

## Foundation Seminar Series 2013

### Promoting diversity at the workplace: a strategy for inclusion and competitiveness

#### CONCEPT PAPER

##### *Promoting inclusive growth*

The **Europe 2020** strategy<sup>1</sup> is aimed at promoting the conditions for a more competitive European economy, based on a model of growth that is *smart, sustainable* and *inclusive*.

With reference in particular to the last aspect, Europe 2020 aims at promoting a *high-employment economy delivering economic, social, and territorial cohesion*. A fourfold programme has therefore been foreseen: developing Employment by increasing Europe's employment rate and creating more and better jobs, especially for those most likely to be excluded from employment and in general from the labour market; helping people of all ages anticipate and manage change through investment in skills and training; modernising labour markets and welfare systems; finally, ensuring the benefits of growth reaches all areas and parts of the EU.

EU targets within the strategy Europe 2020 for an *inclusive growth* include:

1. Achieving 75% employment rate for women and men aged 20-64 by 2020, through getting more people into work, especially women, younger, older, low-skilled people, and legal migrants;
2. Reducing school drop-out rates to below 10% and bringing at least 40% of 30-34 year olds completing third level education in view of developing a better educational attainment;
3. Reducing, by 20 million, the people at risk of poverty and social exclusion

The decision to pursue an inclusive growth path, as part of the social and employment strategy for the next decade, is related to **demographic change**, on the one hand, and to the **impact of the recent economic crisis** on European labour markets on the other. Both of these aspects represent a major concern for Europe, given their social and economic repercussions, including threats vis à vis the sustainability of social protection systems. However, besides such reasons, the development of this path also responds to **ethical considerations** related to the overarching European objectives of **combating discrimination** and **promoting equal opportunities** for all.

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<sup>1</sup> European Commission, Europe 2020, 'A European strategy for smart, sustainable and inclusive growth', [http://ec.europa.eu/europe2020/index\\_en.htm](http://ec.europa.eu/europe2020/index_en.htm)

Regarding the first long term challenge, the changes in Europe's demographics and their impact on social security systems and the European society are nowadays well known. The **European population is rapidly ageing**, as a result of higher longevity rates and lower birth rates, which influences demographic dependency ratios, that is, the ratio of the dependent population (those aged below 15 and above 64) to the people in working age (15-64). Ageing poses a major challenge for the sustainability of social protection systems. This means that the active population will face increasing financial pressures to sustain the social schemes (pensions, healthcare and education) mainly needed by a growing inactive population, among which older workers are the biggest recipients of government expenditure. This trend is only partially counterbalanced by **migration flows**. Furthermore, as a result of the combined effect of the ageing process and the migration flows from outside and within the EU, the European society is transforming quickly, and new values, beliefs, cultural backgrounds, and different opinions associated to specific groups of population are emerging.

On the other hand, the significant **impact of the economic downturn** since 2007 on the labour markets of most EU member states', resulted in **labour market marginalisation or exclusion of specific population groups**, as data<sup>2</sup> shows.

Between 2007 and 2011, the total employed population aged 15 to 64 in the EU-27 experienced a slight decrease in average (-1.0%), while between 2000 and 2007 total employment grew by 8.4%. Consequently, in 2011, the employment rate dropped to 64.3% in the EU-27, with a number of countries presenting even lower rates. Simultaneously, the EU-27 unemployment rate (population aged 15 to 64) rose up to 9.7% in 2011 (+2.5 percentage points compared to 2007)<sup>3</sup> while the activity rate (population aged 15 to 64) reached 71.1%<sup>4</sup>. It should be kept in mind however, that such figures refer to the average population aged 15 to 64 in the EU-27, and therefore do not reflect the differences existing among countries (which performed in very diverse ways), within countries (specific regional and local labour markets trends) and also among workers, in terms of labour market attainment.

Two groups that have been directly and severely hit by the recession are young people and migrants. **The young workers** (aged 15 to 24), experienced a decrease of total employment (-13.9% from 2007 to 2011) and employment rates (down from an already low 37.3% in 2007 to even lower 33.6% in 2011), while the unemployment rate rose by +5.8 percentage points from 2007 (15.5%) to 2011 (21.3%). As a result, there have been falling trends in both the young population labour market participation (down from 44.2% in 2007 to 42.7% in 2011) and the active population among the 15-24 (-7.3% between 2007 and 2011). It is worth mentioning that these falling trends impact already on lower than average figures; for instance while

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<sup>2</sup> Eurostat data on labour market indicators is available from the data warehouse at the webpage [http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search\\_database](http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database)

<sup>3</sup> The European Quality of Life Survey includes also unemployed people in its representative sample of the EU population, and therefore provides information also on excluded groups: see the overview report <http://www.eurofound.europa.eu/publications/htmlfiles/ef1264.htm>

<sup>4</sup> It should be kept in mind however, that such figures refer to the average population aged 15 to 64 in the EU-27, and therefore do not reflect the differences existing among countries (which performed in very diverse ways), within countries (specific regional and local labour markets trends) and also among workers, in terms of labour market attainment.

among the 15-24 the active population fell by 7.3% between 2007 and 2011, the decrease for the general population was (only) 1.7% during the same period. **Migrant workers** also experience forms of marginalisation. The employment and unemployment rates of foreign workers are much different compared to nationals: on average in the EU 27, the migrant population displays a lower employment rate (59.7% vs. 64.6% in 2011) and a higher unemployment rate (16.8% vs. 9.1% for nationals in 2011). In addition, the increase of the unemployment rate has been higher for migrants when compared to national workers (+4.8 percentage points between 2007 and 2010, +2.2 for nationals).

Two other groups of workers, **older workers** (workers aged 55-64) and **women**, while being less hit by the recession, still display lower employment and activity rates than the overall active population (aged 15-64). In 2011, the older workers' employment rate (47.4%) was about 20 percentage points lower than the overall population one; similarly, their activity rate is 50.9%, while the overall population rate is 71.9%. Regarding women, despite not having been the hardest hit by the crisis, they continue to display a considerably lower employment rate than men: 58.5% in 2011 for women aged 15-64 (70.1% for men aged 15-64), which is even lower for foreign women (51.5%) and for women aged 55-64 (40.2%).

Furthermore, once employed, these various groups of workers often cumulate poor working and employment conditions, being frequently segregated in low quality jobs (that is, paid less, on temporary contracts, low qualified jobs) - as previous research and also data from the 5<sup>th</sup> European working conditions survey<sup>5</sup> displays.

It is worth highlighting, however, that this data reflects labour market marginalisation or exclusion only up to a point, as this is aggregated data and therefore **does not reflect variability within population groups** (e.g. variability related to education, skills, or type of occupation) **nor consider other workers' characteristics** (different from sex, age or nationality, **such as sexual orientation, ethnic background, religious or political beliefs, disability**) that existing research suggests to be related often to individuals' or groups' labour market marginalisation or exclusion.

All things considered, a really *inclusive growth* strategy can therefore be pursued actively promoting inclusion policies, according to an equal opportunities and non-discrimination approach. In this scenario, **all stakeholders** have to contribute:

- **companies**, as key actors in the economic growth process, can create job opportunities and introduce practices at workplace level aimed at including 'diverse' workers;
- **Governments** can devise and implement policies and actions against discrimination, exclusion and supporting firms' policies aimed at including 'diverse' workers;
- **Trade unions** can develop specific strategies to represent effectively the interests of all workers, especially the excluded ones.

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<sup>5</sup> Eurofound (2012), *Fifth European Working Conditions Survey*, Publications Office of the European Union, Luxembourg, <http://www.eurofound.europa.eu/pubdocs/2011/82/en/1/EF1182EN.pdf>

## ***Diversity management an important feature of inclusive growth***

The '***inclusive growth***' strategy entails the inclusion in employment of workers who are marginalised or excluded from the labour market, for one or more of their characteristics which are not related to their suitability for work.

***Diversity*** at the workplace can be defined as differences among the workforce related to characteristics such as 'age, ability, ethnicity, race, gender, sexual orientation, or religion'<sup>6</sup>. ***Diversity management*** is the whole set of company policies and practices lying on 'the active and conscious development of a future oriented, value driven strategic, communicative and managerial process of accepting and using certain differences and similarities as a potential in an organisation, a process which creates added value to the company'<sup>7</sup>.

The **European Commission** strongly encourages introducing diversity management practices in businesses, promoting a number of initiatives as training for companies, equality charters, handbooks and repositories of company cases related to diversity management<sup>8</sup>.

The increasing heterogeneity of the workforce is a fact nowadays, due to structural trends such as changes in demographics, and antidiscrimination regulations. Moreover, beyond the formal response in view to deal with such heterogeneity, it has been suggested that diversity management practices can develop a positive use of workers' characteristics' variety and transform it into an asset for firm productivity and economic results.

Research based on empirical evidence has examined the economic argument of diversity at the workplace, showing that **diversity can increase a firm's productivity**, although it can imply costs.

According to the popular theory called the "knowledge-based view," diversity in the workplace broadens the scope of worker experience, and is beneficial to organizational functioning, information sharing, and overall firm productivity.<sup>9</sup>

However, while recognising that diversity in education and gender may have value, an opposing theory asserts that diversity in race and ethnicity decreases firm performance.<sup>10</sup> It was found that racial and ethnic diversity seems to have a negative

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<sup>6</sup> Michael, Stuber. "Implementation Checklist for Diversity Management: Support for Voluntary Initiatives Promoting Diversity Management at the Workplace Across the EU" European Commission, n.d. Web. 8 Feb 2013.

<sup>7</sup> Keil, Marion, Badrudin Amershi, Stephen Holmes, Hans Jablonski, Erika Lüthi, Kazuma Matoba, Angelika Plett and Kailash von Unruh, "Training Manual for Diversity Management" (September 2007): Web. 11 Feb. 2013. [http://ec.europa.eu/justice/discrimination/files/traisem\\_en.pdf](http://ec.europa.eu/justice/discrimination/files/traisem_en.pdf)

<sup>8</sup> More information on the initiatives carried out so far is available on the website of DG Justice: [http://ec.europa.eu/justice/discrimination/diversity/index\\_en.htm](http://ec.europa.eu/justice/discrimination/diversity/index_en.htm)

<sup>9</sup> Richard, Orlando C, Susan L. Kirby, and Ken Chadwick, "The Impact of Racial and Gender Diversity in Management on Financial Performance: How Participative Strategy Making Features Can Unleash a Diversity Advantage." *The International Journal of Human Resource Management*, (2013): 1-12, Web

<sup>10</sup> Parrotta, Pierpaolo, Dario Pozzoli, and Mariola Pytlikova, "Does Labor Diversity Affect Firm Productivity" *Institute for the Study of Labor Discussion Papers*. 6973 (October 2012): Web. 11 Feb. 2013. <http://ftp.iza.org/dp6973.pdf>

impact on firm productivity because of increased communication costs, while educational and skill diversity seem to increase knowledge sharing and creative problem solving. Knowledge spill-over and a range of skillsets are often reflected upon in age and diversity. This type of diversity may offset some of the communication costs caused by racial diversity.<sup>11</sup>

A third theory combines the previous two to suggest that in the long term, heterogeneous groups become integrated and develop shared routines similar to those of homogenous groups. Nevertheless, with more expansive experiences and knowledge, more diverse groups will out-perform homogeneous groups.<sup>12</sup>

Research highlighted also that integration methods such as “participative strategy making” (PSM) processes implemented at the management level in the workplace to manage diversity, increase firm productivity.<sup>13</sup> Also in those cases in which diversity is considered costly to firms, integration structures that can harness the potential of workforce are important, because they can decrease communication costs. In other terms, research points out that heterogeneity itself is an important ingredient but without a catalyst to promote inclusion and tolerance, the large amount of varying knowledge and experience will not be harnessed properly.

In summary, conclusions emerging from this research indicates that **diversity can be an asset for companies, resulting in higher productivity and competitiveness. However, proper management practices** need to be developed at the workplace level to put inclusive infrastructure into place. By installing strategic participatory mechanisms, communication among a heterogeneous workforce will improve interpersonal relations amongst workers, which will in turn provide higher returns for businesses. Companies play an important role in including all workers - those belonging to vulnerable groups and the others - at workplace level. As a result, they not only contribute to labour markets development but they can also pro-actively benefit from the diversity of the workforce, in terms of higher productivity and better results. However, such an outcome needs proper management practices.

### ***The Foundation Seminar Series***

The objective of the Foundation Seminar Series (FSS) is to facilitate the transfer of knowledge by allowing exchange of national policies and practices between the participating countries. Fostering the debate at national level, through tripartite discussions, is a second objective. Facilitating networking at national as well as at

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<sup>11</sup> Richard, Orlando C. et al., “The Impact of Racial Diversity...”

<sup>12</sup> Richard, Orlando C., B. P.S. Murthi, and Kiran Ismail. “The Impact of Racial Diversity on Intermediate and Long Team Performance Moderating Role of Environmental Context” *Strategic Management Journal*. 28 (2007): 1213-1233. Web. 11 Feb. 2013. A less common theory was tested in a study that found that workers who were of a minority culture tend to be more cooperative in a collaborative environment than their majority counterparts. Their biculturalism means that they have two sets of value systems- those of their own ethnic groups, and those of the dominant culture. This allows for better integration and cooperation among mixed groups of people. Therefore, the more minorities represented in a collaborative workplace setting, the more cooperation and teamwork will occur. See Cox, Taylor, Sharon A. Lobel and Poppy Laretta McLeod, “Effects of Ethnic Group Cultural Differences on Cooperative and Competitive Behaviour on a Group Task.” *The Academy of Management Journal*.32: 4 (1991): 827-847 Web. 11 Feb. 2013.

<sup>13</sup> Richard, Orlando C. et al., “The impact of Racial and Gender Diversity...”

European level is a further aim of the FSS. Lastly, we would like to take the opportunity to familiarise participants with the work of the European Foundation in this area.

The current edition of the Foundation Seminar Series (FSS) aims at contributing to the Europe 2020 strategy by putting forward arguments and case studies showing the importance of diversity management practices as a way to promote an *inclusive growth*, while providing an opportunity to exchange points of view and current practices designed for introducing diversity management practices at company level between the different actors (governments, government body, trade unions, employers' associations and individual companies).

The tripartite setting of the FSS, bringing together representatives from trade unions, employers and governments, is the platform to share examples of company measures and government or social partner initiatives supporting diversity management practices at workplace level as a tool to promote workers' inclusion in the employment.

The FSS 2013 is organised in two sessions. The first session in May 2013 will set the ground by monitoring demographic trends and labour market situation of specific groups of workers and discussing types of practices for diversity management. European and international institutions, academics and social partners will share their views on the topic. In the second session, within the framework provided by the first session, participants will be asked to present and discuss initiatives adopted at national, sectoral and company level aimed at promoting inclusion through the introduction of diversity management practices at company level.

National tripartite delegations are requested to participate in the whole seminar (both sessions). The nomination of national experts, representatives of Trade Unions, Employers' organisations and Governments, is carried out with the assistance of the European Foundation's Governing Board members.

Participants are **asked to actively participate in two sessions:**

- Session 1: 23-24 May 2013, Eurofound, Dublin, Ireland
- Session 2: October 2013, dates, venue and location to be confirmed

For further information on the issue of **diversity management** to be discussed in the seminar, please contact:

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