SIOP White Paper Series

Benefits of Socioeconomic Diversity to Organizations: How Organizations Can Promote and Benefit From Socioeconomic Diversity

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Special thanks or other notes...

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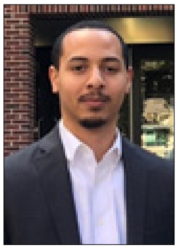

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Abstract

This white paper provides information that socioeconomic diversity can lead to positive business and people-related benefits for organizations. For example, there is research evidence that individuals from lower social class backgrounds tend to engage highly in prosocial behaviors, which have been shown to be related to improvements in team cooperation and team performance. Socioeconomic diversity can also increase the diversity of perspectives on a team, which has been related to improvements in team preparation. Although most organizations now embrace diversity and inclusion practices tailored toward salient individual differences (e.g., race, gender, age), few organizations consider how one's social class background might affect workplace experiences, especially during the hiring process. Drawing on research from various fields including management, psychology, and sociology research, this white paper seeks to provide organizations with a deeper understanding of how to enact, promote, and benefit from practices that promote socioeconomic diversity in their employee populations.

Although most organizations now embrace diversity and inclusion (D&I) practices tailored toward salient individual differences (e.g., race, gender, age), few organizations consider how one's social class background might affect workplace experiences, especially during the hiring process. Research has shown that signals of one's social class background are salient and can be a source of bias and discrimination (Kraus, Park, & Tan, 2017; Rivera, 2012). For example, companies in prestigious industries such as law firms, investment banks, and consulting firms have been shown to favor job applicants who participate in extracurricular activities associated with upper middle class culture such as squash, lacrosse, and crew (Rivera, 2011).

Drawing on research from various fields including management, psychology, and sociology research, this white paper seeks to provide organizations with a deeper understanding of how social class signals can be a source of discrimination in the hiring process, and how organizations can discontinue discriminatory hiring practices that disadvantage those from lower social class backgrounds and enact practices that promote socioeconomic diversity. Through recognizing the importance of employees' social class background and implementing the actionable steps mentioned in this white paper, we believe organizations will be well positioned to harness the benefits of being comprised of employees from various social class backgrounds. Moreover, organizations that eliminate discriminatory hiring practices that disadvantage those from lower social class backgrounds will contemporaneously play a significant role in reducing systemic inequality and disrupting barriers that prevent upward social mobility—the movement from one social class to another.

Background

In many countries, including the United States, socioeconomic status (SES) is the most common measure of social class. SES is an economic and sociological composite measure of education, income, and occupational prestige. According to the American Psychological Association (2017), SES encompasses not just income but also educational attainment, financial security, and subjective perceptions of social status and class. SES can encompass quality of life attributes as well as the opportunities and privileges afforded to people (American Psychology Association, 2017). In this white paper, we will refer to social class and SES interchangeably.
One's SES background plays a key role in shaping one's human capital, social capital, and cultural capital, which

influence employees’ relationships and behaviors at work (Stephens, Markus, & Phillips, 2014). Human capital refers to one’s knowledge, skills, and experiences. Social capital refers to the quantity and quality of relationships in one’s personal and professional network. Cultural capital refers to the accumulation of cultural competence that demonstrates one’s social status or standing in the society (e.g., extracurricular interests, dining etiquette).

Organizational Benefits

From a purely finance and accounting standpoint, there is a clear case for hiring those who have a lower socioeconomic status. The U.S. government provides tax credits, such as the Welfare-to-Work Tax Credit (WtWTC) and Work Opportunity Tax Credits (WOTC) programs, to incentivize companies to hire individuals who have consistently faced significant barriers to employment (United States Department of Labor, 2008). However, the benefits of creating a socioeconomically diverse and inclusive organization stretch well beyond the benefits of tax credits.

Collaboration. Research has also shown that individuals from lower SES backgrounds tend to be more other-focused and emphasize self-transcendent values (Piff, Stancato, Côté, Mendoza-Denton, & Keltner, 2012; Stellar et al., 2011). Moreover, these individuals are typically eager to converse and socially engage with new acquaintances (Kraus & Keltner, 2009), which could help facilitate the socialization of new team members (Ashford & Nurmohamed, 2012). Furthermore, individuals from lower social class backgrounds tend to highly engage in prosocial behaviors (Kraus & Callaghan, 2016; Piff, Kraus, Cote, Cheng, & Keltner, 2010), which have been shown to be related to improvements in team cooperation and team performance (Hu & Liden, 2015).

Diversity of perspectives*.* Socioeconomic diversity can also increase the diversity of perspectives on a team, which has been related to improvements in team preparation (Loyd, Wang, Phillips, & Lount, 2013), team creativity (Hoever, van Knippenberg, van Ginkel, & Barkema, 2012; Shin, Kim, Lee, & Bian, 2012; Wang, Kim, & Lee, 2016), and team performance (Kearney, Gebert, & Voelpel, 2009; Loyd et al., 2013; Pieterse, van Knippenberg, & van Dierendonck, 2013). Furthermore, socioeconomic diversity on top management teams might also affect key organizational decisions, as executives’ SES background has been shown to be related to their risk preferences and decision making (Kish-Gephart & Campbell, 2015).

Socioeconomic diversity can also increase the diversity of perspectives on a team, which has been related to improvements in team preparation

Leadership. Although individuals from lower SES backgrounds are less likely to become leaders (Barling & Watherhead, 2016), research has shown that they are highly effective leaders (Martin & Côté, 2018; Martin, Côté, & Woodruff, 2016; Martin, Innis, & Ward, 2017). Specifically, research has shown that leaders from lower SES backgrounds may be effective leaders for two reasons. First, those who grow up in poor environments are less likely to be narcissistic later in life, which subsequently leads lower SES background leaders to be more willing to engage in task, relational, and change-oriented behaviors (Martin, Côté, & Woodruff, 2016). Second, leaders from lower SES backgrounds who are social class transitioners—individuals who have moved from one social class to another during their lives—are better able to connect with a broader range of individuals because of the cultural capital they have acquired during their transition (Martin & Côté, 2018). In other words, they are able to speak the language and understand lower class and higher-class individuals, which makes them particularly well-suited to bridge class-based cultural differences within groups and organizations.

Implications for Practice

Based on these findings, it is clear that socioeconomic diversity can lead to positive organization outcomes, yet many organizations employ hiring practices that disadvantage those from lower SES backgrounds. As such, we have provided below several organizational steps to shed light on how organizations can enact hiring practices that promote socioeconomic diversity (i.e., *dos*) and discontinue hiring practices that disadvantage those from lower SES backgrounds (i.e., *don'ts*).

***Hiring Practice Dos*:**

- *Expand and improve talent acquisition efforts.* Organizations, especially elite employers, are known to target individuals who have graduate degrees and those who graduated from the most selective colleges and universities (Rivera, 2011). However, we know that employees' educational background is not a strong predictor of on-the-job performance (Schmidt & Hunter, 1998). Therefore, we suggest that organizations expand their target applicant pool to include qualified applicants who may not have the most impressive educational credentials, but who have the potential and/or experience to perform the job well. Moreover, companies could proactively source talent at technical colleges, open-access colleges, and historically black colleges and universities (HBCUs) as these types of institutions typically enroll a more socioeconomically diverse student population than highly selective private colleges and universities.
- *Reduce opportunities for selection biases*. Companies should eliminate selection practices that increase the likelihood that interviewers will be susceptible to biases that adversely impact lower SES background individuals. To do this, companies should consider which information in the application process is relevant for hiring, and then remove any other information that may enable biased decision making. Discontinuing these practices will increase the likelihood that all qualified applicants will experience a fair hiring process. To identify the specific knowledge, skills, and abilities (KSAs) that a job applicant will need to be successful at a particular job, managers and human resources professionals should perform a job analysis of the position. Once the job analysis is complete, interviewers should base their selection decisions on these empirically validated criteria (i.e., KSAs), instead of other information such as applicants' name, home address, or extracurricular activities, which may lead to biased hiring decisions (Rivera, 2011).

Companies should consider which information in the application process is relevant for hiring, and then remove any other information that may enable biased decision making

Hiring Practice Don'ts:

- *Overemphasis on organizational fit*. Managers and human resources professionals have a tendency to hire based on person–organizational fit (Schneider, 1987), which is the congruence between the norms and values of an organization and those of a job applicant (Chatman, 1991). Research has shown, however, that interviewers' perceptions of job applicants' person-organizational fit can be biased by many factors, including the applicants' social class (Rivera, 2011; Young & Reilly, 2016;). As such, organizations should reduce their emphasis on person–organizational fit and focus more on a job applicant's ability to successfully perform the job.
- *Don't anchor pay based on previous salary*. There is growing awareness that organizations' compensation practices might be a cause of systemic inequality. Recognizing this possibility, several states have passed laws prohibiting employers from asking job applicants about their current, or most recent, salary because one's previous salary can act as an anchor during salary negotiations. Although the primary rationale for this legislation centers on reducing gender pay differences, the spirit of the legislation can be generalized to all pay differences. Moreover, although these laws require that employers in certain states engage in fair compensation practices, organizations can proactively implement fair compensation practices even without legislative mandate. Indeed, organizations can immediately begin adapting their compensation practices by ceasing to anchor starting salaries based on previous pay. Instead, organizations should offer all new hires compensation packages that are competitive with market pay rates to avoid objectively enabling pay disparity and subjective feelings of pay inequity (Trevor & Wazeter, 2006). In addition to being socially responsible, having fair compensation practices can lead to improved job satisfaction and performance (Lord & Hohenfeld, 1979; Pritchard, Dunnette, & Jorgenson, 1972).

Next Steps

We believe that by implementing the suggested steps in this white paper, organizations will benefit from increased socioeconomic diversity, and employees from lower SES backgrounds will be afforded more opportunities to succeed professionally. Moreover, we propose that by implementing the steps suggested in this white paper, organizations, which are sources of income and employment, will also become more meritocratic and play a significant role in enabling social mobility, which is the movement of individuals from one social class to another.

It is important to note, however, that the actionable steps mentioned in this white paper are intended to complement, not replace, affirmative action initiatives that seek to reduce inequity and inequality associated with historically disadvantaged groups. In fact, researchers have pointed out that organizations cannot focus exclusively on socioeconomic status, gender, race or ethnicity; all must be addressed to effectively reduce historic and systemic inequity and inequality (Kovacs, Truxillo, & Bodner, 2014).

In addition to being socially responsible, having fair compensation practices can lead to improved job satisfaction and performance

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