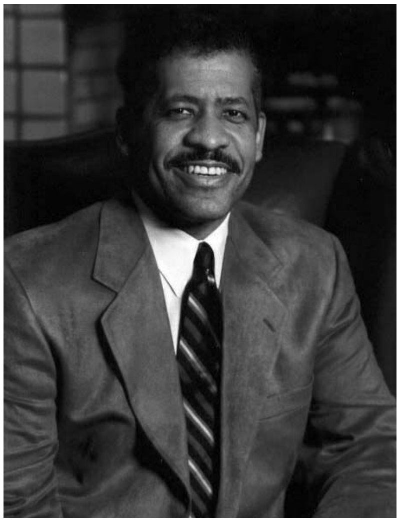
Simmons Associates, Inc.

ten redflags in a diversity initiative

Flag #2: The "Blah" Business Case



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If you've worked hard on a diversity initiative, have made some progress, but aren't seeing adequate results ... if your CEO has said all the right things and blessed your plan, but other executives and mid-level managers are still stalling ... a likely culprit is the lack of a business case. More specifically, the lack of a *compelling* business case. The difference is crucial.

To keep things in perspective, there was a time when most companies didn't have a *stated business case* for diversity. Only within the last 10 years have practitioners realized that, without showing the bottom line impact, diversity would be relegated to a "**nice** to do" not "**need** to do" effort. So we developed and shared the theories of the connection between diversity and the bottom line.

Circa 1995:

The business case for diversity theories emerged and went something like this: "The demographics are changing (haul out the Hudson Institute's *Workforce 2000 Report*), projecting a significant increase in the diversity of the U.S. labor pool. In order to compete, therefore, we need to learn to appreciate diversity and be inclusive. Business is now global, so we need to improve our understanding of other cultures. If we do not value diversity, our minority employees will have poor morale, which in turn will lower productivity. Our public image will be impacted if we don't come out as a diversity-friendly organization." And then, of course, there are those pesky, but very real issues of legal suits and retaining government contracts (those never needed much explaining).

These theories were successful in gaining some acceptance that diversity initiatives might be a good idea. Departments were set up, councils were created, employee networks formed, etc. After a few years, however, it was clear not much of substance had really changed. Employees still struggled with the same issues. Representation, which most use to gauge progress, had changed little—particularly at senior levels. Diversity surveys and focus groups indicated that perceptions of disparities were alive and well. Why? Because line management wasn't changing. Why? In short, because ***theories are not compelling to business people. Facts are.***

Circa 2002:

Practitioners return to us today, even more frustrated. They report, "We realized we needed more data, so we gathered stronger, more explicit data from published reports that supported our claims—with dollars attached. As a result, the executives did pay greater attention. We developed and submitted plans with a vision, definition and business case—even detailed action steps and timelines. The executive team approved the plans and presented them publicly. The CEO disseminated a letter, and we presented the information in diversity training, which every manager attended. Leadership agreed to include diversity goals *(still mostly representation—a problem addressed in our previous article, Red Flag #1, March/April 2002)* in our performance plans, and tie results to managers' bonuses."

All this effort, they say, and still one critical problem remains: "Leadership stands behind the concept (we really feel they 'get it') but middle management is inert. Oh, they say the right things and act in a way that placates us (Human Resources)—or whichever executive is actively supporting the effort—then summarily ignore the topic, until 'the HR police' come to call to 'check on the numbers.' Then the managers say to us, 'This is great—really, I'm all for it, but I'm crazy busy.' And invariably, 'How can we become more diverse when you don't give us diverse slates?'"

What you'll note is what the managers are really thinking: "Your business case for diversity sounds good, I see the corporate intent here, but frankly, I still don't see how it's going to help me do my job better. Blah. **Back to my *real job*.**"

Let's think of it this way: with a diversity initiative, what we're essentially asking managers to do is change their behavior. If you have read "*Who Moved My Cheese?*" you'll recognize that we live in the land of Hem and Haw Managers! They aren't changing because the reports you've been giving them essentially say, "the cheese is going to dwindle!" or "Look! The cheese is dwindling (over there)!" or "In five years there will be no cheese!" and ultimately the connection, "Diversity will protect our cheese!"

But Hem and Haw aren't moved, because they are surrounded by cheese! Or at least they are so busy they don't have time to worry about minor reductions or general trends. They're thinking "This doesn't hold a candle to meeting the 'xyz' quota that the boss checks on every week." They don't even know anyone who has lost cheese, except the lower-middle level manager who was foolish enough to sexually harass all three women who reported to him. "You're telling them to change, to scurry around based on what in effect appears to be baseless. Not only that, but it's change in an area that will be especially difficult, being that it involves a subject I'm really not comfortable discussing. Nah. I'll keep my head down until it passes."

To motivate behavior change, you need a *WOW* business case: one that shows Hem and Haw that their cheese is dwindling, how it's dwindling, at what rate, and the connection between that and diversity—that's a *WOW* business case! Imagine applying the illustration to the right to teamwork, morale and productivity, public image or global business efforts.

Is this a long, arduous process? You bet. But it is one of the most important investments you will make to insure a successful diversity initiative. One final note: if, after conducting a rigorous analysis—whether company-wide or within a department—if neither you nor your manager find a compelling connection between diversity and the bottom line, we recommend you abandon, or at least postpone, your efforts. *PDJ*

Blah vs. *WOW!* Business Case

Recruiting/Retention The war for talent requires us to be an employer of choice for the new (more diverse) workforce. By 2008 70 percent of the new entrants to the workforce will be women and people of color. If we are not diversity friendly, employees will leave. Turnover costs can reach 1.5-2 times salary.	**Recruiting/Retention** **Client A:** Women make up 50% of our annual entry level hires. Within 10 years, that number has consistently dwindled to 25 percent. The cost of this turnover, including training, recruiting, etc., is $4 million per year. We expected this to be a work/family issue, but focus groups indicate that women perceive a glass ceiling. **Individual department head:** The turnover among women who meet or exceed their performance expectations in your department is 35 percent higher than the rate for comparable men. You need to find a way of saving the company approximately $281,000, the amount you are costing us in turnover of female talent. **Client B:** We've faced significant turnover since 1995, especially among older store managers. Turnover is costly, and buyers aren't productive until the 2nd year of service. In one-on-one interviews, executives reveal that we have to inflate our offers (20 percent above the market) due to our "insular" reputation. Additional costs are incurred because we have inflated raises to retain diverse employees, who say they feel marginalized. The total amount we lost averages $450,000 per year. **Client C:** Exit interviews indicate that a majority of regrettable losses in the Finance department indicated that their manager lacked the skills to appreciate and fully utilize their skills. Diverse employees were 40 percent more likely to state this. This last year the turnover costs for the department were $320,000.
Sales/Customer Service Customers are more diverse and we need to understand their needs. In order to do so we need diverse people in our organization. There are significant dollars to tap among diverse populations. The purchasing power of diverse groups: African American $572 Billion Latino/Hispanic $452 Billion Asian American $253 Billion Gay/Lesbian <u>$445 Billion</u> Over 1.7 Trillion dollars	**Sales/Customer Service** **Client A:** Within 12 months of initiating a marketing campaign, including new packaging, point of purchase materials and advertising targeted at the Hispanic market, our main competitor gained $12 million in incremental revenue. **Client B:** After a recent sales presentation, our prospect informed us that they had selected another vendor. When asked why, they noted that while our proposal was impressive, our team was non-diverse, and that did not reflect their values. **Client C:** (**Regional Sales Manager—Southern Territory**) In our retail business in the South, 30 percent of the customers speak Spanish, and little English. We do not have the staff to assist them, and are having trouble recruiting and retaining employees who could do so—since they don't want to be "alone." Also, frustrated customers usually leave the store. If we could solve this problem, we could increase the store's traffic by at least 20 percent.

The difference between a *Blah* and a *WOW* Business Case—These *WOW* cases are examples from actual client situations. It's not a coincidence that in each of these cases, significant changes were made.

So what to do to get to a *WOW* Business Case? Get specific. Imagine applying Six Sigma rigor to diversity issues. Go through every department, every functional area, and drill your data collection and analysis down to every managerial level. Review the results with each manager and, to every extent possible, quantify the impact of diversity on their particular area. Then show them how their actions affect the numbers, and what they might do to make improvements.