

## The Strategic and Financial Business Case for Diversity – with numbers using LGBT as an example

By Stan Kimer



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Even though I am now an HR Consultant, I do have an MBA in Finance and Accounting and spent much of my early career in Financial and Business Planning roles. Hence, I understand the need to express investment in diversity initiatives in financial terms.

Earlier in the year, when I posted a short article on this subject, it did create somewhat of a firestorm within some LinkedIn groups. There were some academic people and purists who commented that firms ought to promote diversity initiatives because “it is the right thing to do.” However, I do understand the business dynamics of stockholders and CFOs who insist on justification for all financial investments.

The good news is that it is not an “either – or” but is a “both – and.” Executing diversity initiatives as part of a corporate strategy is both the right thing to do in today’s diverse global economy, and can be justified in dollars and cents (or Euros, Yen etc....)

**First, diversity is growing rapidly as a critical component of a business strategy.** Within corporations, diversity initiatives have been rapidly shifting from a “we need to do this because of legal requirements” or “this is something nice to do” to “this is truly an important strategic business initiative.” Instead of diversity being a “defensive” strategy, it needs to be an offensive strategy to win in the workplace and marketplace.

Today’s economy is changing rapidly; it is become much more global and internet-based. Commerce can easily be transacted globally and even small work teams are becoming more culturally and internationally diverse. To survive in today’s environment, a growing company needs to easily know how to sell to a global diverse marketplace as well as successfully manage geographically spread diverse teams.

Here are just a few of the questions I would pose to corporate leaders in terms of getting them to think about the importance of diversity:

- Are you recruiting the very best talent from the widest possible candidate pool?
- Is every single employee valued as a member of the team for their unique talents and contributions so that each of them can perform at their peak capacity?
- Is each employee engaged such that there is not threat of them leaving the

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company because they feel isolated, disenfranchised or not part of the “in group”?

- Are you reaching all the diverse constituents you seek to serve and sell to?
- Do you have an excellent reputation across all the diverse communities in which you seek to sell, serve and recruit talent?

Most companies today have web pages that espouse corporate core values such as focusing on all customers, valuing all employees, contributing to the community, respecting all cultures, etc. Now they must expend the effort to develop and execute a strategic diversity initiative that truly supports these values within the context of the changing business environment.

**Second, return on investment for executing a diversity strategy can absolutely be calculated financially.**

Senior corporate leaders and stockholders expect to see a financially based business case for practically any business initiative, and this of course would include corporate diversity programs. Can I show with actual dollars how investing in diversity initiatives (for example, targeted constituency marketing, benefits programs, management training, sponsoring employee network groups, supporting community organizations, targeted recruiting...) can add to a company's bottom line? Absolutely yes! I agree this is important and can be done.

Many studies on diversity management highlight that robust diversity initiatives positively impact employee engagement / employee productivity, employee retention, and constituency sales. As an example, I will use LGBT (Lesbian, Gay, Bisexual, Transgender) diversity programs since that is my area of specialization within diversity management, though the methodology could easily be used for any other constituency (Women, Black, Hispanic, Asian ...) or even for cross-constituency programs.

For this example, I will use a 2,000 person business with an average employee salary of \$60,000 and annual revenue of \$400M. And I will conservatively estimate that 6% of employees and business revenue is from the LGBT constituency.

**PRODUCTIVITY CALCULATION:** number of employees x constituency percentage x average salary x percent productivity gain = productivity gain in \$. For example, with 2000 employees with 6% being LGBT, salaries of \$60,000 per year, a 5% productivity gain nets  $2000 \times .06 \times \$60,000 \times .05$  or **\$360,000**.

**ATTRITION SAVINGS:** number of employees x constituency percentage x average salary x time for fully onboarding new employees x decrease in attrition

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percentage = saving in attrition \$. For example, again using 2000 employees at \$60,000, if it take 2/3rds of a year for onboarding and you can avoid 5% of the LGBT population from departing, the savings is  $2000 \times .06 \times \$60,000 \times 2/3 \times .05$  or **\$240,000**.

REVENUE GAIN: annual revenue x constituency percentage x percent increase in constituency sales = potential revenue gain. For this example with \$400M in revenue, the potential net new revenue from a 5% increase in LGBT market share would be  $\$400M \times .06 \times .05 =$  **\$1,200,000**.

So overall in this case, bottom line we are looking at executing LGBT diversity programs providing a net expense savings of **\$600,000** and net new revenue of **\$1.2M** to the business. In addition you would get the “soft” benefits of overall higher employee morale, being able to attract the best talent as word spreads and your enterprise is viewed as an “employer of choice,” and overall community good will. **In summary** – corporate leaders should take a fresh look at diversity initiatives in terms of strategic importance to their enterprises and in terms of financial payback.