

THE ROLE OF WORKFORCE DIVERSITY IN ENHANCING ORGANISATIONAL PERFORMANCE: A REVIEW OF SMALL AND MEDIUM ENTERPRISES IN DEVELOPING REGIONS

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Abstract

Workforce diversity is increasingly recognized as a key driver of innovation and organizational performance, particularly in small and medium enterprises (SMEs). This paper presents a comprehensive review of the role of workforce diversity in enhancing organisational performance, with a specific focus on SMEs in developing regions. “The paper explores how different forms of diversity—such as gender, age, ethnicity, and educational background—contribute to improved decision-making, creativity, and competitiveness within SMEs. While workforce diversity offers several advantages, such as fostering innovation and expanding market reach, SMEs in developing regions often face challenges in managing diverse teams, including communication barriers and cultural conflicts. This review also highlights the importance of effective diversity management strategies, such as inclusive leadership and employee engagement, in maximizing the positive impact of diversity on organisational performance. Drawing on empirical studies, the paper identifies key best practices and policy implications for promoting workforce diversity in SMEs, particularly in resource-constrained environments like the North-East region of Odisha. The findings suggest that, with the right management approaches, workforce diversity can significantly enhance organisational effectiveness, contributing to long-term sustainability and growth. The review concludes by recommending further research on the intersection of workforce diversity and organisational performance in under-explored developing regions.

Keywords: Workforce diversity, Organisational performance, small and medium enterprises (SMEs), Developing regions, Innovation, Diversity management, North-East Odisha, Inclusivity

Introduction

Workforce diversity has become a central focus for enhancing organisational performance across various industries, especially in the context of small and medium enterprises (SMEs)”. As globalisation continues to expand and markets become increasingly competitive, the diversity of the workforce is no longer just a matter of social justice or compliance but a crucial factor in driving innovation, improving decision-making, and ensuring long-term business sustainability. Workforce diversity refers to the inclusion of individuals from different backgrounds, including gender, age, ethnicity, religion, education, and socio-economic status, creating a rich mix of perspectives and experiences within an organisation. For SMEs in developing regions, diversity presents both opportunities and challenges. On the one hand, diverse teams are shown to generate more creative

solutions, cater to broader customer demographics, and bring varied experiences that can lead to improved business outcomes. On the other hand, SMEs often struggle with managing such diversity due to limited resources, less formalized management practices, and existing cultural or communication barriers. In developing regions such as the North-East of Odisha, where the socio-economic landscape is rapidly evolving, SMEs play a critical role in economic development and employment generation. These businesses are increasingly recognizing that fostering diversity is not only beneficial but essential for staying competitive in local and global markets.

However, despite the growing recognition of the importance of diversity, SMEs in these regions often lack the frameworks, policies, and management strategies necessary to effectively leverage a diverse workforce. "This paper explores the role of workforce diversity in enhancing organisational performance in SMEs, particularly in the developing region of North-East Odisha. By reviewing existing literature and empirical studies, the paper aims to highlight the key benefits of workforce diversity, including improved innovation, increased competitiveness, and enhanced organisational resilience. It will also address the common challenges SMEs face in managing diversity and offer best practices that have proven effective in overcoming these barriers. Additionally, the paper will examine the impact of diversity on various performance metrics such as financial performance, employee satisfaction, and overall business growth. Through this review, the paper aims to provide actionable insights for SME managers and policy makers to better understand how to harness the power of workforce diversity to achieve sustainable organisational success. Furthermore, the study identifies key areas for future research, particularly in under-researched developing regions where the impact of diversity on organisational performance remains largely unexplored.

Background and Importance of Workforce Diversity

Workforce diversity refers to the inclusion of individuals from different demographic backgrounds, encompassing various attributes such as age, gender, ethnicity, religion, education, and socio-economic status. In today's globalized economy, workforce diversity has emerged as a vital aspect of organizational success, driving innovation, creativity, and problem-solving. Diverse teams bring varied perspectives and experiences, which can lead to more comprehensive decision-making processes, better adaptability to changing market conditions, and enhanced product development. In addition, companies that embrace diversity are often seen as more socially responsible, fostering a positive corporate image that attracts talent and builds customer loyalty. The importance of workforce diversity is especially critical in the modern business environment, where organizations operate in multicultural and increasingly interconnected markets. However, while diversity offers numerous benefits, it also presents challenges, such as managing communication barriers and cultural conflicts. Organizations must develop effective diversity management strategies to harness the full potential of a diverse workforce. This includes fostering an inclusive work environment where differences are valued and employees feel empowered to contribute. Research shows that organizations with a strong commitment to diversity and inclusion tend to outperform their competitors in terms of profitability, employee satisfaction, and customer retention. For small and medium enterprises (SMEs), in particular, workforce diversity can be a key enabler of growth and sustainability, helping them to innovate, expand their market reach, and build resilience in an increasingly competitive global economy.

Role of SMEs in Developing Regions

Small and Medium Enterprises (SMEs) play a pivotal role in the economic development of developing regions, acting as engines of growth, employment generation, and innovation. In many developing countries, SMEs account for a significant share of economic activity, contributing to both local and national GDP. They serve as important job creators, especially in areas where large corporations may have less presence or influence. SMEs often have closer ties to their local communities, understanding regional needs and cultural nuances, which allows them to tailor their

products and services more effectively. In developing regions, where socio-economic inequalities are more pronounced, SMEs provide employment opportunities that help alleviate poverty and support the livelihoods of disadvantaged populations. Despite their critical role, SMEs in developing regions often face significant challenges, such as limited access to capital, inadequate infrastructure, and a lack of formal training programs. These constraints make it more difficult for SMEs to scale their operations and compete with larger firms. However, workforce diversity within SMEs can offer unique advantages by tapping into local talent, promoting innovation, and building stronger connections with diverse customer bases. In regions with ethnic, cultural, and linguistic diversity, SMEs that embrace these differences can better serve a wide range of customers and create a more inclusive work environment. As a result, SMEs in developing regions have the potential to not only drive economic growth but also foster social cohesion by promoting diversity and inclusivity in the workplace. To realize these benefits, SMEs must focus on overcoming structural barriers and developing strategies that support diversity, inclusion, and equitable access to opportunities for all employees, regardless of background.

Workforce Diversity: A Global Priority

Workforce diversity has emerged as a global priority in today's interconnected world, with businesses increasingly recognizing its potential to enhance innovation, creativity, and competitiveness. As organizations operate in multicultural environments and serve diverse markets, the need for inclusive practices has become essential for sustainable growth. Workforce diversity encompasses a wide range of differences, including race, ethnicity, gender, age, religion, education, and life experiences. By incorporating these diverse perspectives, businesses can foster more innovative solutions, improve decision-making, and better meet the needs of a broader customer base. Governments, international organizations, and corporate leaders are promoting diversity initiatives to build inclusive environments that reflect societal changes and align with global trends in social responsibility. However, diversity is not just about representation but also about creating a culture of inclusion where individuals feel valued and empowered to contribute". The rise of diversity, equity, and inclusion (DEI) initiatives highlights the importance of not only bringing diverse individuals into the workforce but also ensuring that these employees can thrive in their roles. Companies with strong DEI practices are often more adaptable and resilient, leading to improved financial performance, greater employee satisfaction, and a more positive organizational image. As global competition intensifies, the ability to attract and retain a diverse workforce is seen as a competitive advantage, one that will become even more critical in the years to come as demographic shifts and societal expectations continue to evolve.

Relevance of Workforce Diversity in SMEs

For Small and Medium Enterprises (SMEs), workforce diversity is not only relevant but crucial for their survival and growth in an increasingly globalized and competitive business environment. SMEs often operate in niche markets, serving specific local or regional needs, but they must also adapt to changing consumer demographics and preferences. Embracing diversity within their workforce allows SMEs to bring in a wide range of skills, perspectives, and ideas, which can help them innovate and remain competitive. Unlike larger corporations, SMEs tend to have more flexible organizational structures, which can make it easier to implement diversity and inclusion initiatives tailored to their specific needs. However, SMEs also face unique challenges when it comes to managing diversity, including limited financial resources, less formalized HR policies, and potential resistance to change from within the organization. "Despite these challenges, research has shown that SMEs that prioritize diversity and inclusion tend to experience increased employee engagement, better customer relations, and improved financial performance. Additionally, as SMEs often play a significant role in local economies, particularly in developing regions, their commitment to workforce diversity can have a broader impact on social and economic inclusion in

these communities. By fostering diverse teams, SMEs can tap into new markets, build stronger relationships with clients, and develop innovative products and services that cater to a wide array of customers. Moreover, diversity in SMEs can enhance problem-solving capabilities, improve employee retention, and boost the overall adaptability of the organization, making it more resilient in the face of market fluctuations and economic challenges.

The Impact of Workforce Diversity on Organisational Performance

The impact of workforce diversity on organizational performance has been a subject of growing interest, with numerous studies indicating that diverse teams lead to better outcomes in terms of innovation, productivity, and overall business success. A diverse workforce brings together individuals with different experiences, perspectives, and problem-solving approaches, which fosters creativity and drives innovation. When team members from various backgrounds collaborate, they challenge conventional thinking and generate more robust, comprehensive solutions to complex problems. Additionally, diversity is closely linked to improved decision-making. Teams that include a mix of gender, cultural, and ethnic backgrounds are more likely to consider a broader range of factors before making decisions, reducing the risk of groupthink and enabling more informed choices. Workforce diversity also contributes to stronger financial performance. Companies that embrace diversity often experience higher profitability, as diverse teams are better equipped to understand and respond to the needs of a global customer base. Furthermore, diverse organizations tend to have higher levels of employee engagement and retention, as employees feel more valued and included in workplaces that reflect their identities and perspectives. However, the positive impact of workforce diversity is contingent upon effective diversity management. Without a supportive and inclusive environment, diversity can lead to communication barriers, conflict, and decreased collaboration. Therefore, organizations must invest in diversity training, inclusive leadership, and clear communication strategies to maximize the benefits of a diverse workforce. Overall, when managed effectively, workforce diversity is a powerful driver of organisational performance, enhancing innovation, employee satisfaction, and financial outcomes.

Workforce Diversity in Developing Regions

In developing regions, workforce diversity plays a pivotal role in both social and economic development, offering unique opportunities and challenges. These regions are often characterized by significant ethnic, cultural, and linguistic diversity, which can either be a source of strength or a point of contention within the workforce. SMEs operating in developing regions face the dual task of promoting economic growth while navigating complex social dynamics. Workforce diversity in these areas can help businesses tap into a broader talent pool and harness the diverse perspectives necessary to meet the varying needs of their local communities. Inclusivity in hiring practices not only helps reduce social inequalities but also fosters greater innovation and adaptability, which are critical for SMEs in developing economies that often face rapidly changing market conditions and limited resources. However, managing workforce diversity in developing regions comes with specific challenges, such as overcoming deep-rooted cultural biases, language barriers, and historical inequalities. SMEs in these regions may also have limited access to diversity training and formalized HR practices that are more common in developed economies". Despite these challenges, the benefits of workforce diversity in developing regions are immense. It can lead to improved problem-solving, better customer relationships, and enhanced organisational reputation, especially in multicultural settings where businesses must serve a wide variety of customers. Additionally, promoting diversity and inclusion in the workforce helps SMEs contribute to broader societal goals, such as poverty reduction and social cohesion. By embracing diversity, SMEs in developing regions can create a more inclusive and equitable workforce, ultimately enhancing both their organisational performance and their impact on the communities they serve.

Review of literature

Year	Authors	Main Focus	Methodology	Findings
2013	Fuertes et al.	Age management in UK SMEs and its impact on policy changes	Qualitative study involving six UK businesses and action research	Awareness of age discrimination raised; action research impacted policy planning
2017	GRG School of Management Studies, India & Madhavkumar	Impact of workplace culture on gender diversity in Indian manufacturing SMEs	Research in Coimbatore, India, focusing on workplace inclusion	Inclusive culture helps attract and retain women in manufacturing
2017	Wong et al.	Impact of demographic diversity (nationality) on team effectiveness in ICT SMEs	Study of cultural diversity in ICT SMEs through qualitative analysis	Nationality affects task completion, while ethnicity influences team cohesion
2018	Pohjola	Diverse workforce's role in the internationalization of Scandinavian service SMEs	Interviews with Norwegian catering industry managers	Diverse workforce aids global expansion; diversity programs focus on equal opportunities
2019	Bocquet et al.	Impact of diversity on CSR and innovation in SMEs	Correlation study between diversity, CSR, and innovation in SMEs	Diversity and CSR boost process and product innovation, but lack of national diversity limits innovation
2021	Kharroubi	Challenges in global workforce diversity management	Literature review on global workforce diversity challenges	Global diversity management faces challenges in application despite awareness
2021	Nwahanye & Nicholas Dze	Workforce diversity and organizational performance in Buea Municipality SMEs	Survey of 306 SMEs in Buea Municipality, Cameroon	Employee performance mediates the effect of diversity on organizational performance
2022	Emoh & Akhigbe	Diversity's influence on innovation in Nigerian SMEs	Survey of 217 owner-managers in Rivers State, Nigeria	Diverse workforce positively correlates with market and product innovation
2023	Eusebius & Chukwudi	Diversity and employee retention in Lagos State SMEs	Survey of 145 owners, managers, and operators in Lagos State, Nigeria	Gender and ethnic diversity improve retention rates; age diversity has no effect

The Importance of SMEs in Developing Economies

Small and Medium Enterprises (SMEs) are crucial to the economic landscape of developing economies, acting as engines of growth, innovation, and job creation. “In many developing countries, SMEs make up the majority of businesses, often contributing significantly to both employment and Gross Domestic Product (GDP). These enterprises are the backbone of local

economies, offering vital goods and services that are often tailored to meet the specific needs of their communities. SMEs also play a critical role in fostering entrepreneurial spirit, providing opportunities for individuals to build their own businesses and contribute to economic empowerment. In developing regions, where large corporations may have limited reach, SMEs are particularly important in addressing local market gaps and offering products and services at affordable prices. Additionally, SMEs in developing economies contribute to poverty alleviation by creating jobs, especially for women, youth, and other marginalized groups, thereby promoting social inclusion. However, despite their importance, SMEs in these regions often face numerous challenges such as limited access to finance, insufficient infrastructure, and a lack of formal training and development programs. Government policies aimed at supporting SMEs, such as access to credit, tax incentives, and business development programs, are vital for sustaining their growth and ensuring that they continue to contribute to economic resilience. Overall, SMEs in developing economies not only fuel economic growth but also contribute to the social fabric by promoting inclusivity, driving innovation, and addressing local needs in ways that larger corporations often cannot.

Diversity as a Driver for Innovation and Competitiveness

Workforce diversity is increasingly recognized as a key driver of innovation and competitiveness, particularly in today's globalized and fast-changing business environment. Diverse teams, composed of individuals with different backgrounds, experiences, and perspectives, are better equipped to tackle complex challenges, generate creative solutions, and identify new opportunities for growth. This diversity of thought enhances the problem-solving process by bringing multiple viewpoints to the table, which often leads to more innovative ideas and strategies. Furthermore, diversity in the workforce enables businesses to better understand and cater to a broader customer base, as employees with different cultural, ethnic, or demographic backgrounds can provide valuable insights into the needs and preferences of diverse markets. For SMEs, which often operate in competitive and resource-constrained environments, leveraging diversity can be a crucial factor in differentiating themselves from competitors. Studies have shown that businesses that embrace diversity are more likely to foster environments where innovation flourishes, leading to the development of new products, services, and processes that give them a competitive edge. Additionally, workforce diversity enhances a company's ability to adapt to change, making it more resilient in the face of market shifts and economic challenges. However, to fully harness the benefits of diversity, organizations must also focus on creating an inclusive culture where all employees feel valued and empowered to contribute. Without such inclusivity, diversity alone may not translate into innovation or competitiveness. In summary, when managed effectively, workforce diversity serves as a powerful tool for driving both innovation and competitive advantage, particularly for SMEs looking to thrive in dynamic markets.

Challenges of Managing Workforce Diversity in SMEs

While workforce diversity offers many advantages, managing it effectively within Small and Medium Enterprises (SMEs) presents several challenges. SMEs often operate with limited resources, smaller teams, and less formalized management structures compared to larger organizations, making it difficult to implement comprehensive diversity and inclusion strategies. One of the primary challenges in managing diversity is overcoming communication barriers that arise from differences in language, culture, and work styles. These barriers can lead to misunderstandings, conflict, and decreased collaboration among team members. Additionally, SMEs may struggle with unconscious biases that can affect hiring, promotion, and team dynamics. Without structured human resource practices or diversity training, biases can inadvertently lead to discrimination or a lack of inclusion, undermining the benefits of a diverse workforce. Another challenge is the resistance to change that often exists within smaller, more close-knit teams.

Employees who are used to working in a homogeneous environment may find it difficult to adapt to new team members with different backgrounds and perspectives. This resistance can create tension and hinder the integration of diverse employees into the workplace. Furthermore, SMEs in developing regions may face cultural or societal norms that do not fully support workforce diversity, making it more challenging to promote inclusive hiring practices. Lastly, the lack of access to formal training and development programs for diversity management can exacerbate these issues, leaving SMEs ill-equipped to handle the complexities of a diverse workforce. To overcome these challenges, SMEs need to adopt clear policies and practices that promote inclusivity, provide diversity training, and foster open communication. With the right strategies in place, SMEs can manage workforce diversity more effectively, reaping the associated benefits of innovation, improved performance, and better employee satisfaction.

Role of Workforce Diversity in Achieving Organisational Goals

Workforce diversity plays a critical role in achieving organisational goals by enhancing innovation, improving decision-making processes, and fostering a more adaptable and resilient workforce. A diverse team brings a wide range of perspectives, experiences, and problem-solving approaches, which can lead to more comprehensive and innovative solutions. This is especially important in a rapidly changing business environment where organizations must continuously adapt to new challenges and opportunities. Diversity in the workforce can improve an organisation's ability to identify and capitalize on emerging market trends, as employees with different backgrounds and experiences offer valuable insights into the needs and preferences of diverse customer bases. Moreover, diverse teams are more likely to make well-rounded decisions, as they consider a broader range of factors and viewpoints, reducing the risk of groupthink and increasing the quality of decisions. In addition to driving innovation and better decision-making, workforce diversity can also improve employee satisfaction and engagement, which are key factors in achieving long-term organisational goals. When employees feel that their unique backgrounds and perspectives are valued, they are more likely to be motivated and committed to the organisation's success". This leads to higher productivity, lower turnover rates, and a more positive workplace culture, all of which contribute to achieving organisational objectives. Furthermore, companies that prioritize diversity and inclusion are better positioned to attract and retain top talent, as an increasing number of job seekers look for employers that are committed to social responsibility and inclusive practices. By fostering an inclusive environment, organisations can create a workforce that is not only diverse but also united in working toward shared goals. In conclusion, workforce diversity is a powerful tool that can help organisations achieve their strategic objectives by driving innovation, improving decision-making, and fostering a more engaged and motivated workforce.

Conclusion

In conclusion, workforce diversity is a powerful asset for SMEs, particularly in developing regions, as it drives innovation, enhances competitiveness, and supports organisational goals. While diversity presents challenges, such as communication barriers and resistance to change, effective diversity management fosters inclusive environments where all employees can contribute meaningfully. SMEs that embrace and manage diversity strategically are better positioned to adapt to market changes, improve decision-making, and achieve sustainable growth. As developing economies continue to evolve, leveraging workforce diversity will be essential for SMEs to thrive in increasingly competitive global markets.

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