a way to achieve balance between actors in relationships. If an individual perceives that a group of colleagues in the workplace is engaging in homophily behavior, and members of the group are of a particular ethnic group different from that of the individual, it is likely that the individual will not invest his/her resources in them, nor seek information and/or help from them. Reduced networking between members of different ethnic groups may be exacerbated in situations of violent ethnic conflict or terrorism. Kastenmueller et al. (2011), for instance, report an association between such adverse environmental conditions and reduced occupational networking in favor of personal (or ingroup) networking.

In summary we argue that individual employee perceptions of their colleagues' behavior can be as important as the actual behavior in terms of the implications for the individual and the organization. The following section highlights employee sensitivity to ethnic conflict which we propose links the societal context with ethnic homophily perceptions in the workplace.

Employee sensitivity to ethnic conflict

We have argued that members of a society engaged in ethnic conflict are likely to bring their ethnicity-related animosities and fears into their workplace. While ethnic conflict is a societal phenomenon, and thus will affect the psyche of all societal members through a general increased state of alertness or tension in the population (eg., Hobfall et al. 1989; Bar-Tal 2007), we argue that there is likely to be variation among individuals regarding the degree or intensity of their reaction to the societal conflict based on their individual experience and interpretation of conflict events (Reade and Lee 2012). In other words, an employee's sensitivity to the ethnic conflict captures the extent of the weight of the ethnicity-related baggage of animosities and fears that he or she brings to the workplace. By sensitivity we mean "the degree to which an employee is readily affected by external influences" (Reade and Lee 2012, p. 89). We propose that the more employees are sensitive to violent ethnic conflict in the societal context, the more likely they are to perceive ethnic-based homophily behavior in the workplace.

We propose that the more sensitive an employee is to societal ethnic conflict the more likely he or she is to make the ethnicity category salient, hence becoming more self-conscious of his or her own ethnicity and the differences between ethnic groups. In other words, the more sensitive individuals are to the ethnic conflict at the societal level, the more likely they will use an 'ethnic identity lens' to view the world around them. In turn, we posit that individuals are likely to categorize themselves and others in the workplace in terms of ethnicity and to form exclusive groupings among those that share the same language, religion, and other cultural and social markers of their ethnic group, hence intensifying perceptions of ethnic homophily. This leads to our first hypothesis:

Hypothesis 1:   Employee sensitivity to ethnic conflict is positively related to ethnic homophily perceptions in the workplace.

Workgroup ethnic diversity and quality of work relationships

We now consider the potential role of workgroup ethnic diversity and quality of work relationships in reducing perceptions of ethnic homophily, as suggested by contact theory (Allport 1954; Pettigrew et al. 2006, 2011; Schmid and Hewstone 2010; Stathi and Crisp 2010).

Contact theory (Allport 1954) submits that ethnic stereotypes and prejudices that arise through social identification (Tajfel and Turner 1979) are likely to decrease through the opportunity for interethnic contact as well as the positive nature of the contact. Relations between groups are said to improve through interaction under optimal conditions which, according to Allport (1954), include equal status between groups, common goals, cooperation, and institutional support. An extensive meta-analysis with 515 studies by Pettigrew et al. (2006) concludes that intergroup contact is significantly positively associated with reduced prejudice even when Allport's original conditions are not present. Pettigrew, Tropp, Wagner and Christ (2011) summarize other positive outcomes of intergroup contact such as greater trust and forgiveness; they emphasize that these contact effects occur most strongly for ethnic groups and that the effects appear to be universal, that is, across nations. Stathi and Crisp (2010) also report that contact theory has been tested over many years in a number of research contexts with generally positive results.

Evidence shows that working toward a superordinate goal can enhance perceptions of similarity between members of two groups and reduce prejudice (Stathi and Crisp 2010). Since workgroups have goals tied to organizational profit and growth, these can be considered as superordinate goals regardless of the ethnic make-up of the workgroup. The higher the

degree of ethnic diversity in the workgroup, the more opportunity there is for contact between individuals of different ethnicities and for working together on superordinate group goals. Schmid and Hewstone (2010) note that contact can lead to perceptions of a more 'differentiated' ingroup and outgroup. In other words, as outgroup members come closer to the self, a recategorization of ingroup and outgroup occurs such that the (ethnicity) faultline between these groups becomes less pronounced, and other relevant social identity categorizations such as age and gender might become more salient. We submit that contact in the workgroup, through cooperative striving toward superordinate group goals, can heighten an individual's sense of a differentiated ingroup and outgroup, and thus dissipate to some degree perceptions of ethnic homophily in the workplace. In line with the above, we reason that individuals who work in ethnically mixed workgroups are likely to perceive less ethnic homophily compared to those who work in ethnically homogeneous workgroups. We hypothesize as follows.

Hypothesis 2a: Workgroup ethnic diversity is negatively related to ethnic homophily perceptions in the workplace.

Allport (1954) also emphasized the importance of positive contact between members of different groups, which can be conceived as the quality of interaction in relationships. The quality of work relationships in terms of positive interpersonal relations has been found to be important for fostering employee attachment to the organization and promoting positive group processes (Brewer and Miller 1984; Brown, Condor, Mathews, Wade and Williams 1986; Hewstone and Brown 1986; Johnston and Hewstone 1990; Reade 2001). Brown et al.'s (1986) study of a paper factory found that interpersonal relations were the single most important aspect of group membership. Interpersonal relations are sometimes couched in

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terms of 'frequency of interaction' (Lee 1971). However, consistent with the notion of positive contact (Allport 1954), the 'quality of interaction' must be considered in addition to the opportunity for interaction. Tjosvold, Sun and Wan (2005), for instance, found that open discussion and problem solving strengthened interpersonal relationships in addition to promoting learning in the organization. We conceptualize the quality of work relationships to include the extent to which employees feel that their peers are friendly and approachable and willing to listen to their problems. We posit that the quality of work relationships, or positive contact, will be negatively associated with ethnic homophily perceptions, and hypothesize as follows.

Hypothesis 2b: The quality of work relationships is negatively related to ethnic homophily perceptions in the workplace.

Contact theory as conceptualized by Allport (1954) does not specify a predicted relationship between the 'opportunity' for contact and the 'positive' nature of contact. There is no prediction, for instance, as to whether the positive nature of contact complements the opportunity for contact or whether it might moderate the opportunity for contact. We propose that the positive nature of contact serves as a moderator, and test this through an interaction effect of workgroup ethnic diversity and quality of work relationships on ethnic homophily perceptions. We hypothesize the following.

Hypothesis 2c: The inverse relationship between workgroup ethnic diversity and ethnic homophily perceptions will be moderated by the quality of work relationships, such that the inverse relationship will be stronger for those employees who report higher quality work relationships.

Methods

Sample

The study was conducted in Colombo, Sri Lanka during a period of violent ethnic conflict prior to the 2009 ending of the civil war and is part of a larger research project (Reade 2009; Reade and Lee 2012). Data was collected at the individual manager level through use of a structured questionnaire. Following a snowball sampling method (Singleton and Straits 1999), five to ten questionnaires were given to 100 full-time managers enrolled in an evening MBA program at a university in Colombo, Sri Lanka where one of the authors was a member of the faculty. The MBA enrollees were invited to participate in the study. The managers in turn distributed questionnaires and envelopes to their colleagues in the workplace, and were returned anonymously to the author. Questionnaires were distributed within 81 organizations in greater Colombo, ranging across manufacturing, service, agribusiness, and public sectors. Foreign-invested firms, which account for about 40 percent of the sample, are mainly of US and European origin. Companies in the manufacturing sector include those in garments, foodstuffs, pharmaceuticals, ceramics, rubber products, and consumer products. Companies in the service sector include those in banking, insurance, leasing, tea broking, shipping, import-export, telecommunications, and software development. Firms in the agribusiness sector include those in fertilizers, livestock, and tea, rubber and coconut plantations. Public sector organizations include universities and government departments such as the Board of Investment, Port Authority, and Central Bank. Usable questionnaires totaled 550, yielding a 66% response rate.

Measures

Ethnic homophily perceptions

Our dependent variable is individual employee perceptions of ethnic homophily in the workplace. This is measured with five items adapted from Reade (2001), beginning with "Most of the employees in this company prefer to work with people who:" and ending with "1) belong to the same ethnic group, 2) speak the same language, 3) belong to the same religion, 4) share the same cultural background, 5) share the same social background." The items are measured on a five-point Likert scale where 1=strongly disagree and 5=strongly agree. Cronbach's alpha reliability for this scale is .87.

Employee sensitivity to ethnic conflict

We used a four-item scale from Reade and Lee (2012) to measure an employee's sensitivity to ethnic conflict in the societal context. The measure has affective and behavioral facets. The affective facet is measured with two items, "I seem to lose enthusiasm for work whenever I get news of another bomb blast" and "I feel more tense at work when there is a fresh incident related to the ethnic conflict." The two items that capture the behavioral facet are "I sometimes find it difficult to perform my job well due to the mood created by the ethnic conflict" and "I am sometimes late or miss work due to the incidents related to the ethnic conflict." The items are measured on a five-point Likert scale where 1=strongly disagree and 5=strongly agree. Cronbach's alpha reliability for this scale is .83.

Workgroup ethnic diversity

Drawing on contact theory (Allport 1954) we have proposed that increased contact occurs between members of different ethnic groups in more ethnically diverse workgroups, leading to a negative relationship with ethnic homophily perceptions. Workgroup ethnic diversity is measured by asking respondents to indicate the level of ethnic diversity in their workgroup: one ethnic group only, mainly one ethnic group, or a mix of ethnic groups.

Quality of work relationships

We have proposed that, in line with contact theory, positive contact in the form of quality work relationships is negatively associated with ethnic homophily perceptions in the workplace. The quality of work relationships is measured by three items from Taylor and Bowers (1972; cited in Cook, Hepworth, Wall and Warr 1981). They are: "How friendly or easy to approach are the persons in your workgroup?", "To what extent are persons in your workgroup willing to listen to your problems?", and "When you talk to persons in your workgroup to what extent do they pay attention to what you are saying?" The items are measured on a five-point Likert scale from 1=to a very little extent to 5=to a very great extent. Cronbach's alpha reliability for this scale is .83.

Control variables

Sex, age, company size and workgroup size in terms of number of employees are included as general demographic control variables. Three industry dummy variables were created to represent manufacturing, service, and agribusiness sectors. The public/government sector was used as a base category for the industry dummies. Foreign versus indigenous firm ownership was also included to assess any differences between these firms.

Results

The descriptive statistics and correlations for the study variables are reported in Table 1. The sample consists mainly of male (72.3%) middle managers (52.0%) who have been with their organization between one and five years (46.3%). The majority of our sample is employed in the service sector (53.3%). Foreign and indigenous organizations represent 39.4 per cent and 60.6 per cent of the sample, respectively. The sample characteristics are broadly

representative of the general business working population of Colombo, Sri Lanka at the time of data collection.

INSERT TABLE 1 AND TABLE 2 ABOUT HERE

Table 2 shows the results of hierarchical regression analysis using Ordinary Least Squares method that test our hypotheses. The order of independent variables' entry is in line with the hypotheses development such that the factor related to outside the organization is entered first (H1), then the factors related to inside the organization are entered in the following step (H2). We have selected the hierarchical method of entering separate blocks of IVs in the MR equation because this method enables us to compare the betas in different steps, and to observe the change in R squares.

The dependent variable, ethnic homophily perceptions, was first regressed on all the control variables in step 1. The control variables include individual demographic information of sex and age group. Workplace-related control variables include size of workplace, size of respondents' workgroup, industry, and firm ownership, that is, whether the organization is foreign or indigenous. In steps 2 and 3 we test our hypotheses H1, H2a, H2b, and H2c in the order presented. In step 2, we entered our societal context-related independent variable, employee sensitivity to ethnic conflict (H1), to test the relationship with ethnic homophily perceptions in the workplace. In the following step 3, we entered our workplace-related independent variables, the contact theory elements of workgroup ethnic diversity (WED) (H2a), and quality of work relationships (QWR) (H2b). Further, we entered the interaction term of the two contact theory elements (WED x QWR) to test for the moderating role of

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positive contact on the relationship between contact opportunity and ethnic homophily perceptions (H2c). Both of these variables, workgroup ethnic diversity and quality of work relationships, were mean-centered before calculating the interaction term.

Hypothesis 1 states that employee sensitivity to ethnic conflict will be positively related to ethnic homohily perceptions in the workplace. The results show a positive and significant relationship (beta= .33, $p<.001$) in the final step 3. Hypothesis 1 is thus supported and confirms our view that employee perceptions of ethnic homophily in the workplace is, to some extent, a reflection of ethnic tensions and divisions at the societal level. The result lends strong support to existing studies that show the effects of the societal context on organizational phenomena (Brief et al. 2005b; Kastenmueller et al. 2011).

Our Hypotheses 2a, 2b, and 2c tested the association between the contact theory elements and perceptions of ethnic homophily in the workplace. We proposed that workgroup ethnic diversity is negatively associated with perceptions of ethnic homophily in the workplace (H2a), and that quality of work relationships is negatively associated with perceptions of ethnic homophily in the workplace (H2b). The results show that workgroup ethnic diversity is negatively related in the predicted direction (beta= -.21, $p<.001$) thus supporting Hypothesis 2a. Respondents who work in ethnically mixed groups perceive less ethnic homophily compared to those who work in ethnically homogeneous groups. The results lend support to the 'opportunity for contact' element of contact theory.

Quality of work relationships is also negatively associated with perceptions of ethnic homophily (beta= -.11, $p<.01$), supporting Hypothesis 2b. This suggests that positive contact in the form of colleagues who are friendly, approachable, and listen to problems has the capacity to weaken perceptions of ethnic homophily in the workplace, as suggested by contact theory. The interaction effect of the two elements of contact theory, workgroup ethnic diversity and quality of work relationships, is also significant (beta= -.09, $p<.05$). In other

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words, if interpersonal relationships at work are good, the inverse association between workgroup ethnic diversity and ethnic homophily perceptions becomes stronger. Therefore our Hypothesis 2c is supported, lending further validity to contact theory in that the two theoretical elements work together to weaken perceptions of ethnic homophily in the workplace. Following the interaction plotting procedure suggested by Aiken and West (1991), we show the interaction effect in Figure 3. The graph demonstrates that the combination of high workgroup ethnic diversity and high quality work relationships produces the lowest score of ethnic homophily perceptions.

INSERT FIGURE 2 ABOUT HERE

Discussion

The results of this study suggest that there is an emergent international human resource management challenge for MNEs that has not been fully recognized in the international business literature. Ethnic conflict is said to be the defining characteristic of the post-Cold War era. As MNEs continue to shift their economic activity to emerging economies where conflict and ethnic tension may be part of the operating environment, it behooves managers to understand the social complexities of ethnic relations, the possible influence on employee perceptions, and the implications for the organization. We have identified the management of ethnic homophily perceptions as an emergent international human resource challenge for MNEs, and the role of workgroup ethnic diversity and quality of work relationships as potential tools to manage this challenge. Below we further discuss the contributions of our findings and their implications.

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Discerning the IHRM challenge: Ethnic homophily perceptions and societal context

The first contribution of our study is that we demonstrated a relationship between societal ethnic conflict and ethnic homophily perceptions in the workplace, thus underscoring the importance of considering environmental influences on organizational phenomena. We proposed that the individual employee's perception of ethnic homophily in the workplace is, to some extent, a reflection of ethnic tensions and divisions in the societal context. Drawing on social identity theory, we proposed that when individuals are exposed to a societal context of ethnic conflict they are likely to see ethnicity as a salient social identity category, such that their perceptions of the workplace accentuate social groupings based on ethnicity. We found that an individual's sensitivity to the societal ethnic conflict is positively related to perceptions of ethnic homophily in the workplace. Our findings lend support to previous studies that show ethnic relations in society are mirrored in the organization (Brief et al. 2005a).

Our measure of ethnic homophily perceptions taps the extent to which individuals perceive that their colleagues prefer to work with others like themselves in terms of ethnicity and the related boundary markers of religion, language, and social and cultural background. In other words, the measure taps a perceived ethnocentric tendency by members of the workplace. It should be noted that individuals who interact highly with members of their own ethnic group might project their own homophilous behavior onto other organizational members and hence generalize the existence of ethnic homophily behavior in the workplace. Even so, it is the perceptions rather than the objective reality of ethnic homophily that we have aimed to capture in this study. As noted earlier, individual employee perceptions of their colleagues' behavior can be as important as the actual behavior in terms of the implications for the individual and the organization.

The paucity of research on ethnic relations and conflict at the societal level and its potential influence on employee perceptions in the workplace may be due in part to an assumed lack of managerial control (Brief et al. 2005b). We believe that understanding the impact of factors beyond management control may present not only theoretical, but also practical value. It may be useful for firms operating in an ethnically charged environment to understand the nature of interethnic dynamics outside organizational boundaries in order to create a more non-divisive atmosphere in the workplace that could enhance cooperation among employees and enhance social network integration benefits at the organizational level. Without a systematic understanding of the nature of interethnic relations in the operating environment, attempts to improve ethnic relations in the workplace may be difficult at best. Indeed, it has been pointed out that managers may be unaware of ethnic tensions in the workplace when tensions are hidden under a surface of seemingly harmonious relations (Moore, 2012).

Addressing the challenge through interethnic contact

The second contribution of our study is a demonstration of the continued validity of contact theory, and its relevance to MNEs operating in emerging economies afflicted by violent ethnic conflict. While events in the external environment may be outside of managerial control, contact theory (as operationalized by workgroup ethnic diversity and quality of work relationships) suggests that managerial interventions can reduce ethnic bias such as stereotypes and prejudices that may be reflected from society into the organization. We posited that by having the opportunity to directly interact with, and to form positive relationships with members of other ethnic groups in the workplace, ethnicity is likely to become a less salient category for an individual's social identity. In other words, we reasoned that interethnic contact would counteract the societal force that sharpens ethnic identity and

heightens perceptions of ethnic homophily in the workplace, by reducing ethnic bias and lessening perceptions of ethnic homophily.

Our results show that both the ethnic composition of the workgroup and quality of work relationships are significantly and negatively related to individual perceptions of ethnic homophily. This supports existing literature on the importance of workgroup diversity as a main explanation of group members' attitudes and behavior at work (eg., Tsui and Gutek 1999; Peccei and Lee 2005). Employees in ethnically mixed workgroups tend to perceive less homophily compared to those whose workgroup is ethnically homogeneous. Our findings support contact theory (Allport 1954) which suggests that contact between ingroup and outgroup members helps to promote better intergroup relations. Individuals who work in ethnically-diverse workgroups are provided with a greater chance to interact with those who, particularly in the societal context, are considered to be outgroup members, and hence to correct or adjust any prejudice, negative stereotypes and ethnocentrism regarding outgroups compared to those who work in ethnically homogenous workgroups. That perceptions of ethnic homophily are weaker among individuals in ethnically diverse workgroups suggests that those individuals may perceive greater differentiation in both their ingroup and the outgroup, that is, a less pronounced division between ingroup and outgroup compared to individuals working in ethnically homogenous groups. This finding lends support to the work of Schmid and Hewstone (2010) such that the salience of the ethnicity social identity category appears to be decreased through contact by members of different ethnic groups resulting in a more differentiated ingroup/outgroup with the presence of alternative social identity categories.

The results also show that the quality of work relationships serves to reduce individual perceptions of ethnic homophily in the workplace, in line with Allport's (1954) notion of positive contact. In other words, the more employees perceive that their colleagues are

approachable, friendly, and listen to their problems, the less homophily they perceive in the workplace. We further posited that the two elements of contact theory, workgroup ethnic diversity and quality of work relationships would reinforce each other to reduce perceptions of ethnic homophily in the workplace. This was supported by the results; the more employees reported good working relationships with their colleagues, the stronger the inverse relationship between workgroup ethnic diversity and perceptions of ethnic homophily.

Managerial implications

We have established that employee perceptions of workplace ethnic homophily appear to be heavily influenced by an operating environment of violent ethnic conflict. Managers of firms located in such an environment might, at first glance, find this result disappointing since societal influence is outside of management control. However, there are potential interventions for managing employee perceptions as suggested by our contact theory results.

A key managerial implication of this study is that the level of ethnic diversity in workgroups appears to matter. The results clearly show that employees who work in ethnically mixed workgroups tend to perceive less homophilous behaviour than those who work in ethnically homogeneous workgroups. The benefit to firms is a likely decrease in the indirect costs associated with ethnic homophily perceptions such as withdrawal behavior at the individual level and lowered social integration at the organizational level. Managers can monitor the ethnic composition of workgroups in order to ensure as far as feasible that employees are provided an opportunity to work with colleagues from different ethnic backgrounds. In short, managers have an opportunity to decrease employee perceptions of ethnic homophily by managing the level of diversity in teams and workgroups.

Another important implication of this study is that positive work relationships are important to lessen perceptions of ethnic homophily. Quality work relationships serve to

reduce ethnic homophily perceptions as well as to reinforce the ethnic homophily-reducing power of diverse workgroups. Creating conditions to enhance positive work relationships might entail the planning of social gatherings after work and/or outside work. The development of good personal relations in an informal and more relaxed environment is likely to carry over into workgroup relations, where employees may engage in more open discussions and problem solving (Tjosvold et al. 2005). Such informal opportunities for relationship building complement the more formal opportunities for contact presented by ethnic diversity of membership in the workgroup.

Management intervention to increase ethnic diversity in workgroups and to create conditions to engender positive relationships can perhaps serve a larger purpose in the context of societal ethnic conflict. Businesses are said to play a role in fostering peaceful societies (Fort and Schipani 2004). Sensitive human resource management practices have been identified as an indirect way for firms to respond to violent conflict at the societal level (Oetzel, Getz and Ladek 2007; Getz and Oetzel 2010; Reade and Lee 2012). The current study lends empirical support to the notion that management practices have the power to diffuse the negative effects of societal ethnic conflict on individual level attitudes that could be detrimental to the organization. By showing that ethnically diverse workgroups serve to decrease perceptions of ethnic homophily, the study underscores the possibility of the so-called 'secondary transfer effects' whereby a decrease in prejudice for one group through contact is generalized to a decreased prejudice towards other groups in society (Pettigrew 2009; Schmid and Hewstone 2010). In this way, increasing the opportunity for positive contact through ethnic diversity management in the workplace may provide further indirect dividends to society.

Limitations and future research directions

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The limitations of the study provide avenues for further research. The main limitation is that the study took place in one societal context with a high level of violent ethnic conflict. Research is needed in other societal contexts to determine the generalizability of the results of this study. Further refinement of the scale to measure employee sensitivity to societal ethnic conflict may be appropriate for different societal contexts and levels or intensities of ethnic conflict.

Another potential weakness of our study is that the respondents were not asked to reveal their ethnicity on the survey instrument due to the tense interethnic climate prevalent in the research setting during the period of data collection. Researchers have commented on the perceived danger sensed by respondents when asked to reveal their ethnic identity in such an environment (Kingsolver 2010). Respondents were also drawn from a snowball sample so that, while appropriate to reach those otherwise difficult to access, there may be a bias in the sample. There is a large percentage of middle managers, compared with other employee groups, which mirrors the typical employment rank of the part-time, evening MBA enrollees. Other employee groups should be included in future research to further assess the generalizability of the results. Future research might also investigate the mechanisms of different reactions from majority and minority ethnic groups, which would help deepen the current knowledge in workplace diversity literature on general asymmetric arguments for high status and low status members in the organization (Chattopadhay, Tluchowska and George 2004; Lee and Peccei 2007). A further research avenue might be to investigate whether ethnic homophily perceptions in the workplace are prevalent or persist in post-ethnic conflict settings, such as Sri Lanka today, and whether contact theory is as relevant as it appears to be in ongoing ethnic conflict settings. Finally, while the paper focused on ethnic conflict, we propose that the homophily challenge is relevant for MNEs operating in other conflict situations that might divide employees on social, political or ideological grounds. This could

include, for instance, the effects of terrorist attacks on the attitudes of expatriate managers toward their local counterparts as well as on their performance (Bader and Berg 2013a; 2013b). Further, recent conflict events in the Middle East suggest a wide scope of research possibilities to investigate the effects of social unrest on employee attitudes and behavior, and the human resource management interventions to address the challenge.

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Table 1. Means, standard deviations, and correlations (N=550)

Variables	Mean	SD	1	2	3	4	5	6	7	8
1. Sex	1.28	0.45								
2. Age	2.55	0.83	-.19**							
3. Size of company	3.63	1.26	.02	.17**						
4. Size of workgroup	2.17	1.10	-.02	.18**	-.06					
5. Firm ownership	1.39	0.49	-.06	-.17**	-.11**	-.06				
6. Workgroup ethnic diversity	2.31	0.75	-.14**	.02	-.03	.17**	.06			
7. Quality of work relationships	3.88	0.68	-.09*	.00	-.06	-.06	.05	.03		
8. Employee sensitivity to ethnic conflict	2.37	0.90	.07	.02	-.04	-.06	-.04	-.03	-.11*	
9. Ethnic homophily perceptions	2.86	0.85	.06	-.00	.11*	.03	-.05	-.21**	-.16**	.34**

Note. Sex: 1=male, 2=female; Age: 1=less than 25, 2=25-35, 3=36-45, 4= over 45; Size of workplace: 1=less than 20 employees, 2=20-99, 3=100-499, 4=500-999, 5= over 1000 employees; Size of workgroup: 1=less than 10, 2=10-19, 3=20-49, 4=over 50; Firm ownership: 1=indigenous firms, 2=foreign-invested firm; Workgroup ethnic diversity: 1=one ethnic group only, 2=mainly one ethnic group, 3=a mix of ethnic groups.
*p <.05, **p < .01

Table 2. Hierarchical regression analysis of ethnic homophily perceptions

	Step 1	*Step 2*	*Step 3*
Step 1			
Sex	.07	.04	.01
Age	-.02	-.02	-.03
Size of company	.03	.06	.06
Size of workgroup	-.01	.01	.04
Industry dummy1	-.10	-.06	-.07
Industry dummy2	-.20	-.16	-.12
Industry dummy3	-.02	-.02	-.01
Firm ownership	-.02	-.02	-.00
Step 2			
Employee sensitivity to ethnic conflict (H1)		.35***	.33***
Step 3			
Workgroup ethnic diversity (WED) (H2a)			-.21***
Quality of work relationships (QWR) (H2b)			-.11**
WEDxQWR (H2c)			-.09*
ΔR^2	*.04**	*.12***	*.06***
F	*2.392**	*10.017***	*10.864***
R^2	*.04*	*.15*	*.21*
Adj. R^2	*.02*	*.14*	*.19*

Note. Sex: 1=male, 2=female; Age: 1=less than 25, 2=25-35, 3=36-45, 4= over 45; Size of workplace: 1=less than 20 employees, 2=20-99, 3=100-499, 4=500-999, 5= over 1000 employees; Size of workgroup: 1=less than 10, 2=10-19, 3=20-49, 4=over 50; Industry dummy: 1=manufacturing, 2=service, 3=agribusiness; Firm ownership: 1=indigenous firms, 2=foreign-invested firm; Workgroup ethnic diversity: 1=one ethnic group only, 2=mainly one ethnic group, 3=a mix of ethnic groups.
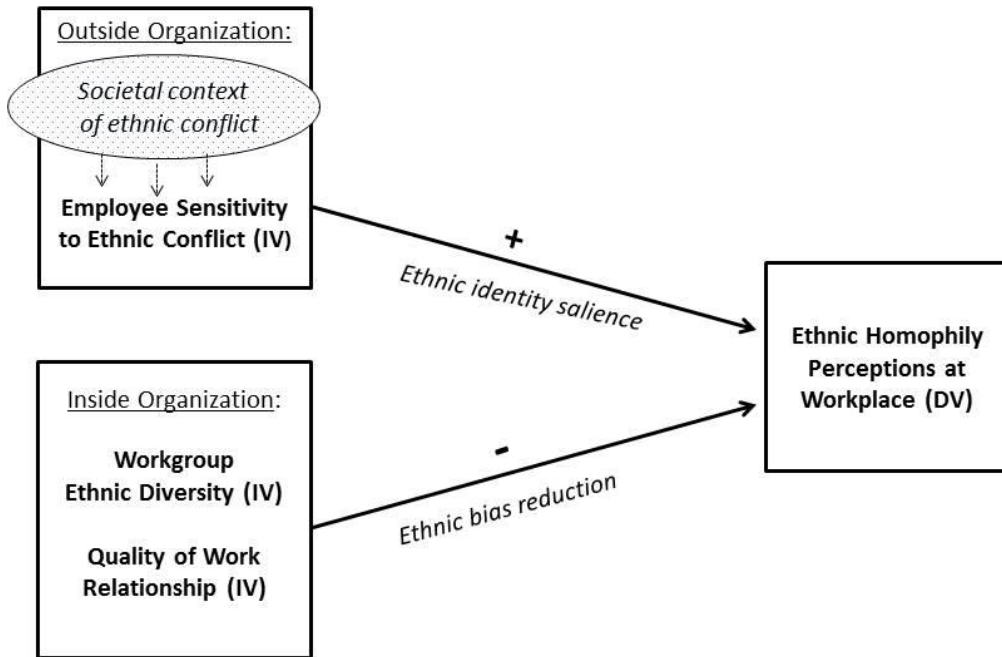*p <.05, **p < .01, ***p <.001

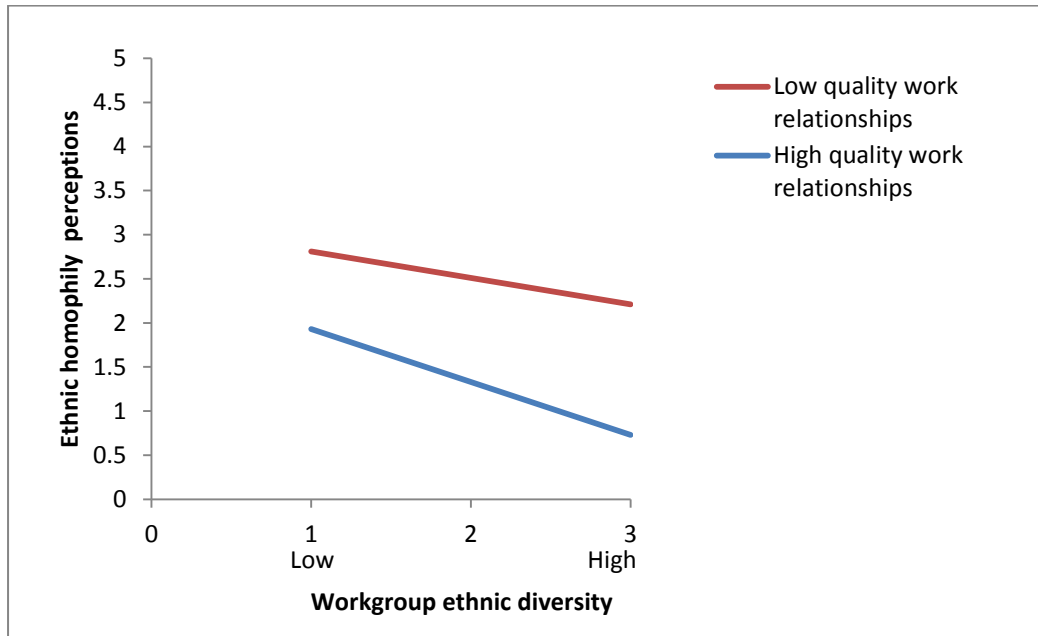*Figure 1. The research model.*

Figure 2. The interaction effect of workgroup ethnic diversity and quality of work relationships on ethnic homophily perceptions