

Chapter 2

The ROI of  
Diversity and  
Inclusion

Today businesses are employing more underrepresented groups than ever before. This trend reflects an overall effort by leading corporations to both diversify the workforce and reach out to an increasingly varied marketplace. The business case for diversity and inclusion is related to growth in market share and the return on investment (ROI) for companies. Typically, companies and organizations with best-in-class D&I programs and leadership prove a better ROI and outperform in the stock market than those without.

The benefits of having a diverse employee base—in race, ethnicity, gender, ability, age, religion, veteran status, work styles, and experience—include becoming an employer of choice, enhanced creativity, and increased idea generation. A diverse employee base brings more knowledge, perspectives, and experience to the company, helping it appeal to an increasingly global customer base. Better ideas also ensure an organization's survival in a highly competitive business environment. Moreover, an encouraging and supportive atmosphere in the workplace enables companies to hire and retain highly competent employees.

Best-in-class organizations realize that diversity and inclusion is a prudent business practice that has wide-ranging benefits for both the company and its employees. Quantifying the results of the return on investment of diversity and inclusion is challenging, but organizations are finding that the business case for D&I is clear. The bottom line is that investing in D&I is a win-win situation for corporations and their employees.

In this chapter, we explore the following questions:

- How do leading corporations use diversity and inclusion to increase their bottom line?
- In what ways does diversity and inclusion enhance an organization's ability to secure the best global talent and connect to customers?
- What is the ultimate measure of diversity and inclusion's ROI?

# Return on Diversity & Inclusion Investment

While D&I supports business growth to ensure a productive organization, integration is key in making diversity effective. Best-practice companies infuse diversity and inclusion throughout all business units. It is useful as a way to enrich the workforce and expand the market, and it is a business imperative for a company's market and consumers, workforce, community outreach, philanthropy, supplier base, and global community. Through all of these components, diversity and inclusion gives clear competitive strength to business.

Diversity initiatives can improve the quality of an organization's workforce and be the catalyst for a better return on investment (ROI) in human capital. The Sodexo Corporation is an example of how an organization exponentially increased its return on investment through D&I initiatives. For every \$1 it has invested in mentoring, it has seen a return of \$19, according to Dr. Rohini Anand, the company's senior vice president and global chief diversity officer. (See *Case Study: Sodexo* at end of chapter).

## Workforce-Marketplace-Customer Connectivity

Diverse staffs drive sales. In a tough economy, the workforce-marketplace-customer connectivity has never proved more important; thus, making sure D&I is ingrained in the corporate culture is vital.

Culture, values, ethics, and multicultural understanding are essential to success. A clear statement of a company's diversity and inclusion values is necessary as well as the monitoring and enforcement of these values. There is a new pressure to address values on diversity and inclusion and the organization's social culture from potential employees, suppliers, and customers.

Building a service culture for customers requires emphasis on relationships; therefore, all the other areas such as supporting each new populace group are critical. All groups must market directly, tying in sales, in order to relate to customers and consumer products.

Building of new market share through multicultural marketing is smart for business, and targeted marketing is vital. Ethnic and multicultural marketing are growing facets of corporate diversity, thanks to the ever-evolving and compelling market demographics of America and the global economy.

Community and philanthropy should be embedded in the business goals of every best practice organization. Most companies already have an ROI tied to their initiatives within the community on the local, national, and/or global level. Now organizations are finding diverse community relations programs lead to recruiting, access of talent, sponsorships, external recognition, ties to grants, media coverage, and contact with suppliers.

Finally, suppliers should be included in the business strategy and even considered as corporate advocates and sales representatives. Supplier diversity is an area of expanding interest for corporate America and for the government. Corporations are setting ambitious goals for themselves to reach out to businesses not traditionally included in the supply chain.

## Making the Business Case

Many companies struggle with effectively measuring the results of diversity and inclusion initiatives. In part, the challenge begins with determining what measures will yield the most useful information. For others, this task is difficult because they do not collect the necessary data required to measure diversity and inclusion. Diversity and inclusion programs, for example, are often considered to have “intangible” results, such as improved communication or improved teamwork, yet such improvements may have a significant impact on productivity, growth, and profits.

Clearly, at companies where measurement is of paramount importance, metrics is the path to successfully tracking results as well as identifying diversity and inclusion management concerns. The Fluor Corporation, for example, measures D&I from a standpoint of employee productivity and engagement in company performance, and that represents indirect costs or benefits to company. MGM Mirage, meanwhile, reports that the company measures diversity and inclusion performance in human resources, purchasing, construction, corporate philanthropy, and sales and marketing. The group also calculates the advertising equivalency value for editorial coverage about its diversity and inclusion practices.

And yet, for some companies, measuring the financial results of D&I is simply not done. As one HR exec says, “It’s hard to quantify financial results. We don’t approach diversity in terms of a dollar return on investment.” Instead, a company may focus instead on recruitment and retention strategies and successes in order to analyze their diversity and inclusion initiatives.

To create your own metrics, begin by considering data from some of the following measurements:

- Equal employment opportunity and affirmative action metrics
- Employee attitude surveys
- Cultural audits
- Focus groups
- Customer surveys
- Management and employee evaluations
- Accountability and incentive assessments
- Training and education evaluations

The next step is to think even more broadly. Research shows that measures outside of human resources are typically more comprehensive and better demonstrate the business impact of diversity and inclusion management. By establishing broader organizational metrics in the following six categories, leaders can better measure the potential return on investment of D&I:

- Demographics
- Organizational culture
- Accountability
- Productivity/profitability
- Benchmarking
- Programmatic measures

The approaches to quantifying the ROI of D&I may vary from company to company, but the fundamental themes are the same. Diversity and inclusion is a macro-concept that must be embraced on a micro-level. Sustained progress requires education at the individual and company levels. That said, the most valuable assets in business are usually the ones on which a price cannot be placed: stakeholder relationships. Achieving goals depends on the ability to not only articulate them to others, but to also inspire others to raise the bar on their performance as well.

## Collecting Data

Organizations measure broad aspects as well as more focused areas of diversity management—from the organization’s demographic profile to race/ethnic and gender representation of different job groups and levels in the company, compared with labor market availability. To track these measures effectively, consider creating a diversity balance sheet or scorecard—along with effective evaluation processes. A scorecard can help promote support for dedicated resources for diversity and inclusion initiatives, link diversity and inclusion initiatives to organizational strategic goals and objectives, and demonstrate HR’s value to the organization.

Often dependent on leadership commitment to diversity and inclusion, data collection is key to effective diversity measurement. Examples of meaningful data are:

- Level of participation in the firm’s diversity and inclusion vision formulation.
- Number of underrepresented employees in formal mentoring programs who get promoted.

- Percentage of diversity objectives aligned with key strategic business objectives that are tied to bonus and compensation systems.
- Representation on the board of directors.
- Overall organizational climate and culture ratings and their effects on all represented groups.

As discussed, many intangible variables are linked to diversity and inclusion results. (See figure 1.) By following five basic steps, monetary values for intangible results can be established:

1. Identify a unit of measure that represents a unit of improvement.
2. Determine the value of each unit.
3. Calculate the change in performance data.
4. Determine an annual amount for the change.
5. Calculate the total value of the improvement.

### Typical Intangible Variables Linked With Diversity and Inclusion

Attitude Survey Data	Employee Transfers
Organizational Commitment	Customer Satisfaction Survey Data
Climate Survey Data	Customer Complaints
Employee Complaints	Customer Response Time
Grievances	Teamwork
Discrimination Complaints	Cooperation
Stress Reduction	Conflict
Employee Turnover	Decisiveness
Employee Tardiness	Communication

Source: *The Diversity Scorecard: Evaluating the Impact of Diversity on Organizational Performance, 2004.*

The diversity and inclusion return on investment (DIROI) should be calculated by using the diversity and inclusion initiative cost and benefits to get the benefit/cost ratio (BCR).  $BCR = \text{diversity and inclusion initiative benefits} \div \text{diversity and inclusion initiative costs}$ . This ratio is also referred to as a cost-to-benefit ratio. Specifically, the DIROI calculation is the net benefit of the initiative divided by its costs:  $DIROI\% = (\text{net initiative benefits} \div \text{initiative costs}) \times 100$ .

This formula is the same basic formula used to evaluate other investments in which the ROI is reported as earnings divided by the investment. For example, the initial cost of a diversity and inclusion awareness program may be \$50,000. The measurable value of the program is determined to be three years. During a three-year period, the program will have

a net savings of \$30,000 (\$10,000 per year). Since the average book value is approximately half the cost, the average investment in this case is \$25,000 ( $\$50,000 \div 2$ ). The average ROI = annual savings/average investment ( $\$10,000/\$25,000$ ) = 40%.

## Conclusion

In this chapter, we:

- Examined how leading corporations use diversity and inclusion to increase their bottom line.
- Discussed the ways in which diversity and inclusion enhances an organization's ability to secure the best global talent and connect to customers.
- Shared the ultimate measure of diversity and inclusion's ROI.

Promoting the concept of diversity and inclusion in the workplace is, above all, a process of education. Organizations that report the greatest success (and fewest problems) with D&I obtain and track maximum productivity from their total workforce. The fundamental concept that people must understand is easy to grasp: Organizations that get maximum productivity from a wide variety of people tend to perform better than those organizations that don't.

Effective diversity and inclusion measures and evaluation processes that determine the potential ROI of diversity and inclusion management can provide an organization with invaluable information to support key business imperatives—such as the impact of diversity and inclusion training and areas of improvement needed for recruitment strategies. Further, D&I initiatives that receive public acknowledgment through awards help attract bright talent and positively affect company brand and reputation.

That said, companies or products that claim they can definitively measure the exact ROI of D&I should be approached with caution. Measurement helps to make the business case for any initiatives a company may have, but for diversity and inclusion, much of what is gained by an organization may not be readily quantified. Given the rich complexity of this type of ROI, it cannot always be relegated to hard data.

Ultimately, being successful with diversity and inclusion means nurturing a culture in which all people can be happy, productive, and successful.