



Economics of diversity

For Marco Listrom, the challenges of running his own small company may pale in comparison to what could have been a steep climb up the career ladder when he entered the workforce decades ago.

As a second-generation Mexican-American, he knew it might have been a struggle to advance in a homogenous workplace. So Listrom, now 54, has always been his own boss, creating the kind of office environment he wants to work in.

“I didn’t want to have to fight going upstream,” he says. “There’s a better way, a more diverse way.”

At Valdes & Moreno, his small institutional brokerage and investment banking firm (named after his mother and grandmother), Listrom’s philosophy is: Diversity runs from the top down.

“The important thing for me to understand (as a manager), is that not everyone is like me,” he says.

The environment at Valdes & Moreno in Kansas City, Mo., is respectful of differences among its employees. This is challenging, but it teaches staff members flexibility, tolerance and how to learn from one another. The company reflects the outside world, which, ultimately, is good for business, Listrom says.

“The success of our firm hinges on how well we serve our customers, and that implies how well we manage productivity and changes,” he says.

While workplace diversity certainly is trendy, it may actually be necessary to conduct business competitively as the marketplace continues to grow more global. But, if it’s not managed effectively, diversity can be costly, says Alan Garner, an economist and assistant vice president at the Federal Reserve Bank of Kansas City.

“Sometimes in discussing diversity, we tend to oversimplify and make it sound as if diversity automatically is an economic plus,” Garner says. “That isn’t necessarily true.”

Garner recently researched whether companies' increasingly diverse pool of workers help or hurt economic performance. His conclusion: It depends.

"Diversity can have both economic costs and benefits," Garner says. "Its effects on economic performance are complex and hard to identify clearly."

While a more diverse staff will have a broader mix of skills and ideas that may benefit output, it also might be difficult for them to communicate with each other because of different backgrounds or even languages. From an economic standpoint, it's not clear which factors would more greatly affect a workplace.

"As the workforce becomes increasingly diverse and continues to grow more global," Garner says, "organizations that master these tricky tasks are more likely to excel."

After nearly 15 years of business, Valdes & Moreno is able to measure with certainty its success in the marketplace.

"We have achieved diversity," Listrom says.

Trends, effects of workplace diversity

While many often think of diversity in a racial or ethnic sense, people can be diverse in religion, country of origin, age, gender and many other ways. Even in the most homogeneous environments, workers will

differ, whether it's something like marital status or the college they attended. Because of its personal nature, diversity obviously affects society at many levels, and the workplace is no exception.

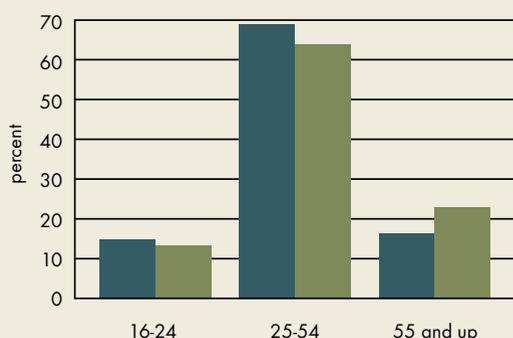
According to data from the Bureau of Labor Statistics, there are three key factors related to diversity that are affecting the U.S. labor force:

- The aging of the baby boom workforce, which has begun retiring, will slow the growth rate of the labor force overall. But the percentage of workers age 55 and older is projected to rise 7 percent by 2050.
- Women's labor force participation is expected to stabilize after peaking in 1999 and then gradually decreasing. By 2050, women still will make up an estimated 47 percent of the workforce.
- Racial and ethnic diversity in the workforce is expected to continue increasing. Especially noteworthy is the projected decline in the share of white, non-Hispanic workers from about 70.5 percent in 2005 to about 50.5 percent in 2050—something that can be attributed to lower birth rates, among other factors. Changes in the country's immigration policy also could affect growth in the Hispanic share of the labor force.

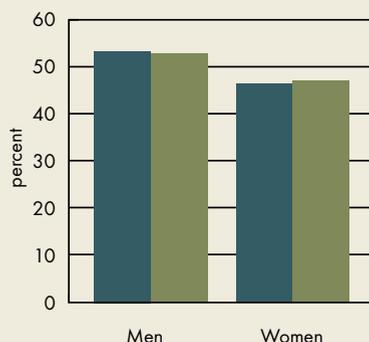
In addition to the growing diversity in the labor force, U.S. companies more and more are doing business in a global economy, with a

Workplace diversity

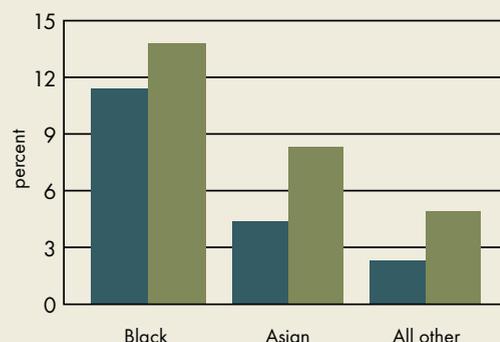
More older workers



Stable share for women



Rising nonwhite share



2005 2050

presence—and growth opportunities—in other countries. Today, U.S. imports and exports of goods and services add up to roughly 28 percent of the domestic economy.

Research on the effects of diversity differs, Garner says. One unpublished experiment that examined how diversity affected the performance of student groups shows more diverse groups can have the potential to perform better, but that's not always the case.

In this study conducted by university professors, students were placed in groups that varied by age, gender and race. Their performance was evaluated by group projects and individual exams. Sometimes diversity mattered; sometimes it didn't. For example,

In a way, it's an unwritten part of the business plan for the Kansas City, Mo.-based firm, which offers engineering, architecture, construction, environment and consulting services around the globe. While it's important for the workplace culture, Burns & McDonnell realizes it affects the way the company does business, says Melissa Wood, associate vice president of human resources.

"We need to be cognizant that our clients look different, talk different and think different," Wood says. "We need to evolve with them" as the marketplace continues to grow even more global.

With this in mind, nearly all of the company's 2,000-some employees have

“ Companies that manage diversity well just may get more ideas and cooperation out of any given level of talent than other companies. ”

male-dominated groups performed worse than female-dominated and equally mixed gender groups. Individuals who had been in a more age- and gender-diverse group scored higher on exams. Groups' racial makeup didn't appear to affect group or individual performance.

Some research shows developing countries that are diverse grow slower than less-diverse developing countries. Ethnic fragmentation can cause struggles over how to divide the "economic pie" rather than decision making for the common good. A strong framework, such as laws and property rights, as well as higher levels of income per person, lessens the negative effects. Other studies suggest more diverse cities may be more economically successful because of the diverse workforce.

Managing diversity

Whether it's browsing the company's intranet section on diversity for a few minutes during the workday, or sampling ethnic foods at the Diversity Day celebration held on-site annually, employees at Burns & McDonnell are encouraged to recognize the differences among each other—and their clients.

attended in-house sessions on diversity. A diversity advisory committee was formed a few years ago, and internal focus groups identify diversity training opportunities. The idea is for employees to be self-aware and recognize that differences must be appreciated in the workplace, Wood says. This allows Burns & McDonnell to meet its clients' needs.

"It always goes back to the business client," Wood says. "We can offer a client something similar to their own background. We build relationships."

In contrast, a lack of commitment to diversity could mean high staff turnover, or a team of employees not able to meet production goals.

There are a number of ways diversity can affect the workplace, Garner says.

Economic costs of diversity include:

- Communication problems from different languages and cultural assumptions;
- Different ways of motivating and managing diverse employees;
- Additional costs of education; and
- Differing views on public policies.



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Economic benefits of diversity include:

- Increased access to talent;
- Better decision making as a result of dissimilar ideas;
- Increased ability to market across diverse cultures; and
- Increased adaptability of the company to respond to the marketplace.

“To excel, positives from diversity must exceed the negatives,” Garner says, adding, “It may be necessary to change the company’s culture.”

The costs of diversity can be reduced in several ways, such as offering programs to improve communication, says Deth Im, workplace diversity coordinator at Harmony, an organization that offers programs for companies, schools and other groups in the Kansas City metro area.

Im facilitates these sessions to prompt self-awareness and create dialogue. His presentations include videos, interactive activities and role-playing exercises.

“It really gives folks a lens to view, and understand, diversity,” he says. “Most of us have biases and we make judgments. ... One of the worst things diversity training can do is guilt people.”

Instead, it’s important to create an environment of honesty, Im says. There also

AS THE MARKETPLACE CONTINUES TO GROW more global and more diverse, research shows companies that are able to make diversity an economic benefit are more likely to excel.

needs to be a willingness to tackle tough issues. Employees may not want to embrace their co-workers’ differences, but they should accept them. Effectively managing diversity means problems, such as communication and coordination issues, need to be minimized, and benefits, such as the increased number of ideas and access to a larger talent pool, need to be maximized.

“That’s just part of doing business,” Im says. “The world is growing more diverse.”

Garner agrees.

“Diversity can either be a plus or a minus depending on the circumstances,” he says. “Companies that manage diversity well just may get more ideas and cooperation out of any given level of talent than other companies.”



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COMMENTS/QUESTIONS are welcome and should be sent to teneditors@kc.frb.org.