

From Inclusive Climate to Organizational Innovation: Examining Internal and External Enablers for Knowledge Management Capacity

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As the diversity field evolves, scholars are shifting the attention from mitigating “problems” associated with diversity to searching for ways to leverage the potential value in diversity. We advance this field by studying how an inclusive climate benefits organizational innovation, an important foundation for sustained competitive advantage. Adopting a synergy perspective, we examine the internal (i.e., workplace demographic diversity in terms of age, gender, and region) and external contingencies (i.e., environmental scanning and environmental uncertainty) for an inclusive climate to foster incremental and radical innovation through the mechanism of knowledge management capacity. We tested our research model with a three-wave data collection from multiple sources (i.e., employees, human resource managers, and executives) in 102 organizations. We found that workplace age and regional diversity (but not gender diversity) strengthened the positive effect of inclusive climate on knowledge management capacity, and subsequently incremental and radical innovation. The facilitating effect of environmental scanning was only significant for organizations that experienced higher environmental uncertainty. Our research highlights the importance of considering the synergistic potential of internal human resources and external environments for organizations to capitalize on their inclusive climate for knowledge management and innovation.

Keywords: inclusive climate, workplace demographic diversity, environmental scanning, knowledge management capacity, organizational innovation

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Recent trends, such as globalization, migration, and aging populations, have produced increasing workforce diversity (Boehm, Dwertmann, et al., 2014). Thus, it has become increasingly important for organizational scholars to investigate how to better manage diversity at work (Roberson, 2006; Roberson et al., 2017). Prior diversity management research has predominantly focused on mitigating the “problems” associated with diversity, such as discrimination, bias, and tokenism (Dwertmann et al., 2016). As the field evolves, recent research has started to take a more positive stance, searching for ways to leverage the potential value in diversity (Jungmann et al., 2020; Parker & Andrei, 2020; Shore et al., 2011; Wegge & Meyer, 2020). In this respect, the notion of inclusion (i.e., employees’ psychological experience concerning being a valued part of the organization; Li, Kleshinski, et al., 2021; Mor Barak, 2000, 2015) has garnered attention and there have been research calls for investigating whether and how organizations may achieve sustained competitive advantage by

creating inclusive work environments (Roberson et al., 2017; Shore et al., 2018).

Organizational climate for inclusion refers to an organization’s effort in cultivating inclusive work environments that make employees feel to be a valued part of the organization (Mor Barak, 2000; Nishii, 2013). According to the interactional model of cultural diversity (Cox, 1994), an inclusive climate allows organizations to fully tap the potential of all employees for value creation. Although a number of individual-level studies have documented that employee inclusion is associated with positive attitudinal and behavioral outcomes (e.g., Cho & Mor Barak, 2008; Dwertmann & Boehm, 2016; Findler et al., 2007; Jansen et al., 2014), we know fairly little about the organization-level consequences of inclusive climate and its underlying mechanisms (see Shore et al., 2018 for a review). One exception is Nishii (2013), who found that an inclusive climate not only reduced conflict directly but also mitigated conflict arising from gender diversity, leading to higher unit satisfaction and thereby lower collective turnover. However, Nishii’s (2013) operationalization mainly implies a *fairness and discrimination perspective* that focuses on preventing negative interpersonal dynamics rather than a *synergy perspective* that focuses on leveraging the idiosyncratic knowledge and expertise from employees for the betterment of knowledge reservoir (Dwertmann et al., 2016). Consequently, it offers limited insights into how an inclusive climate may foster positive outcomes that rely upon collective knowledge, insights, and perspectives from different employees, such as organizational innovation (i.e., the

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intentional introduction and application of new ideas, processes, products, or procedures; West & Farr, 1990).

Adopting a synergy perspective (Dwertmann et al., 2016; Ely & Thomas, 2001), we investigate knowledge management capacity (i.e., organizational capability of capitalizing on the knowledge and expertise resided in employees via knowledge acquisition, sharing, and application; Chen & Huang, 2009) as a mechanism through which an inclusive climate fosters innovation. Such an investigation is pivotal, because a key theoretical tenet of an inclusive climate is that it taps into a broader talent base and accesses a wider range of knowledge and perspectives (Cox, 1994; Ely & Thomas, 2001). Guided by the synergy perspective, we further advance current understanding about the benefit of an inclusive climate by examining the internal (workplace demographic diversity) and external contingencies (i.e., environmental scanning and environmental uncertainty) for an inclusive climate to facilitate organizational innovation through knowledge management capacity.

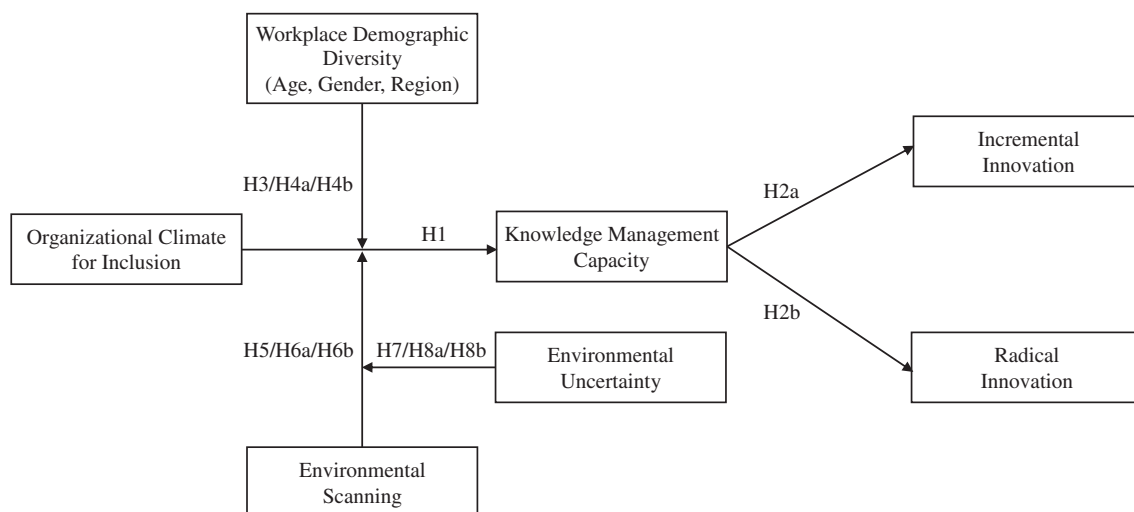
On the one hand, we consider workplace demographic diversity (i.e., age, gender, and regional diversity) as internal facilitators, because the value organizations can obtain from leveraging their internal knowledge reservoir through an inclusive climate is greater at higher workplace diversity which offers better potential for synergy (van Knippenberg, 2017; van Knippenberg et al., 2004). On the other hand, we consider the alignment of an inclusive climate with external environmental contingencies. We argue that environmental scanning (i.e., the extent to which organizations gather information from external environments, such as events, trends, and relationships; Aguilar, 1967; May et al., 2000) amplifies the positive effect of an inclusive climate, because external knowledge sourcing via environmental scanning can facilitate internal knowledge sourcing via an inclusive climate through the combination of external and internal knowledge (Cassiman & Veugelers, 2006). This is especially the case for organizations facing high environmental uncertainty (i.e., the extent to which the external environment is dynamic and turbulent; Buchko, 1994; Milliken, 1987), because the value and necessity of environmental scanning depend on the dynamism and complexity

of the external environment (Danneels, 2008; Elenkov, 1997). We summarize our research model in Figure 1.

We provide several important contributions. First, we pinpoint how an inclusive climate facilitates innovation by examining knowledge management capacity as an underlying mechanism. As Shore et al. (2011) pointed out, although there is a clear theme that an inclusive climate has positive consequences, how or why this occurs remains largely unknown. In a similar vein, Dwertmann et al. (2016) stated that the fairness and discrimination perspective clearly dominates existing research, and the synergy perspective that focuses on realizing the potential benefits of diversity has been poorly integrated. By examining knowledge management capacity as a mediating mechanism, we reveal how an inclusive climate helps organizations to capitalize on the knowledge and perspectives residing in different employees, shedding light on why an inclusive climate may benefit organizational innovation.

Second, while prior organization-level studies on diversity and inclusion typically focus on a single diversity attribute [e.g., gender diversity in Nishii (2013) or age diversity in Boehm, Kunze, et al. (2014) or Li, Gong, et al. (2021)], we simultaneously examine multiple types of demographic diversity (i.e., age, gender, and regional diversity) as contingent factors shaping the effect of an inclusive climate. As suggested by Shore et al. (2009), a promising research avenue is to include multiple dimensions of diversity in the same study, because it enables us to ascertain whether different types of demographic diversity vary in their synergistic potential. It is also worth noting that prior diversity studies typically take a Western lens to conceptualize demographic diversity based on age, gender, and race (e.g., Nishii & Mayer, 2009; Van der Vegt & Janssen, 2003). Nevertheless, the characteristics that represent important sources of diversity vary across countries. In China (our research context), there is much homogeneity in race in the workplace where employees are predominantly Han Chinese. On the other hand, region-based cultural differences (e.g., customs, habits, cultures, and norms) are prominent in this context (Gold et al., 2002). As such, the inclusion of regional diversity (i.e., the

Figure 1
Hypothesized Research Model



Note. H = Hypothesis. H2a, H2b, H4a, H4b, H6a, H6b, H8a, and H8b represent indirect effect hypotheses.

distribution of differences among employees with respect to geographic origin; Harrison & Klein, 2007) along with age and gender diversity covers important demographic diversity attributes in China and points to a viable approach to studying diversity in similar cultural contexts.¹

Third, prior inclusion research has been exclusively inward looking without considering the interface between organizations and their embedded business environments. This internal viewpoint is understandable because individuals or lower-level teams often operate in an internal-facing manner within the organizational environment. Our move to the organizational level enables us to bring the external environment into theoretical consideration. Organizations do not exist in a vacuum—they operate in certain environments (Milliken, 1987). By considering environment-related contingencies (i.e., environmental scanning and environmental uncertainty), our research bridges internal employee management with external business environments, shedding light on when an inclusive climate pays off more for innovation.

Finally, we examine incremental innovation (i.e., innovations that refine and reinforce existing products and services; Subramaniam & Youndt, 2005) and radical innovation (i.e., innovations that significantly transform existing products and services; Subramaniam & Youndt, 2005) as outcomes, both indicating positive changes in the organization's knowledge (i.e., organizational learning; Argote, 2013; March, 1991). While incremental innovation seeks to exploit existing products or services by leveraging current knowledge and competencies, radical innovation develops new products or services by pursuing new knowledge and capabilities (Benner & Tushman, 2003). As such, gaining sustained competitive advantage relies upon both and a critical organizational theme is to identify measures that promote them simultaneously (Smith & Lewis, 2011). In this respect, we add to the innovation literature by identifying an inclusive climate as a meaningful pathway to cultivate fundamental organizational capability that enhances both types of innovation, suggesting that an inclusive climate serves as a vital source of sustained competitive advantage (Barney, 1991; Barney & Wright, 1998).

Theory and Hypotheses Development

Organizational Climate for Inclusion

The notion of inclusive climate has its roots in Cox's (1994) interactional model of cultural diversity. According to Cox (1994), an organizational culture that mitigates bias and supports the integration of cultural differences is likely to promote organizational effectiveness via enhancing employees' affective (e.g., job satisfaction) and achievement outcomes (e.g., job performance). Importantly, this model is applicable to all kinds of cultural identities, such as race, age, gender, region, etc. As noted by Cox (1994), for many countries, "microcultures" exist in a "macroculture" and such "microcultures" provide alternative norm systems for guiding behavior (see pp. 108–127 for examples of cultural differences). Based on Cox's (1994) conceptualization of cultural diversity, every employee has a unique cultural identity structure that is to some extent different from others and employees as a collective form a workforce containing cultural differences. Thus, there is a need for every organization to manage cultural diversity, for example, by promoting a climate for inclusion.

Although the interactional model of cultural diversity lays the foundation for inclusive climate research, its mere focus on affective

and achievement outcomes cannot well inform us how an inclusive climate relates to knowledge-based synergy among employees. Advancing this theory, more recent work embraces a synergy perspective (Dwertmann et al., 2016), stating that the knowledge, skills, and experiences from different employees are potentially valuable resources, and by promoting an inclusive climate, an organization can leverage such resources to advance its mission (e.g., gain entry into a previously inaccessible niche market and learn new ways of reconceiving and reconfiguring work processes). Thus, one premise underlying an inclusive climate is that it can effectively capitalize on the internal knowledge of an organization by tapping into a wide range of knowledge residing in its employees (Ely & Thomas, 2001). Importantly, the internal knowledge leveraged by an inclusive climate recombines with the external knowledge obtained from business environments to jointly shape organizations' knowledge management capacity and thereby innovation potential (Cassiman & Veugeler, 2006). Thus, examining the interaction between an inclusive climate and environmental contingencies offers an important extension to the synergy perspective of inclusion.

It is worth mentioning that compared to a diversity climate that focuses on implementing equitable human resource (HR) practices (e.g., fair selection process, unbiased promotion, and equal pay for equal work) to promote fairness and eliminate discrimination, an inclusive climate is broader in its scope in that it moves beyond to highlight integration of differences and inclusion in decision-making (Dwertmann & Boehm, 2016; Nishii, 2013). Put differently, an inclusive climate not only treats employees as insiders (i.e., high belongingness) but also encourages them to express their unique viewpoints (i.e., high uniqueness) instead of assimilating to dominant norms (Mor Barak, 2015; Shore et al., 2011). Notably, previous fairness-based diversity climate studies have exclusively focused on market-based outcomes, including financial performance (e.g., net profit margin and return on assets; Ali & Konrad, 2017), productivity (Gonzalez & Denisi, 2009), store sales performance (McKay et al., 2009), customer satisfaction (McKay et al., 2011), and employee loyalty (Chung et al., 2015). Consequently, they provide little clue with respect to how an inclusive climate relates to synergy-based knowledge creation or innovation, which is fundamental for discovering new market opportunities, adapting to environmental changes, and sustaining competitive advantage (Anderson et al., 2014; March, 1991).

Inclusive Climate, Knowledge Management Capacity, and Innovation

Knowledge management capacity captures the extent to which organizations can effectively leverage the knowledge and expertise

¹ At the lower level (i.e., team level), diversity scholars have identified several important team contextual factors that facilitate the potential informational benefits associated with diversity, including team need for cognition (Kearney et al., 2009), transformational leadership (Kearney & Gebert, 2009), and team learning goal orientation (Li, Koopmann, et al., 2021). The current research complements these studies by identifying organizational force (i.e., an inclusive climate) for synergizing employees with diverse attributes. Notably, research conclusions on team-level diversity may not generalize to organization-level diversity (Roberson et al., 2017). While a team context mainly involves horizontal differences, an organizational context incorporates both vertical and horizontal work relationships (Bunderson & Van der Vegt, 2018). As such, certain theoretical mechanisms may be more salient in one context versus the other.

residing in employees, including sticky and tacit knowledge, and put them into practical use (Chen & Huang, 2009; Felin & Hesterly, 2007; Grant, 1996). In light of the synergy perspective (Dwertmann et al., 2016; Ely & Thomas, 2001), an inclusive climate can tap into the information and knowledge from employees of various identity groups. Along with this perspective, we expect an inclusive climate to promote an organization's knowledge management capacity for the following reasons.

First, through integration of differences, an inclusive climate helps retain employees' uniqueness, encouraging employees to be open to each other's task-related opinions and share their insightful views and perspectives. Hence, inclusive organizations can access a greater variety of unique knowledge and information from their employees for the development of knowledge reservoir (Argote, 2013). Second, inclusive organizations treat every employee as an insider, which fosters shared identity and social integration, and thus reduces in-group favoritism and out-group bias based on any group identity (Nishii, 2013). As such, a climate for inclusion facilitates more frequent and better quality social interactions, which provide incumbents opportunities to learn from each other's information, experiences, and know-how (Argote & Kane, 2009). Third, an inclusive climate involves employees in decision-making, so that views and perspectives from different employees are actively sought (Mor Barak & Cherin, 1998). As such, employees have more opportunities to express their thoughts and ideas, which facilitate knowledge sharing and application (Dwertmann et al., 2016). Taken together, an inclusive climate can lead to more effective knowledge acquisition, sharing, and application, suggesting greater knowledge management capacity of an organization. Although there is a lack of quantitative research on the relationship between inclusive climate and knowledge management capacity, Hajro et al.'s (2017) qualitative study provides some initial evidence for our theorizing. Based on 143 in-depth interviews and extensive observations of team interactions, they found that incorporating, integrating, and capitalizing on cultural differences within teams could facilitate more effective knowledge exchange. Thus, we hypothesize:

Hypothesis 1: Organizational climate for inclusion is positively related to knowledge management capacity.

We consider incremental and radical innovation as two distinct types of organizational innovation. Specifically, incremental innovation draws upon "... reinforced prevailing knowledge with consequent innovations taking advantage of and improving upon prevailing knowledge" (Subramaniam & Youndt, 2005, p. 452). Thus, proficiency with existing tasks and routinized processes serves as the foundation for incremental innovation (Benner & Tushman, 2003). By contrast, radical innovation draws upon "... transformed prevailing knowledge, with innovations making prevailing knowledge or technologies obsolete and 'morphing' old knowledge into something significantly new" (Subramaniam & Youndt, 2005, p. 452). In this respect, the access to a variety of new and alternative knowledge domains and the combination of previously unconnected knowledge and perspectives are critical for generating radical innovation (Subramaniam & Youndt, 2005).

Knowledge management capacity can boost incremental innovation for the following reasons. First, knowledge acquisition and sharing improve task proficiency, so that organizations are more capable of refining existing products and services (Benner & Tushman, 2003).

Moreover, frequent and timely knowledge sharing assists in the iterative process of knowledge reinforcement and helps identify improvement solutions for the betterment of existing products, services, or processes. Indeed, prior research suggests that knowledge sharing serves as the key to improving firm products and productivity (Collins & Smith, 2006). In addition, knowledge application allows organizations to utilize employees' proficiency and expertise to refine existing products and services, which benefits incremental innovation (Chen & Huang, 2009). Therefore, with greater knowledge management capacity, organizations are more capable of refining their prevailing knowledge reservoir for the improvement of current products, services, and processes.

In addition, knowledge management capacity can benefit radical innovation for the following reasons. First, knowledge acquisition allows organizations to access a variety of new and alternative knowledge domains, which provides them opportunities to renew the existing knowledge reservoir for radical innovation (Yli-Renko et al., 2001; Zhou & Li, 2012). Second, knowledge sharing facilitates the exchange of diverse local knowledge and the combination of previously unconnected ideas, which gives rise to new knowledge (Argote, 2013). Thus, organizations are more likely to generate breakthrough ideas that enable them to discover new market opportunities (Zhou & Li, 2012). Third, knowledge application enables organizations to incorporate breakthrough ideas into their operations and translate such ideas into embodied novel products (Grant, 1996). Therefore, with higher knowledge management capacity, organizations are more capable of generating and implementing breakthrough ideas for radical innovation. Combining the above rationales with Hypothesis 1, we hypothesize:

Hypothesis 2: Knowledge management capacity mediates the positive effects of organizational climate for inclusion on (a) incremental innovation and (b) radical innovation.

The Internal Contingency: Workplace Demographic Diversity

The synergy perspective (Dwertmann et al., 2016) suggests that workplace demographic diversity may serve as a contingency amplifying the beneficial effect of an inclusive climate on knowledge management capacity, and subsequently innovation. Although an inclusive climate is a viable pathway for organizations to leverage their human resources, the extent to which it materializes as enhanced knowledge management capacity depends on workplace demographic diversity. Workplaces with higher demographic diversity possess greater synergistic potential, because complementarities exist among employees with diverse attributes and the whole can be more than the sum of its parts (Ely & Thomas, 2001; Ennen & Richter, 2010). Simply put, employees with different demographic characteristics complement each other to form a more comprehensive and varied set of knowledge, skills, and abilities (KSAs) that address a wider range of tasks and contingencies (Li, Gong, et al., 2021). As such, internal knowledge sourcing through an inclusive climate is likely to render greater knowledge management capacity for organizations with higher workplace demographic diversity.

We focus on three types of workplace demographic diversity: age diversity (i.e., the distribution of differences among employees with respect to age groups), gender diversity (the distribution of differences among employees with respect to gender—male vs. female), and

regional diversity (the distribution of differences among employees with respect to geographic origin—native vs. migrant; Harrison & Klein, 2007). Previous studies in the Western context typically focus on three diversity attributes—age, gender, and race—because these demographic differences are highly visible and can be directly measured (e.g., Nishii & Mayer, 2009; Van der Vegt & Janssen, 2003). In China (our research context), employees are predominantly Han Chinese, indicating racial homogeneity. Nevertheless, there are prominent cultural differences among employees from different regions (Lewis & Peri, 2015). This diversity attribute is highly relevant in the Chinese context, where “Guanxi” (loosely translated as social connections) is largely based on kinship, native place, and overlapped experience (Luo, 2007) and “Fengsu” (loosely translated as customs, habits, and cultures) varies significantly across provinces (Gold et al., 2002). As an example, Talhelm et al. (2014) found that the rice-growing southern China is more interdependent and holistic thinking than the wheat-growing northern China, suggesting the existence of region-based “microcultures” within China. Thus, instead of examining racial diversity, we study regional diversity along with age and gender diversity. Below, we detail the possible complementarities based on these three types of diversity.

For age diversity, the complementarities of different age groups can be informed by cognitive aging theory (Salthouse, 2010, 2019). According to this theory, individuals’ cognitive ability changes across the life span. Crystallized intelligence, which refers to learned or experiential knowledge (e.g., reading, writing, and job-relevant expertise) that becomes “crystallized” as a result of learning, tends to increase over time (Cattell, 1963). As such, older employees are more likely to engage in selective learning activities that fit their cumulative knowledge and experience, make quick connections to their prior experience, and perceive and solve problems in a holistic manner (Kim & Hall, 2013; Wang et al., 2013). By contrast, individuals’ fluid intelligence (e.g., working memory, abstract reasoning, and information processing) tends to decrease over time (Bugg et al., 2006). As a result, younger employees may be more capable of absorbing diverse knowledge and adapting to new situations owing to their learning capacity as well as the lack of preexisting paths (Kim & Hall, 2013; Pahos et al., 2021). Taken together, age-diverse employees complement one another to form a more complete portfolio of knowledge, information, and capacities, boosting the knowledge management capacity arising from an inclusive climate.

For gender diversity, the complementarities of female and male employees may manifest in collective information processing. Although women and men have equivalent levels of general mental ability, gender differences are likely to exist in specific subcomponents of mental ability (for details, see Halpern, 1997 for a review). Thus, a balanced gender composition (i.e., high gender diversity) may offer a more diverse set of mental resources for collective problem-solving (Frink et al., 2003; Hirschfeld et al., 2005; Rogelberg & Rumery, 1996). In addition, as women and men often occupy different social roles, they likely perform diverse tasks and activities (Wood & Eagly, 2002, 2012). Such a division of labor renders female and male employees different social connections, information sources, and learning opportunities (Eagly & Wood, 1999; Wood & Eagly, 2012). As a result, gender-diverse employees allow the organization to access a greater variety of knowledge and information leveraged by an inclusive climate.

In terms of regional diversity, the complementarities of native and migrant employees are based on social connections and market understanding. Specifically, a mix of native and migrant employees renders the organization a rich collection of social connections, which enables the organization to reach out to a broad stakeholder base, grasp the preferences and requirements from diverse customers, and gain access to different target markets (Cox & Blake, 1991; Richard et al., 2007). Simply put, organizations containing a sizable proportion of both native and migrant employees (i.e., high regional diversity) are likely to access knowledge and information from varied social ties and develop far-reaching business relationships. In addition, people from different geographic origins have their own customs and cultures, so that organizations with regionally diverse employees are likely to develop a deeper understanding about market segmentation based on different regions (Gold et al., 2002; Richard, 2000). Taken together, we argue that workplaces with higher demographic diversity are likely to have greater synergistic potential that allows an inclusive climate to capitalize on a richer set of knowledge and information residing in employees. Thus, we hypothesize:

Hypothesis 3: Workplace demographic diversity (in terms of age, gender, and region) moderates the relationship between organizational climate for inclusion and knowledge management capacity, such that this positive relationship is stronger for organizations with higher (vs. lower) workplace demographic diversity.

Hypothesis 4: Workplace demographic diversity (in terms of age, gender, and region) moderates the indirect effects of organizational climate for inclusion on (a) incremental innovation and (b) radical innovation via knowledge management capacity, such that the positive indirect effects are stronger for organizations with higher (vs. lower) workplace demographic diversity.

The External Contingencies: Environmental Scanning and Environmental Uncertainty

All organizations operate in certain business environments, which provide external opportunities and constraints for organizational functioning (Johns, 2006). Environmental scanning describes the extent to which an organization devotes effort to gathering information from the external environment (Aguilar, 1967; Hambrick, 1982). Such scanning reduces the chance of being blindsided by identifying opportunities and constraints the organization faces and enables the organization to devise strategies to capitalize on its internal human resource strengths (e.g., knowledge and skills) and neutralize or avoid its weaknesses in pursuing external opportunities (Albright, 2004). Therefore, environmental scanning is critical for organizational learning, flexibility, and responsiveness (Beal, 2000; Frishammar & Hörte, 2005).

Nowadays, organizations often face dynamic and turbulent environments and thus need to open up their boundaries to tap into external sources of knowledge through environmental scanning activities (Menon & Pfeffer, 2003). While internal knowledge sourcing implies a prolonged process of investment in and knowledge accumulation via employee management (e.g., an inclusive climate), external knowledge sourcing rests on external communication and networking (e.g., environmental scanning; Caloghirou et al., 2004;

Zhou & Li, 2012). As Cassiman and Veugelers (2006) stated, internal and external knowledge sourcing are complementary, such that the marginal return of internal knowledge sourcing increases as the intensity of external knowledge sourcing increases. Accordingly, we propose that environmental scanning amplifies the positive effect of inclusive climate on knowledge management capacity, and subsequently innovation.

First, environmental scanning helps the organization to obtain external knowledge from various channels (e.g., boundary-spanning networks, industry associations, and extraorganizational professional activities; Damanpour, 1991; Laursen et al., 2012; Lee et al., 2001; Liebeskind et al., 1996). With such knowledge, organizations can better leverage an inclusive climate to identify, develop, and prioritize internal knowledge that is more relevant to the exploitation of external opportunities as well as the neutralization of external constraints or threats (Danneels, 2008). Furthermore, due to the complexity and variability of technologies and markets, simply relying upon internal knowledge sourcing via an inclusive climate may not be sufficient for organizations to refine existing knowledge and develop knowledge reservoir that supports the development of products and services appealing to the external market (Caloghirou et al., 2004). In this respect, environmental scanning can be beneficial, because it enables the organization to obtain outside knowledge to complement internal knowledge sourcing. In so doing, the organization can more effectively acquire, share, and apply internal knowledge to address market needs (Nonaka & Takeuchi, 1995). Therefore, we hypothesize:

Hypothesis 5: Environmental scanning moderates the relationship between organizational climate for inclusion and knowledge management capacity, such that this positive relationship is stronger for organizations with higher (vs. lower) environmental scanning.

Hypothesis 6: Environmental scanning moderates the indirect effects of organizational climate for inclusion on (a) incremental innovation and (b) radical innovation via knowledge management capacity, such that the positive indirect effects are stronger for organizations with higher (vs. lower) environmental scanning.

Importantly, environmental scanning activities may not equally benefit each organization. Rather, they become more valued and useful in uncertain environments, because environmental uncertainty requires organizations to constantly monitor their surrounding environments to respond rapidly to market changes (DeSarbo et al., 2005; Dess & Beard, 1984). Indeed, environmental uncertainty (i.e., the extent to which the external environment is dynamic and turbulent; Milliken, 1987) has long been considered as an important situational factor shaping organizational responses and outcomes (Cannella et al., 2008; Cogan & Williamson, 2014; Sutcliffe & Zaheer, 1998; Waldman et al., 2001).

In this study, we expect that the amplifying effect of environmental scanning on the relationship between inclusive climate and knowledge management capacity should be stronger for organizations experiencing higher (vs. lower) environmental uncertainty. Taking an information-processing view of organizations (Koberg, 1987; Lawrence & Lorsch, 1967), researchers argue that the environment can be conceptualized as a source of information, and an uncertain environment is characterized as faster changes, high risk,

lack of assuredness, and need for timely changes (Waldman et al., 2001). Facing environmental uncertainty, organizations can benefit more from frequent environmental scanning that constantly refreshes their information and knowledge for comprehensive decision-making and adaptation to changes (Ireland et al., 1987; Jung et al., 2008). Put differently, the external information including opportunities and constraints obtained from environmental scanning activities appears to be more valuable for organizations experiencing environmental uncertainty (Danneels, 2008; Elenkov, 1997). As a result, those organizations are likely to develop greater knowledge management capacity by synergizing knowledge from the internal sourcing via an inclusive climate and the external sourcing via environmental scanning. Thus, we hypothesize:

Hypothesis 7: There is a three-way interaction among organizational climate for inclusion, environmental scanning, and environmental uncertainty on knowledge management capacity, such that the amplifying effect of environmental scanning on the positive relationship between inclusive climate and knowledge management capacity is stronger for organizations facing higher (vs. lower) environmental uncertainty.

Hypothesis 8: Environmental uncertainty moderates the moderating effect of environmental scanning on the indirect effects of organizational climate for inclusion on (a) incremental innovation and (b) radical innovation via knowledge management capacity, such that the moderated indirect effects are stronger for organizations facing higher (vs. lower) environmental uncertainty.

Method

Transparency and Openness

We describe our sampling plan and all measures in the study, and we adhered to the *Journal of Applied Psychology* methodological checklist. Analysis codes are available at https://osf.io/37s4g/?view_only=f86b855de52949acb5f10733b2cebf83. Data are not available due to their proprietary nature. We conducted path modeling analysis with *Mplus* Version 8.1 (Muthén & Muthén, 1998–2017) and indirect effect analysis with *R* Version 4.0.2 (<https://www.r-project.org/>). This study's design and its analysis were not preregistered.

Sample and Procedure

Executive Master of Business Administration (EMBA) students from a business school located in Eastern China invited their firms to participate in this study. For each firm, we randomly sampled at least three frontline employees (with a range of 3–9 employees). We also asked for one HR manager (as a sampling criterion, all surveyed firms have an HR department) and one executive manager to participate. Among all invited firms ($N = 164$), 102 of them (62.2%) participated in the study. We informed participants that their participation was voluntary and responses would be kept confidential and used for research purposes only. If their firm had multiple establishments with different business addresses, we asked participants to evaluate the establishment at their location only, because multiple establishments of the same firm may pursue distinct business strategies and adopt different management practices (Lepak et al., 2006). In addition, respondents can more accurately assess the

specific situations within their own establishment (Batt & Colvin, 2011). The median size across surveyed organizations was 300 employees. These organizations vary in terms of employee demographic compositions, producing variations in workplace demographic diversity (see Table 1 for details) and thus provide a suitable sample for testing the research model. Among the organizations, 31.4% were from the manufacturing industry, 26.5% were from the service industry, 10.8% were from the wholesale or retail trade industry, 11.8% were from the finance industry, and 7.8% were from the transportation and utilities industry. This study was approved by the Institutional Review Board at the University of Florida (title: The Effect of Inclusion Management on Organizational Innovation, Protocol #IRB202003048).

Data were collected at three time points over 6 months. A similar timespan has been adopted in other studies investigating the effects of an inclusive climate (or inclusive management) on business outcomes so as to allow the beneficial effects of inclusion to manifest [e.g., 6 months in Li, Gong, et al. (2021) or Nishii (2013)]. At Time 1, employees were asked to provide ratings of organizational climate for inclusion (544 employee responses from the 102 surveyed organizations). HR managers reported employees' demographic compositions (age, gender, and region), environmental scanning, environmental uncertainty, and control variables. At Time 2 (about 3 months after Time 1), executive managers reported knowledge management capacity ($N = 89$). At Time 3 (about 3 months after Time 2), executive managers reported incremental and radical innovation ($N = 90$). In line with prior research (e.g., Burmeister et al., 2021; Shockley et al., 2021), we modeled missing values with full information maximum likelihood estimator to retain as much data as possible (Enders & Bandalos, 2001). Thus, our final sample size was 102 organizations. Our research findings (see online Supplemental Materials) were similar when we only included the 89 organizations without missing values at Time 2 and Time 3 in our analyses. Among the surveyed HR managers, 42.4% were male. They have an average age of 35.22 years ($SD = 5.33$) and an average organizational tenure of 6.83 years ($SD = 6.47$). Among the surveyed executive managers, 74.2% were male. They have an average age of 39.01 years ($SD = 6.05$) and an average organizational tenure of 11.10 years ($SD = 7.78$).

Measures

We translated the scale items from English to Chinese following Brislin's (1980) translation-back-translation procedure. Unless noted, participants responded to all scale measures using a 5-point Likert-type scale (from 1 = *Strongly disagree* to 5 = *Strongly agree*). Please see online Supplemental Materials for content validity evidence of our scale items.

Organizational Climate for Inclusion (Time 1)

We measured organizational climate for inclusion using the 15-item short-version scale from Nishii (2013). The scale has three dimensions: foundation of equitable employment practices (5 items; e.g., "This organization invests in the development of all of its employees"), integration of differences (6 items; e.g., "This organization commits resources to ensuring that employees are able to resolve conflicts effectively"), and inclusion in decision-making (4 items; e.g., "In this organization, everyone's ideas for how to do things better are given serious consideration"). These three subdimensions altogether reflect

an organization's effort of fostering employee inclusion at work. Prior research typically considered climate for inclusion as one higher order construct theoretically (e.g., Dwertmann & Boehm, 2016; Li et al., 2019) and provided evidence that these subdimensions load on one higher order construct empirically (e.g., Nishii, 2013). Thus, we examine inclusive climate as an overall construct. The Cronbach's α for this scale was .96. Following a reference-shift model (Chan, 1998), we aggregated employees' ratings to the organizational level. The median $r_{wg(j)}$ was .98 and the mean $r_{wg(j)}$ was .96, indicating good interrater agreement within organizations. Intraclass correlation coefficients (ICCs) also showed sufficient between-organization variability, $ICC(1) = .27$, $ICC(2) = .66$. One-way analysis of variance (ANOVA) results showed that there were significant differences in climate for inclusion at the organizational level, $F = 2.97$, $p < .001$.

Workplace Demographic Diversity (Time 1)

As we focus on the complementarities among demographically diverse employees in terms of knowledge and information, we operationalized workplace demographic diversity (age, gender, and regional diversity) in the form of variety (Harrison & Klein, 2007). Specifically, consistent with prior research on workplace demographic diversity [e.g., age diversity in Li, Gong, et al. (2021) and gender diversity in Nishii (2013)], we calculated the three types of workplace demographic diversity using Blau's index (Blau, 1977). The formula is $1 - \sum p_k^2$, where p is the proportion of employees in the k th category. For age diversity, Blau's index was computed based on the proportion of employees in the following five categories: (1) <30 years old, (2) 30–39 years old, (3) 40–49 years old, (4) 50–59 years old, and (5) ≥ 60 years old. For gender diversity, Blau's index was computed based on the proportion of (1) male and (2) female employees. For regional diversity, Blau's index was computed based on the proportion of (1) native (local) employees who come from the same province as where the workplace is located and (2) migrant employees who come from a different province from where the workplace is located.

Environmental Scanning (Time 1)

We measured environmental scanning with five items adapted from Ferreras-Méndez et al. (2015) and Jansen et al. (2005). The items included (a) "We frequently scan the environment for new information and technologies," (b) "We thoroughly observe information and technological trends," (c) "We observe in detail external sources of new information and new technologies," (d) "We obtain information on the state-of-art of external technologies," and (e) "We thoroughly collect external information and technologies via different means." The Cronbach's α for this scale was .93.

Environmental Uncertainty (Time 1)

We measured environmental uncertainty with four items from Jung et al. (2008). Respondents were asked "How dynamic is the external environment facing your organization in terms of four aspects? (a) economic; (b) technological; (c) political/regulatory; and (d) social." Each item was rated on a 7-point scale, from 1 = *Very stable (changing slowly)* to 7 = *Very dynamic (changing rapidly)*. The Cronbach's α for this scale was .86.

Table 1
Means, Standard Deviations, Correlations, and Reliabilities

Variable	M	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
1. Manufacturing	.31	.47	—																					
2. Finance	.12	.32	-.25*	—																				
3. Wholesale trade	.02	.14	-.10	-.05	—																			
4. Retail trade	.09	.29	-.21*	-.11	-.04	—																		
5. Service	.26	.44	-.41**	-.22*	-.09	-.19	—																	
6. Transportation and utilities	.08	.27	-.20*	-.11	-.04	-.09	-.18	—																
7. Organizational age	20.68	17.51	.11	.08	.11	-.07	.08	.16	.23*	—														
8. Organizational size ^a	5.89	1.64	.30**	-.20*	.02	-.11	-.28**	.06	.09	-.16	.15	—												
9. Functional diversity	.62	.17	-.08	-.08	.10	.07	-.03	.06	.11	-.39**	.03	-.07	-.64**	—										
10. Private	.56	.50	-.09	-.05	-.02	-.15	.08	.11	.55**	.03	-.07	-.37**	-.19	—										
11. State-owned	.24	.43	-.07	.01	.09	-.01	.14	.01	.11	.08	-.01	-.09	-.03	-.19	—									
12. Foreign	.10	.30	.20*	-.02	-.05	.13	-.20*	-.10	-.08	-.01	-.08	-.03	.04	.03	—									
13. Single-site organization	.76	.43	-.06	.06	.08	.01	-.08	.17	.11	.28**	.07	-.03	.04	.03	—									
14. Organizational climate for inclusion	3.74	.42	.11	-.09	.07	-.27**	.09	-.09	-.07	-.07	.03	.20*	-.06	-.16	-.11	(.96)								
15. Age diversity	.58	.16	.17	-.11	.04	.04	-.11	.15	.39**	.14	.26**	-.16	.32**	.05	.03	-.01	—							
16. Gender diversity	.43	.10	-.14	.11	.08	.14	.06	.03	.08	.09	-.10	-.10	.21*	-.14	.24*	-.09	-.14	—						
17. Regional diversity	.33	.15	.09	-.39**	-.05	.03	.13	.15	-.09	.25*	.23*	.30**	-.26**	-.08	.09	.12	.06	.09	—					
18. Environmental scanning	4.25	.67	.15	-.03	.02	-.16	-.11	.21*	.17	.13	.09	.07	-.08	-.08	-.16	.14	-.09	-.10	.08	(.93)				
19. Environmental uncertainty	3.41	1.39	-.13	.06	.00	.07	.03	.00	.06	-.01	.02	-.12	.03	.04	.20*	.09	-.09	.12	.13	-.17	(.86)			
20. Knowledge management capacity	3.99	.47	.06	.02	.04	-.03	-.09	.15	-.05	.02	-.31**	-.03	-.03	.18	-.01	.24*	-.15	.06	.03	.01	-.09	(.81)		
21. Incremental innovation	3.99	.60	-.12	.04	.00	.00	-.00	.06	.03	-.09	-.23*	-.06	.02	.18	-.10	.18	.05	-.04	-.08	.10	.00	.49**	(.89)	
22. Radical innovation	3.05	.83	-.14	-.04	-.06	-.11	.04	.22*	-.01	.08	-.20*	.18	-.02	-.27**	-.05	.32**	-.08	-.11	.28**	.10	.43**	.35**	(.86)	

Note. $N = 102$. Cronbach's alphas are presented in parentheses along the diagonal.

^a A logarithm function was used to scale organizational size because its distribution departed from normality.

* $p < .05$. ** $p < .01$, two-tailed.

Knowledge Management Capacity (Time 2)

We measured knowledge management capacity using an 8-item scale adapted from [Chen and Huang \(2009\)](#). Respondents were asked to assess their organizations' knowledge management capacity under three dimensions: knowledge acquisition (3 items; e.g., "In this organization, knowledge was obtained from employees"), knowledge sharing (3 items; e.g., "In this organization, knowledge was shared among colleagues"), and knowledge application (2 items; e.g., "This organization effectively utilized knowledge and put it into practical use"). The literature on the knowledge-based view ([Felin & Hesterly, 2007](#); [Grant, 1996](#)) suggests that a firm's knowledge management capacity should be viewed as an intact asset, with the three subdimensions serving as interrelated elements denoting an organization's ability to access and leverage its internal knowledge reservoir ([Chen & Huang, 2009](#); see online [Supplemental Materials](#) for a discussion and empirical evidence about the differences between knowledge management capacity and absorptive capacity). Empirically, research has shown that the three subdimensions load on one higher order construct ([Madhoushi et al., 2011](#)). Thus, we examine knowledge management capacity as an overall construct. The Cronbach's α for this scale was .81.

Incremental and Radical Innovation (Time 3)

Both incremental innovation and radical innovation were measured with items from [Subramaniam and Youndt \(2005\)](#). Specifically, respondents were asked to assess their organizations' levels of innovativeness by indicating the extent to which they agreed with each statement. For incremental innovation (3 items), an example item was "We launch innovations that reinforce our prevailing product/service lines." For radical innovation (3 items), an example item was "We launch innovations that fundamentally change our prevailing products/services." The Cronbach's α for incremental innovation was .89 and for radical innovation was .86, respectively.

Control Variables

We controlled for the following organizational characteristics in the analyses. First, we controlled for organizational age (i.e., the number of years that the organization has been established). On the one hand, the organizational learning perspective suggests that an organization's intellectual capital and knowledge management process improve over time as it gains more experience and its members learn to operate together ([Le Mens et al., 2011](#)). On the other hand, the inertia perspective suggests that older organizations are likely to face more resistance to innovative changes due to path dependence (e.g., [Le Mens et al., 2015](#); [Sørensen & Stuart, 2000](#)). Second, we controlled for organizational size (i.e., the logarithm of the total number of employees in the organization). This is because research adopting a structural view of innovation suggests that larger organizations have more layers in hierarchical structures [i.e., "structural complexity" in [Duncan's \(1976\)](#) ambidextrous model of organizational innovation; see also [Damanpour, 1992](#)], which affect knowledge management capacity and innovation ([Gong et al., 2013](#); [Wang & Zatzick, 2019](#)). In addition, larger organizations are in a better position to achieve specialization and differentiation, which may allow the organizations to gain access to a wider range of novel ideas and skills that ultimately benefit innovation ([Moch & Morse,](#)

[1977](#)). Third, we controlled for single or multiple business locations (i.e., whether the organization belongs to a firm with one or multiple business locations), consistent with prior survey studies launched at the establishment level (e.g., [Li et al., 2018](#); [Zatzick & Iverson, 2006](#)). On the one hand, organizations with multiple business locations have access to a more diverse set of knowledge from local markets, which benefits knowledge accumulation and innovation. On the other hand, organizations with multiple business locations face more challenges associated with transmitting knowledge across different business locations due to the geographical dispersion ([Collins & Smith, 2006](#)). Fourth, we controlled for functional diversity, because organizations with greater functional diversity entail clearer division of labor, which suggests better knowledge depth for innovation but greater need for knowledge integration ([Li, Gong, et al., 2021](#)). Fifth, we controlled for organizational ownership (i.e., private, state-owned, foreign, and Chinese-foreign joint), as prior literature clearly shows that organizational ownership serves as a primary institutional factor shaping firm practices and innovation in China ([Liu et al., 2017](#)). Finally, we controlled for industry sectors to tease out organization-level effects from industry-level effects ([Takeuchi et al., 2009](#)). This is because industry characteristics (e.g., industry capital intensity, industry differentiation, and industry dynamism) are likely to affect organizations' management process and need for innovation ([Combs et al., 2006](#); [Datta et al., 2005](#); [Hambrick & Abrahamson, 1995](#)). In addition, industries differ in research and development (R&D) intensity, which is directly associated with organizational innovation ([Andras & Srinivasan, 2003](#); [Lee, 2002](#)). Notably, excluding all control variables rendered similar model results (see online [Supplemental Materials](#) for details).²

Analytic Strategies

For path modeling analysis, in Model 1, we entered the control variables, climate for inclusion, demographic diversity, environmental scanning, and environmental uncertainty as predictors for knowledge management capacity, incremental innovation, and radical innovation, and entered knowledge management capacity as a predictor for incremental and radical innovation. In Model 2, we further entered the interaction terms of climate for inclusion with demographic diversity, environmental scanning, and environmental uncertainty, as well as the interaction term between environmental scanning and environmental uncertainty as predictors for knowledge management capacity, incremental innovation, and radical innovation. In Model 3, we further entered the three-way interaction term among climate for inclusion, environmental scanning, and environmental uncertainty as a predictor for knowledge management capacity, incremental innovation, and radical innovation. To obtain unbiased estimation and facilitate explanation of the interaction effects ([Cohen et al., 2003](#)), the continuous control variables and independent variables were centered at their mean values across organizations. The interaction terms were the products of centered variables. We tested the indirect effects using a Monte Carlo method

² Similar to workplace demographic diversity, functional diversity was calculated with Blau's index ([Blau, 1977](#)). Employees were classified into the following categories ([Bunderson & Sutcliffe, 2002](#)): (a) sales or marketing, (b) manufacturing, (c) finance or accounting, (d) personnel/HR, (e) distribution or warehouse, (f) research and development, (g) equipment management, (h) administrative support, and (i) general management.

with 20,000 bootstrap repetitions (Selig & Preacher, 2008). When testing the moderated mediation hypotheses, we compared the 95% confidence intervals (CIs) for the indirect effects when the moderators were higher (at 1 *SD* above the mean) versus lower (at 1 *SD* below the mean; Edwards & Lambert, 2007). Additionally, we summarize tests that addressed endogeneity concerns associated with potentially omitted variables as well as observed statistical power in online Supplemental Materials.

Results

Preliminary Analysis

Descriptive statistics are presented in Table 1. We conducted multilevel confirmatory factor analysis to examine the discriminant validity of the multi-item variables. At both within- and between-organization levels, climate for inclusion items were first loaded on the three respective first-order latent factors, which were then loaded on a second-order latent factor. At the between-organization level, knowledge management capacity items were first loaded on the three respective first-order latent factors, which were then loaded on a second-order latent factor. For other variables (environmental scanning, environmental uncertainty, incremental innovation, and radical innovation), items were loaded on their respective latent factors at the between-organization level. Results showed that the hypothesized

model had an acceptable fit to the data, $\chi^2(731) = 1404.69, p < .001$, comparative fit index (CFI) = .92, Tucker–Lewis index (TLI) = .91, root-mean-square error of approximation (RMSEA) = .04. This model fit the data significantly better than any models where items of two variables were loaded on the same latent factor, $\Delta\chi^2(5) \geq 45.62, p < .001$.

Testing the Main and Mediation Effects

We present both unstandardized and standardized path modeling results in Table 2. For brevity, we interpret our findings based on unstandardized results below. In Table 2 (Model 1), the main predictors (i.e., all variables except control variables) explained 16% of the total variance in knowledge management capacity, $\Delta R^2 = .16, \Delta F(6, 82) = 3.26, p = .006$, 23% of the total variance in incremental innovation, $\Delta R^2 = .23, \Delta F(7, 81) = 4.34, p < .001$, and 30% of the total variance in radical innovation, $\Delta R^2 = .30, \Delta F(7, 81) = 7.18, p < .001$, above and beyond control variables. More specifically, climate for inclusion explained 13% of the variance in knowledge management capacity above and beyond all other variables, $\Delta R^2 = .13, \Delta F(1, 82) = 16.33, p < .001$. Knowledge management capacity explained 16% of the variance in incremental innovation, $\Delta R^2 = .16, \Delta F(1, 81) = 20.68, p < .001$, and 7% of the variance in radical innovation, $\Delta R^2 = .07, \Delta F(1, 81) = 12.02, p = .001$, above and beyond all other variables. Although age diversity was negatively

Table 2
Unstandardized and Standardized Path Modeling Results (Main Effects)

Variable	Model 1					
	Knowledge management capacity		Incremental innovation		Radical innovation	
	Estimate	SE	Estimate	SE	Estimate	SE
Intercept	3.70** (7.71**)	.22 (.80)	1.88** (3.12**)	.55 (1.02)	.50 (.59)	.72 (.86)
Control variables						
Manufacturing	.15 (.15)	.18 (.17)	-.56* (-.43**)	.22 (.16)	-.62* (-.34*)	.28 (.15)
Finance	.21 (.14)	.22 (.15)	-.35 (-.19)	.27 (.15)	-.30 (-.11)	.34 (.13)
Wholesale trade	.34 (.10)	.32 (.09)	-.42 (-.10)	.40 (.09)	-.76 (-.12)	.50 (.08)
Retail trade	.25 (.15)	.23 (.14)	-.29 (-.14)	.28 (.13)	-.35 (-.12)	.36 (.12)
Service	.05 (.04)	.19 (.17)	-.29 (-.22)	.23 (.17)	-.41 (-.21)	.30 (.15)
Transportation and utilities	.60** (.34**)	.23 (.13)	-.44 (-.20)	.30 (.13)	-.09 (-.03)	.39 (.12)
Organizational age	.00 (.10)	.00 (.12)	.00 (.07)	.00 (.12)	.00 (.08)	.01 (.11)
Organizational size	-.02 (-.05)	.04 (.14)	-.05 (-.13)	.05 (.14)	-.01 (-.02)	.07 (.13)
Functional diversity	-.80* (-.29*)	.35 (.12)	-.65 (-.19)	.47 (.13)	-.95 (-.19)	.61 (.12)
Private	.08 (.08)	.15 (.16)	.04 (.03)	.19 (.15)	.03 (.02)	.24 (.14)
State-owned	.16 (.14)	.19 (.17)	-.07 (-.05)	.24 (.17)	.05 (.03)	.30 (.16)
Foreign	.50* (.31*)	.20 (.13)	.23 (.12)	.26 (.13)	-.83** (-.30**)	.32 (.11)
Single-site organization	.00 (.00)	.13 (.11)	-.04 (-.03)	.15 (.11)	.02 (.01)	.19 (.10)
Predictors						
Organizational climate for inclusion (OCI)	.46** (.40**)	.13 (.10)	.06 (.04)	.16 (.11)	.30 (.15)	.21 (.10)
Age diversity (AD)	-.80* (-.29*)	.37 (.14)	.89 (.25)	.53 (.15)	-.18 (-.04)	.69 (.14)
Gender diversity (GD)	.00 (.00)	.57 (.12)	.10 (.02)	.72 (.12)	- 2.06* (-.24*)	.90 (.11)
Regional diversity (RD)	.46 (.15)	.48 (.15)	-.24 (-.06)	.70 (.18)	1.53 (.28)	.87 (.16)
Environmental scanning (ES)	-.10 (-.14)	.08 (.11)	.18 (.20)	.10 (.12)	.07 (.06)	.13 (.11)
Environmental uncertainty (EU)	-.07 (-.20)	.04 (.11)	.04 (.09)	.05 (.10)	.08 (.13)	.06 (.10)
Knowledge management capacity			.62** (.50**)	.14 (.10)	.74** (.42**)	.17 (.10)
R^2	.34		.39		.52	
ΔR^2	.15**		.23**		.31**	
AIC			2297.66			
Sample-size-adjusted BIC			2061.25			

Note. $N = 102$. Standardized results are presented in parentheses. ΔR^2 denotes R^2 change from the control variable only model to Model 1. AIC = Akaike information criterion; BIC = Bayesian information criterion.

* $p < .05$. ** $p < .01$, two-tailed.

related to knowledge management capacity ($\gamma = -.80$, $SE = .37$, $p = .032$), it did not explain a significant proportion of the variance in knowledge management capacity above and beyond all other variables, $\Delta R^2 = .03$, $\Delta F(1, 82) = 3.74$, $p = .057$.

As shown in Table 2, climate for inclusion was positively related to knowledge management capacity ($\gamma = .46$, $SE = .13$, $p < .001$), supporting Hypothesis 1. Knowledge management capacity was positively related to incremental ($\gamma = .62$, $SE = .14$, $p < .001$) and radical innovation ($\gamma = .74$, $SE = .17$, $p < .001$). The indirect effect of climate for inclusion on incremental innovation via knowledge management capacity was .28 with a 95% CI [.11, .51], and the indirect effect of climate for inclusion on radical innovation via knowledge management capacity was .34 with a 95% CI of [.13, .60], supporting Hypotheses 2a and 2b.

Testing the Moderation and Moderated Mediation Effects

In Table 3 (Model 2), the two-way interaction terms explained 17% of the total variance in knowledge management capacity, $\Delta R^2 = .17$,

$\Delta F(6, 76) = 4.27$, $p < .001$. In particular, the two-way interaction term between climate for inclusion and age diversity explained 4% of the variance in knowledge management capacity, $\Delta R^2 = .04$, $\Delta F(1, 76) = 6.80$, $p = .011$, above and beyond all other variables. The two-way interaction term between climate for inclusion and regional diversity explained 3% of the variance in knowledge management capacity, $\Delta R^2 = .03$, $\Delta F(1, 76) = 4.94$, $p = .029$, above and beyond all other variables. As shown in Table 3, age diversity moderated the relationship between climate for inclusion and knowledge management capacity ($\gamma = 2.51$, $SE = .97$, $p = .010$). As illustrated in Figure 2, age diversity strengthened the positive effect of climate for inclusion on knowledge management capacity: The effect was positive (slope = .78, $p < .001$) when age diversity was higher (1 SD above the mean and hereafter) but became nonsignificant (slope = $-.02$, $p = .911$) when age diversity was lower (1 SD below the mean and hereafter). Similarly, regional diversity moderated the relationship between climate for inclusion and knowledge management capacity ($\gamma = 2.78$, $SE = 1.24$, $p = .025$). As shown in Figure 3, regional diversity amplified the positive effect of climate for inclusion on knowledge management capacity: The effect was

Table 3
Unstandardized and Standardized Path Modeling Results (Two-Way Interaction Effects)

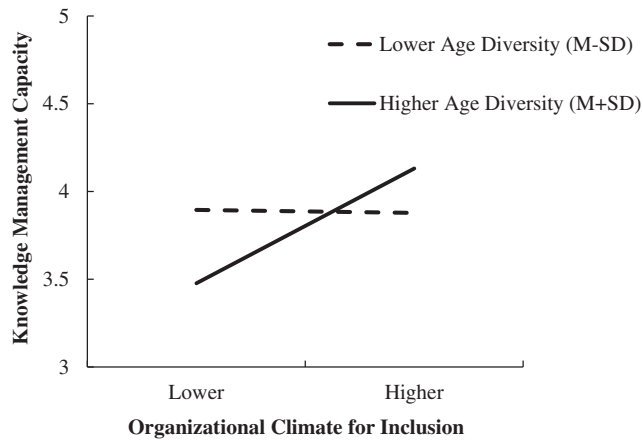
Variable	Model 2					
	Knowledge management capacity		Incremental innovation		Radical innovation	
	Estimate	SE	Estimate	SE	Estimate	SE
Intercept	3.85** (8.17**)	.22 (.79)	2.04** (3.41**)	.68 (1.21)	.22 (.26)	.90 (1.07)
Control variables						
Manufacturing	.02 (.02)	.17 (.16)	-.70** (-.54**)	.21 (.16)	-.61* (-.34*)	.28 (.15)
Finance	.30 (.20)	.20 (.14)	-.42 (-.22)	.26 (.14)	-.18 (-.07)	.35 (.13)
Wholesale trade	.35 (.10)	.28 (.08)	-.34 (-.08)	.36 (.08)	-.59 (-.10)	.48 (.08)
Retail trade	.10 (.06)	.21 (.13)	-.40 (-.19)	.27 (.13)	-.36 (-.12)	.36 (.12)
Service	-.04 (-.04)	.17 (.16)	-.39 (-.29)	.21 (.16)	-.42 (-.22)	.29 (.15)
Transportation and utilities	.33 (.19)	.24 (.14)	-.97** (-.44**)	.32 (.14)	-.40 (-.13)	.43 (.14)
Organizational age	-.00 (-.04)	.00 (.13)	.00 (.08)	.00 (.13)	.01 (.15)	.01 (.12)
Organizational size	.01 (.04)	.04 (.13)	-.07 (-.19)	.05 (.13)	-.05 (-.10)	.07 (.13)
Functional diversity	-.42 (-.15)	.37 (.14)	- 1.09* (-.31*)	.49 (.14)	- 1.81** (-.37**)	.66 (.13)
Private	-.04 (-.04)	.14 (.15)	.12 (.10)	.17 (.14)	.17 (.10)	.23 (.14)
State-owned	.23 (.21)	.18 (.17)	-.14 (-.10)	.23 (.17)	.03 (.02)	.31 (.16)
Foreign	.32 (.20)	.18 (.11)	.24 (.12)	.23 (.12)	-.75* (-.27*)	.31 (.11)
Single-site organization	-.03 (-.03)	.13 (.12)	-.07 (-.05)	.16 (.11)	.20 (.10)	.21 (.11)
Predictors						
OCI	.38** (.34**)	.13 (.11)	-.22 (-.16)	.18 (.12)	.23 (.11)	.24 (.12)
AD	-.26 (-.10)	.38 (.14)	1.25** (.36**)	.47 (.14)	-.11 (-.02)	.66 (.13)
GD	.04 (.01)	.56 (.12)	.09 (.01)	.73 (.12)	- 2.86** (-.33**)	.97 (.12)
RD	.77 (.26)	.42 (.14)	.06 (.02)	.61 (.16)	2.07** (.39*)	.81 (.15)
ES	-.10 (-.15)	.07 (.11)	.30** (.35**)	.10 (.12)	.11 (.09)	.14 (.12)
EU	-.04 (-.13)	.04 (.11)	.04 (.08)	.05 (.11)	.10 (.16)	.06 (.10)
ES $\times$ EU	-.03 (-.05)	.07 (.12)	-.06 (-.08)	.08 (.12)	-.09 (-.09)	.12 (.12)
OCI $\times$ EU	.09 (.13)	.10 (.14)	.16 (.18)	.12 (.14)	.26 (.21)	.17 (.13)
OCI $\times$ AD	2.51* (.32*)	.97 (.13)	- 3.86** (-.39**)	1.32 (.14)	- 2.26 (-.16)	1.84 (.13)
OCI $\times$ GD	- 3.58 (-.21)	1.96 (.11)	1.75 (.08)	2.64 (.12)	- 4.50 (-.15)	3.61 (.12)
OCI $\times$ RD	2.78* (.30*)	1.24 (.14)	3.29 (.28)	1.80 (.15)	- 2.08 (-.13)	2.48 (.15)
OCI $\times$ ES	.27 (.14)	.21 (.11)	-.10 (-.04)	.29 (.12)	.27 (.08)	.41 (.12)
Knowledge management capacity			.61** (.47**)	.16 (.12)	.75** (.42**)	.21 (.12)
R^2	.51		.53		.57	
ΔR^2	.17**		.14**		.05	
AIC			2295.68			
Sample-size-adjusted BIC			2049.66			

Note. $N = 102$. Standardized results are presented in parentheses. ΔR^2 denotes R^2 change from Model 1 to Model 2. OCI = organizational climate for inclusion; AD = age diversity; GD = gender diversity; RD = regional diversity; ES = environmental scanning; EU = environmental uncertainty; AIC = Akaike information criterion; BIC = Bayesian information criterion.

* $p < .05$. ** $p < .01$, two-tailed.

Figure 2

The Two-Way Interaction of Organizational Climate for Inclusion and Age Diversity on Knowledge Management Capacity

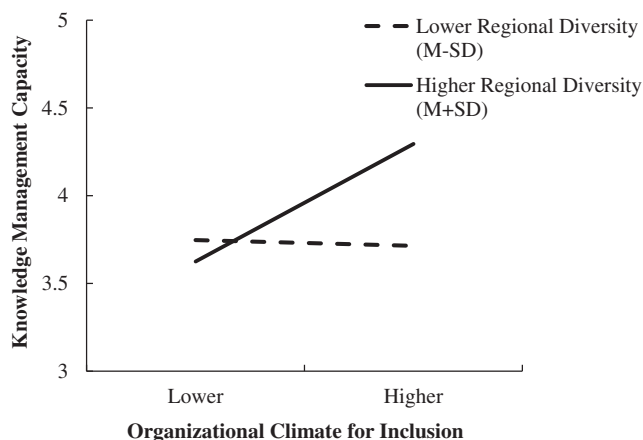


positive (slope = .79, $p < .001$) when regional diversity was higher but became nonsignificant (slope = $-.04$, $p = .871$) when regional diversity was lower. However, the moderating effect of gender diversity on the relationship between climate for inclusion and knowledge management capacity was not significant ($\gamma = -3.58$, $SE = 1.96$, $p = .067$). Thus, we found partial support for Hypothesis 3.

Based on the moderated mediation tests, the indirect effect of climate for inclusion on incremental innovation via knowledge management capacity was positive, .47, 95% CI [.16, .89], when age diversity was higher, but not significant, $-.01$, 95% CI $[-.24, .21]$, when age diversity was lower. The difference between the two indirect effects was significant, as 95% CI [.10, 1.00] of the difference excluded zero. Likewise, the indirect effect of climate for inclusion on radical innovation via knowledge management capacity was positive, .58, 95% CI [.19, 1.11], when age diversity was higher, but not significant, $-.02$, 95% CI $[-.30, .26]$, when age diversity was lower. The difference between the two indirect effects was significant, 95% CI [.11, 1.25].

Figure 3

The Two-Way Interaction of Organizational Climate for Inclusion and Regional Diversity on Knowledge Management Capacity



We observed similar patterns when regional diversity was the moderator. The indirect effect of climate for inclusion on incremental innovation via knowledge management capacity was positive, .48, 95% CI [.18, .85], when regional diversity was higher, but not significant, $-.02$, 95% CI $[-.32, .29]$, when regional diversity was lower. The difference between the two indirect effects was significant, 95% CI [.06, 1.05]. Similarly, the indirect effect of climate for inclusion on radical innovation via knowledge management capacity was positive, .59, 95% CI [.20, 1.12], when regional diversity was higher, but not significant, $-.03$, 95% CI $[-.43, .34]$, when regional diversity was lower. The difference between the two indirect effects was significant, 95% CI [.06, 1.39]. Gender diversity did not moderate the indirect effects of climate for inclusion on innovation outcomes via knowledge management capacity. Therefore, we found partial support for Hypotheses 4a and 4b.

Unexpectedly, environmental scanning did not moderate the relationship between climate for inclusion and knowledge management capacity ($\gamma = .27$, $SE = .21$, $p = .208$). Thus, we did not find support for Hypotheses 5, 6a, or 6b. However, as shown in Table 4 (Model 3), there was a significant three-way interaction effect of climate for inclusion, environmental scanning, and environmental uncertainty on knowledge management capacity ($\gamma = .51$, $SE = .17$, $p = .003$). This three-way interaction term explained 4% of the total variance in knowledge management capacity, $\Delta R^2 = .04$, $\Delta F(1, 75) = 7.37$, $p = .008$. As shown in Figure 4, when environmental uncertainty was higher, the moderation effect of environmental scanning on the relationship between climate for inclusion and knowledge management capacity was positive (coefficient = .75, $p = .003$), whereas when environmental uncertainty was lower, this moderation effect became nonsignificant (coefficient = $-.66$, $p = .076$). Thus, we found support for Hypothesis 7.

Finally, we examined whether the moderated indirect effects were contingent upon environmental uncertainty. For incremental innovation, the indirect interaction effect of inclusive climate and environmental scanning via knowledge management capacity was .47 with a 95% CI of [.12, .93] when environmental uncertainty was higher and was $-.41$ with a 95% CI of $[-.98, .04]$ when environmental uncertainty was lower. The difference between the two indirect effects was significant, 95% CI [.24, 1.71]. Similarly, for radical innovation, the indirect interaction effect was .51 with a 95% CI of [.11, 1.03] when environmental uncertainty was higher and was $-.44$ with a 95% CI of $[-1.14, .05]$ when environmental uncertainty was lower. The difference between the two indirect effects was significant, 95% CI [.21, 1.95]. Therefore, we found support for Hypotheses 8a and 8b.

Discussion

We used multiwave multisource data to test the mechanism and boundary conditions for an inclusive climate to impact innovation. We found that an inclusive climate fostered knowledge management capacity, which in turn promoted incremental and radical innovation. Furthermore, workplace demographic diversity (age and regional diversity in particular) and environmental scanning (only in uncertain business environments) served as important enablers amplifying the positive effects of inclusive climate.

Table 4*Unstandardized and Standardized Path Modeling Results (Three-Way Interaction Effect)*

Variable	Model 3					
	Knowledge management capacity		Incremental innovation		Radical innovation	
	Estimate	SE	Estimate	SE	Estimate	SE
Intercept	3.94** (8.47**)	.21 (.79)	1.96** (3.29*)	.74 (1.32)	.55 (.66)	1.01 (1.20)
Control variables						
Manufacturing	-.04 (-.04)	.16 (.16)	-.69** (-.54**)	.21 (.16)	-.65* (-.36*)	.29 (.16)
Finance	.20 (.14)	.20 (.14)	-.42 (-.23)	.27 (.15)	-.21 (-.08)	.36 (.14)
Wholesale trade	.27 (.08)	.27 (.08)	-.34 (-.08)	.36 (.08)	-.61 (-.10)	.48 (.08)
Retail trade	-.01 (-.01)	.21 (.13)	-.37 (-.18)	.27 (.13)	-.40 (-.13)	.37 (.12)
Service	-.09 (-.09)	.17 (.16)	-.38 (-.28)	.22 (.16)	-.48 (-.25)	.30 (.16)
Transportation and utilities	.22 (.13)	.24 (.14)	-.97** (-.44**)	.32 (.15)	-.44 (-.14)	.45 (.14)
Organizational age	-.00 (-.06)	.00 (.12)	.00 (.07)	.00 (.13)	.01 (.14)	.01 (.12)
Organizational size	.03 (.10)	.04 (.13)	-.07 (-.19)	.05 (.14)	-.04 (-.08)	.07 (.13)
Functional diversity	-.31 (-.12)	.36 (.13)	-1.08* (-.31*)	.49 (.14)	-1.74* (-.36**)	.69 (.14)
Private	-.02 (-.02)	.13 (.14)	.13 (.11)	.17 (.15)	.18 (.11)	.24 (.14)
State-owned	.26 (.24)	.17 (.16)	-.13 (-.10)	.23 (.17)	.09 (.05)	.31 (.16)
Foreign	.41* (.26*)	.17 (.11)	.22 (.11)	.24 (.12)	-.71* (-.25*)	.32 (.12)
Single-site organization	-.10 (-.09)	.13 (.12)	-.06 (-.04)	.17 (.12)	.14 (.07)	.22 (.11)
Predictors						
OCI	.38** (.34**)	.12 (.11)	-.23 (-.16)	.18 (.12)	.25 (.13)	.24 (.12)
AD	-.22 (-.08)	.35 (.13)	1.26** (.36**)	.47 (.14)	-.19 (-.04)	.69 (.14)
GD	.58 (.12)	.58 (.12)	-.01 (-.00)	.81 (.13)	-2.61* (-.30*)	1.07 (.13)
RD	.41 (.14)	.44 (.15)	.08 (.02)	.64 (.17)	2.07* (.38*)	.87 (.16)
ES	-.17* (-.25*)	.07 (.11)	.33** (.38**)	.11 (.13)	.08 (.07)	.15 (.12)
EU	-.08* (-.25*)	.04 (.11)	.05 (.12)	.05 (.12)	.09 (.15)	.07 (.12)
ES × EU	-.02 (-.03)	.06 (.11)	-.06 (-.09)	.08 (.12)	-.09 (-.09)	.12 (.12)
OCI × EU	-.13 (-.19)	.12 (.18)	.23 (.26)	.17 (.19)	.22 (.17)	.22 (.17)
OCI × AD	1.95* (.25*)	.97 (.13)	-3.74** (-.37**)	1.36 (.14)	-2.10 (-.15)	2.01 (.14)
OCI × GD	-3.13 (-.18)	1.88 (.11)	1.57 (.07)	2.63 (.12)	-4.70 (-.15)	3.65 (.12)
OCI × RD	3.08** (.34*)	1.18 (.14)	3.25 (.28)	1.84 (.16)	-1.45 (-.09)	2.66 (.16)
OCI × ES	.05 (.03)	.22 (.11)	-.06 (-.02)	.32 (.13)	.20 (.06)	.43 (.13)
OCI × ES × EU	.51** (.44**)	.17 (.15)	-.14 (-.10)	.26 (.18)	.12 (.06)	.35 (.17)
Knowledge management capacity			.62** (.48**)	.17 (.13)	.68** (.37**)	.23 (.13)
R ²	.55		.53		.57	
ΔR ²	.04**		.00		.00	
AIC			2292.94			
Sample-size-adjusted BIC			2045.32			

Note. $N = 102$. Standardized results are presented in parentheses. ΔR^2 denotes R^2 change from Model 2 to Model 3. OCI = organizational climate for inclusion; AD = age diversity; GD = gender diversity; RD = regional diversity; ES = environmental scanning; EU = environmental uncertainty; AIC = Akaike information criterion; BIC = Bayesian information criterion.

* $p < .05$. ** $p < .01$, two-tailed.

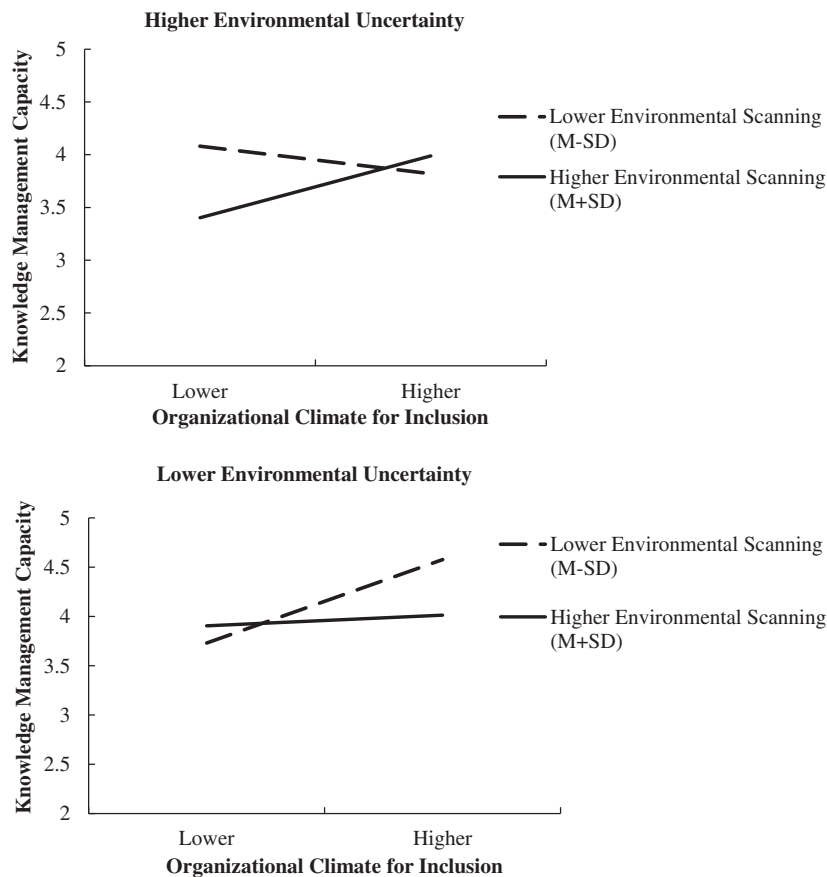
Theoretical Implications

Our study provides several important theoretical implications. First, this research advances the literature by shedding light on how and when an inclusive climate fosters innovation at the organizational level. Previous theoretical work (Mor Barak, 2008; Shore et al., 2011) and empirical studies on inclusion (e.g., Dwertmann & Boehm, 2016; Findler et al., 2007; Mor Barak & Cherin, 1998) mainly focused on the individual-level effects and paid little attention to the organization-level consequences of inclusion. Although Nishii (2013) is an exception, this study aligns more with the fairness and discrimination perspective, examining how an inclusive climate helps the organization mitigate potential problems (i.e., conflict) associated with diversity due to social categorization and similarity attraction (Byrne, 1971; Tajfel, 1981). Extending this line of literature, we embrace a synergy perspective and show how an inclusive climate fosters innovation by boosting knowledge management capacity. As such, our approach to inclusive climate aligns more with the information and decision-making perspective

in the diversity literature, which suggests that leveraging the informational benefits of diversity (e.g., through an inclusive climate) facilitates information elaboration and decision-making (van Knippenberg et al., 2004; Williams & O'Reilly, 1998). Overall, our knowledge-based synergy approach provides a novel theoretical lens to understand the strategic value associated with organizational climate for inclusion.

Second, when investigating workplace demographic diversity as a contingency, we consider the potential informational benefits of multiple types of diversity (i.e., age diversity, gender diversity, and regional diversity) that are salient in the Chinese context. As most studies examined demographic diversity in Western countries, investigating context-relevant types of diversity in non-Western contexts (e.g., Asian and African countries) is important for advancing current knowledge about diversity and inclusion. For example, regional diversity appears to be an important diversity source in China due to region-based cultural differences and the household registration system. India also has wide regional differences, perhaps even more so than China because of different

Figure 4
The Three-Way Interaction of Organizational Climate for Inclusion, Environmental Scanning, and Environmental Uncertainty on Knowledge Management Capacity



written languages across regions. Although not examined in the present study, the difference between rural and urban dwellers is also likely to matter in many developing countries (e.g., China and India). Examining these context-specific diversity categories based on both “macroculture” and “microculture” echoes Cox’s (1994) theory on cultural diversity and provides an important avenue to understand diversity and inclusion across various cultural contexts.

More specifically, our empirical results showed that age and regional diversity could amplify the positive effect of inclusive climate on knowledge management capacity and thereby innovation. However, the moderating effect of gender diversity was not significant. These findings suggest that different types of diversity could vary in their complementarities of knowledge and perspectives, such that age and regional diversity have better synergistic potential than gender diversity. One explanation is that female and male employees *within the same organization* share more similarities than expected in their social roles and mental abilities due to the attraction–selection–attrition process (Schneider, 1987). Indeed, most studies of gender differences in terms of social roles and mental abilities were conducted at the individual level without considering the organizational context. We thus call for empirical work examining gender-based differences at the within-organization

level to better understand our findings related to gender diversity. In addition, although gender diversity does not serve as an amplifier in the current research model, it is likely to facilitate the positive effect of an inclusive climate through pathways other than knowledge management capacity. For example, according to Li, Koopmann, et al. (2021), gender diversity can facilitate the formation of shared leadership structures in learning-oriented self-management teams. If so, shared leadership may be a viable mechanism for gender diversity to amplify the positive effect of an inclusive climate, especially in flat organizations.

Third, existing theory and research on inclusion has largely been limited to an internal view with a focus on the internal management of employees within the organization. We offer a novel extension by bringing the external environment into the theoretical consideration. Our findings highlight the complementarity of internal knowledge sourcing via inclusive climate and external knowledge sourcing via environmental scanning in fostering knowledge management capacity for innovation (Berchicci, 2013; Grimpe & Kaiser, 2010). Notably, we found that the amplifying effect of environmental scanning was only significant for those organizations currently facing uncertain business environments. This finding suggests that environmental scanning is not always necessary and only fast-changing environments call for constant environmental scanning to refresh internal

knowledge reservoir (Danneels, 2008). Simply put, it is only under more dynamic and complex business environments that environmental scanning activities could benefit the human resource pool leveraged by an inclusive climate with respect to knowledge management capacity. From a historical perspective, although organizations from different industries vary in their lengths of life cycles (Milliman et al., 1991), all long-surviving organizations need to go through disruptive events and evolutionary changes at certain stages. Thus, for most organizations, environmental scanning activities can be beneficial in the long run.

Finally, this research contributes to the strategy literature on organizational learning. Strategy scholars have urged that decentralized exploration play a central role in organizations' problemistic search for new, higher performing activity configurations (Csaszar, 2012; Dobravska et al., 2015; Siggelkow & Levinthal, 2003). As such, innovation is not simply the responsibility of a specialized R&D department. Rather, it has increasingly been seen as the responsibility of employees as a collective. In light of this idea, several studies identified employee participation as an important innovation facilitator (e.g., Flores et al., 2012; Wang et al., 2015). We add to this research stream by systematically examining an inclusive climate as well as its mechanism and contingencies in predicting organizational innovation. As noted by a qualitative study from Fiol (1994), to promote innovation, managers must actively encourage the development of different perspectives and viewpoints (i.e., diversity), while striving for a shared framing that is broad enough to encompass those differences (i.e., unity). In this respect, an inclusive climate offers a viable approach for organizations to manage such a dilemma between unity and diversity. Taken together, the current research bridges micro and macro research and sheds light on the central role that an inclusive climate plays in facilitating organizational learning and sustaining competitive advantage.

Practical Implications

Our research provides important practical implications for managing workplaces. First, this study informs the central role that an inclusive climate plays in promoting knowledge management capacity and thereby innovation. Thus, it is important for organizations to cultivate inclusive work environments to foster positive socioemotional experiences for employees from different identity groups. In this respect, organizations should espouse a "multiculturalism" view that acknowledges and values cultural differences among employees (Leslie et al., 2020). Furthermore, when adopting inclusion-related management practices (e.g., equitable employment practices, integration of differences, and inclusion in decision-making; Nishii, 2013), organizations should be aware of the potential disconnections between espoused practices, enacted practices, and employees' perceptions of practices and consider utilizing a variety of factors to mitigate such disconnections (e.g., institutional context, the characteristics of policy implementers, and personal relevance of employees; Nishii et al., 2018). In addition, organizations need to be conscious of the unintended consequences of diversity initiatives (e.g., negative spillover such as decreased engagement of nontargeted groups) and closely monitor the progress and effectiveness of their diversity goal progress and potential spillover (Dezső et al., 2022; Leslie, 2019).

Second, our research suggests that age- and region-diverse workplaces have better synergistic potential and a combination of an

inclusive climate and demographic diversity fosters knowledge management capacity and thus innovation. Therefore, it is important for organizations to increase the representation of different demographic groups. In this respect, organizations can implement active recruitment to build a more diverse job candidate pool and ensure unbiased selection to offer employees with diverse backgrounds equal hiring opportunities (Kossek et al., 2003). Moreover, given the prevalence of social categorization-based stereotypes (e.g., younger workers are considered less reliable and older workers are considered less innovative; Fasbender et al., 2019; Fasbender & Wang, 2017; Posthuma & Campion, 2009) and stigma (e.g., social stigma against rural migrant workers; Chen et al., 2011), organizations may consider providing diversity training to counteract bias and discrimination at work (Boehm et al., 2021; Froidevaux et al., 2020; Leslie, 2019). To retain employees with diverse attributes, organizations may customize career management interventions to help individuals better manage career goals throughout their lifespans (Hirschi, 2020; Wang & Shultz, 2010; Wilckens et al., 2021). Additionally, to more fully leverage the informational benefits associated with age and regional differences, organizations may adopt opportunity-enhancing management practices (e.g., self-directed groups, problem-solving teams, and job rotation) to leverage age and regional differences among employees (Li et al., 2018; von Bonsdorff et al., 2018).

Third, our research demonstrates the complementarity between an inclusive climate and environmental scanning in promoting knowledge management capacity and innovation for organizations facing unpredictable and dynamic business environments. Thus, managers are encouraged to constantly monitor the environment in order to maintain a preparative stance as environmental influences arise (Albright, 2004). In this respect, organizations should consider utilizing a variety of sources (e.g., journal articles, patents, experts in the field, and professional activities) to obtain comprehensive information from the external business environments (Danneels, 2008).

Limitations and Future Directions

This research has several limitations, which point toward future research directions. First, our study focuses on age, gender, and regional diversity, because these diversity attributes are salient in our research context (National Bureau of Statistics of China, 2021). As most Chinese firms are mainly comprised of Han Chinese, our samples are not suitable for studying racial or national diversity. Considering that typical workforces in China are not as diverse as those from Western countries (e.g., United States) in many aspects (e.g., race and nationality), we offer relatively conservative tests for the hypothesized research model. As a future research venue, we call for studies to replicate our findings with samples of organizations from Western countries and include other types of demographic diversity, such as racial diversity. We also encourage future research to understand topics related to inclusion and diversity with a cross-national/cross-cultural lens (e.g., Farndale et al., 2015; Shao et al., 2021).

Second, due to the constraints from the data collection sites, we measured the moderators (i.e., workplace demographic diversity, environmental scanning, and environmental uncertainty), mediator (i.e., knowledge management capacity), and outcome variables (i.e., incremental and radical innovation) from a single manager (HR or executive manager). It is common in strategic HR research to have a single key informant to answer the establishment/workplace survey (e.g., Batt & Colvin, 2011; Wang & Zatzick, 2019). In particular,

HR managers are responsible for managing employer–employee relationships and thus are reasonable sources for measuring employee management and workforce compositions (Li et al., 2018; Zatzick & Iverson, 2006). Executive managers are responsible for meeting market needs through developing business strategies and monitoring work activities and thus are reasonable sources for measuring organizational capability and performance (Gong et al., 2009; Guthrie, 2001). Therefore, our research design is informed by prior studies and helps with realism. For research rigor, we suggest future research measuring key variables with multiple informants to obtain more reliable ratings (Chan, 1998).

Third, we used a sample of organizations across industries for hypotheses testing, which allows us to establish the studied relationships with more confidence in terms of generalizability. Nevertheless, this research design prevents us from looking into the impact of an inclusive climate in certain business settings (e.g., within a particular industry) more closely. To complement this research, we invite future studies to investigate an inclusive climate within certain industries and examine whether the studied relationships depend on industry characteristics (e.g., industry capital intensity, industry growth, and industry product differentiation; Datta et al., 2005).

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