

# Building a Diversity ROI Performance Mindset

Edward E. Hubbard (/authors/1039-edward-hubbard)

May 16, 2013

The business case and rationale for diversity and inclusion must be aligned and linked to strategic business objectives of your organization. If your organization operates in the nonprofit, government or education sector, the alignment and linkage should be focused on the organization's "mission" outcomes. That being said, it implies that your initiative results must be displayed and communicated in financial and non-financial impact terms that are evidence-based. To do this effectively requires a financial and non-financial performance mindset that integrates diversity with other key business strategies that get measured on a regular basis. This approach also requires a view of diversity and inclusion not as a collection of events and activities. Instead it must be seen as an integrated quantifiable strategic performance technology.

Why aren't practitioners doing this now? Some say it's because there are few demands for diversity to justify its existence by documenting a direct return-on-investment link. Others, however, know that diversity return on investment is a hot topic that is not going away, one that is really needed for the diversity and inclusion field to have undeniable credibility (like any other business-focused discipline). As competitive pressures and globalization become even more prevalent, measuring diversity ROI becomes a critical requirement. The C-suite, customers, shareholders, managers and employees will no longer accept a lack of or poor diversity and inclusion metrics/analytics (in other words, business as usual). They need a diversity and inclusion process that is firmly rooted in a solid measurement and analysis foundation.

At a macro level, the ABCs for measuring diversity's ROI contribution can be demonstrated using the six-step Hubbard Diversity Contribution Model. It creates a 30,000-foot view of diversity as a dollars and cents issue. To illustrate the use of the model, consider the following scenario:

## Building a Financial Mindset Using the Diversity Contribution Model

Suppose you have a meeting with your senior leadership team and must be prepared to talk about the organization's diversity initiatives' impact. Recently, you attended a diversity ROI workshop and learned a financial approach to get management's attention. Using this model, your presentation could be framed using five prerequisites and six steps.

## **Prerequisites**

1. Review your organization's definition of diversity and inclusion, its values and vision statements.
2. Next, you must fully understand how your organization does business. You must know how the organization makes money and produces value. If you want to connect diversity to the business, you must know how the business operates, what keeps your senior leadership team up at night and what performance-based problems diversity and inclusion can solve?
3. Ask participants to bring their day-timers or calendars that reflect issues they have had to handle in the last three to four weeks.
4. Review the steps of the Hubbard Diversity Management Contribution Model.
5. Bring a calculator.

Once you have the prerequisites completed, you are ready to implement the Hubbard Diversity Contribution Model presentation approach.

Start your presentation by explaining its purpose, briefly reviewing the organization's vision, values, and diversity and inclusion definitions. Make certain you present examples of diversity and inclusion and their application for improving the organization's strategic performance.

Next, ask the group to review their calendars for the last three to four weeks and list the types of business and people issues they addressed. Summarize the list by examining links to the diversity and inclusion definitions, the organization's value statements, etc.

Next, ask the group, "What real or perceived (diversity and inclusion-related) barriers seem to get in the way of employees doing their absolute best personal work?" Next, connect these issues to achieving the organization's stated objectives, vision, values, operational process, etc.

Finally, ask the following question: “What percentage of an average eight-hour day is NOT SPENT on sales, marketing, production, etc. (in other words, mission-critical work) due to real or perceived barriers in the workplace?” Gather percentages from the audience. It is important to take the lowest percent first, and complete the following six steps.

Insert the percentage into the calculation’s first step. For the sake of this example, I will use 25 percent as my figure, with an average wage of \$12 per hour, and a 5,000-person organization. To annualize the number, I will use 260 workdays in the year (2,080 hours = 260 days which is the equivalent of a 40-hour work week with two weeks of vacation per year).

## **Hubbard Diversity Contribution Model**

### **Translating Diversity Into Financial Terms**

#### **Stepwise Calculations and Descriptions**

1. 25 percent x 8 hours = 2 hours per day per person

This calculation uses the estimate taken from the participants and multiplies by eight hours.

2. 2 hours x \$12 per hour = \$24 per day per person (salary-based productivity loss)

The result from step 1 is multiplied by the average wage of all employees. A conservative figure is used.

3. \$24 x 5,000 people = \$120,000 per day

The result of step 2 is multiplied by the total number of people in the organization (FTEs).

4. \$120,000 x 260 days = \$31.2 million per year

The result of step 3 is multiplied by 260 days to annualize the number.

5. \$31.2 million x 45 percent contribution = \$ 14.04 million

The participant is asked to estimate, “On a scale of 0 percent contribution to this \$31.2 million to 100 percent contribution, what amount of this number is attributable to diversity related issues?” Next, the result of step 4 is multiplied by the percentage selected.

6. \$14.04 million x 85 percent confidence factor = \$11.9 million

Finally, the participant is asked, “To ensure an estimate of error, on a scale of 0 percent confident of this 45 percent estimate to 100 percent confident of this estimate, how confident are you of this estimate?” Next, the result of step 5 is multiplied by this estimated percentage.

By the time you reach step six, you have the senior leadership team talking about diversity management in financial terms. Many of them will be surprised at the size of the dollar figure. You can mention the following things to help them get an even bigger picture:

- We used the lowest percentage. Others may have been higher.
- We used \$12/hour. Some people make more than this amount.
- We pay people for eight hours worked, not six hours. Therefore, this is real money sunk as a lost opportunity cost.
- This estimate did not include benefits, bonuses and other perks.
- This does not include people taking “mental health” days because the stress is too much, or interviewing for another job on sick leave time.

If they would like a more accurate number than an estimate, ask them to let you survey employees or ask this question in focus groups to see what percentage they come up with. (In my experience, this has always resulted in a higher numbers than those given by management).

You might ask a question such as “If you had this kind of financial loss in marketing, sales, operations, etc., would this issue be important enough to get it on track and obtain the best possible return on investment?” “What if 50-60 percent of this loss could be turned around and put back into productivity, creativity, innovation, etc.?” Finally, if the group believes this loss amount is reasonable and the cost will be incurred no matter what, you could always mention since this is seen as a write-

off, they can put the dollars in the diversity and inclusion budget for next year! I doubt they would give in so easily and may want to take a second look at those numbers and what can be done to eliminate the loss.

### **Diversity ROI Is a Critical Link for Success**

Calculating diversity ROI is a critical component for success in driving organizational performance for the future. “You can’t manage what you don’t measure” and managing and leveraging the use of diversity and inclusion is fast becoming a business imperative. If diversity initiatives are not approached in a systematic, logical and planned way, calculating diversity ROI will not be possible and consequently, diversity and inclusion will not become integrated into the fabric of the organization. Diversity and inclusion’s role should be to make a measurable difference in the organization’s performance.

It is our job as diversity and inclusion professionals to make certain that the credibility of diversity and inclusion efforts are strengthened and we meet the strategic business needs of our client organizations. We must build a strong business practice reputation using effective diversity and inclusion analytics and management techniques such that diversity and inclusion is seen as an essential driver of organizational performance and success!



Edward E. Hubbard is president and CEO of Hubbard & Hubbard Inc., an international organization and human performance consulting corporation that specializes in techniques for applied business performance improvement, workforce diversity measurement, instructional design and organizational development. He can be reached at [editor@talentmgt.com](mailto:editor@talentmgt.com).