Executive Summary

Benefits of promoting and implementing a diversity, equity, and inclusive (DEI) strategy and plan in the business sector and on our college, campuses are well known and have been reiterated in past literature. Costs, however, and constructing the calculations of return on diversity investment, are not as prevalent, but developing as more companies and universities take on the challenge of implementing DEI strategies.

The research will examine that the benefits of diversity and inclusion can be defined, and there is a strong case that organizations do well in instances where the benefits add to the bottom line clearly to be seen. Nonetheless, there are subtler metrics like employee satisfaction, retention, hiring pool inclusiveness, and others not easily tracked but result realized with happy constituencies. Impressively, there are formulas by which return on investment can be tallied.

The University of Michigan is used as a model as they completed their first year of implementation in 2016 and was able to provide hard demographics and benchmarks. Progress reports will be shared at year three and year five, at which the expectation is that additional initiatives will be forthcoming.
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Introduction

Inclusion is a choice. Organizations either choose to embrace it and campuses integrate it into their campus culture. The benefits of incorporating a diverse and inclusive environment are compelling, and this paper will address those benefits. With benefits, there are costs associated with those benefits. More data is required; however, a good foundation starts with historical and current demographics on employees, leadership, students, staff, and faculty. All reports would now add a component of demographics cut in to see the ups and downs of initiatives enacted. The research in this paper will include data collected from the University of Michigan Ann Arbor campus as they completed year one of a five-year strategic DEI plan that is critical as they continue the journey of implementation and measuring the progress of those initiatives.

The researcher’s concentration is leadership and employed at an institution of higher learning. The topic of this paper is relevant and consistent to the environment related to the researcher’s reality.

Literature Review

Benefits of Diversity and Inclusion

Diversity creates shared value, says Michael Porter of Harvard Business School. He quotes shared value, “involves creating economic value in a way that also creates value for society by addressing its needs and challenges (Frost, 2014, p. 67).” Organizations consider profit, return on investment, shareholder value, customer or student growth, retention of employees, staff, and students, and societal benefit. The new reality of shifting demographics, changing consumer tastes, and globalization are reasons that organizations and higher education institutions address and implement diversity and inclusive strategies (Frost, 2014).
In many ways, organizations are playing catch up to a global movement generated by Millennials, generation X, and Y, that provide us with these statistics:

- China will soon be the largest English-speaking country in the world
- Facebook has a billion users, accessible in 70 languages
- There are 31 billion Google searches monthly, compared to 2.7 billion in 2006 (Frost, 2014)

College graduates seek out diverse organizations and organizations will need to ramp up their talent pool with diverse and international employees. The model where organizations hire people that look like them is the same model; just the “them” is not the usual White majority. Satisfying society’s needs and challenges is involving diverse and inclusive strategies in overarching plans by organizations and institutions (Frost, 2014).

In an article from the Center for American Progress, a list of economic benefits of workplace diversity states that diversity:

1. Drives economic growth
2. Captures a considerable share of the representative market
3. Provides a more qualified workforce
4. Reduced employee turnover, diminishing turnover costs
5. Cultivates a more creative and innovative workforce

(Kerby & Burns, 2012)

A study by McKinsey & Company found that companies in the top 25% of racial and ethnic diversity are 35% more likely to receive financial returns above their industry medians. Also, companies in the top 25% of gender diversity are 15% more likely to earn financial returns above their industry norms (Hunt, Layton & Prince, 2015).
Employees, staff members, faculty, managers, and administrators that come from different backgrounds attract customers and students from diverse backgrounds and experiences which increases market share (Kerby & Burns, 2012).

Pulling talent from a diverse talent pool brings forth the best and the brightest that speaks directly to the bottom line (Kerby & Burns, 2012).

Table 1 – Retention Costs vs. Turnover-related Costs

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<th>Retention Costs:</th>
<th>Turnover-related Costs:</th>
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<td>ONE IN FOUR INDIVIDUALS who experienced unfairness on the job say their experience actively discourages them from recommending their employer to other potential employees, as cited by Level Playing Field (1997).</td>
<td>HOURLY WORKER: Costs between $5,000 and $10,000 to replace a departing worker. EXECUTIVE MAKING $100,000 SALARY: Costs between $75,000 and $211,000 to replace a departing worker.</td>
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(Robinson & Dechant, 1997)

In a Forbes Insight study (2011), 85% of 321 large global enterprises with more than $500 million in revenue surveyed agreed or strongly agreed that diversity was pivotal in stimulating innovation in the organization.

Measuring Diversity to Gather Costs of Diversity and Inclusion
With the fast and growing heterogeneous population and participation in the United States and globally, institutional diversification is much in demand (Kretovics & Michaels, 2004). Women enrollment has increased and certainly does not look as it did a century ago. Similarly, enrollment of students from different backgrounds and socio-economic backgrounds is exciting and challenging (Kretovics & Michaels, 2004).

How can an institution track and measure their diversity and inclusion policies, and goals are meeting the objectives set forth by senior leadership? It is rarely measured, according to (Derven, 2013). However, it is critical to know and understand to align with the intended goals and recalibrate future action plans.

An institution can start with:

- Employee engagement – gather demographic data and compare with benchmark data from surveys
- Integration within: selection, recruitment, onboarding, training, and performance evaluation and capture information from exit interviews
- Feedback from employee resource groups as to members participation or not
- Examine turnover rates from a certain population, i.e., LGBT or women
- Interject multiple data points for a more full-bodied and vigorous metrics – diverse supplier procurement rates, employee participation rates in training and market data
- Include qualitative data – capture success stories, i.e., solve a business issue, diverse scholarship helped a student achieve a lifetime dream or experience (Derven, 2013)
A valuable measurement framework for outlining the costs and benefits for diversity from the European Commission drawn up by the Centre for Strategy and Evaluation Service (CSES) utilizes a model approach established on current “measurement practices, evidences of costs and benefits, and modern performance measurement methods (The Cost and Benefits of Diversity, 2003).” Within this structure, an organization can tailor it to meet its own needs.

Exhibit A

A Measurement Framework for Diversity

Source: Centre for Strategy and Evaluation Service (CSES)

The programme implementation measures activities and costs as a combination of inputs and processes. Diversity outcomes measure intermediate outcomes which are vital to gauging progress. It aligns with performance measures and practices. The outcomes in this area of the
model do not necessarily generate business benefits, however, is a vital step in producing
diversity results. The business benefits component of the model deals with the business impact
of the investment into diversity policies; short and medium improvements in contrast to
operational outcomes (The Cost and Benefits of Diversity, 2003).

Administrators committed to diversity, and inclusive strategies review the costs and
benefits of diversity investments because there is a tendency that measurement drives action, the
initiatives are investments, and measurements substantiate or not the use of resources while
diversity managers learn lessons along the way (The Cost and Benefits of Diversity, 2003).

What are the costs of investing in these policies?

- Cost of Legal Compliance – record-keeping systems, staff training, and
  communication plan of disbursing information
- Cash Costs – hiring Chief Diversity Officers or other administrator selected to
  implement, monitor, and track outcomes; education and training, extra staff
  support members, employment policies, processes to report out, short-term
  and long-term repetitive and periodical expenses
- Opportunity Costs – loss of benefits such as diversion of management and
  staff time and productivity shortfalls
- Inherent business risks – diversity strategies take longer to implement, and
  there is a possibility of failure.


The University of Michigan – Costs and Outcomes

With any smart strategic plan, creating the infrastructure is necessary for investment,
operational, and administrative support, and the key to proper implementation monitoring, and
reporting. At the University of Michigan (UM), a great model and forerunner of implementing a diversity, equity and inclusion strategic plan, the current Vice-Provost for Equity & Inclusion Robert Sellers assumed the role of Chief Diversity Officer to provide leadership in implementing the university-wide strategic plan. What is known is that the University of Michigan (UM) added $85 million as a new investment to achieve their five-year plan and further their efforts. Some of the efforts are ongoing, some put in motion, and some are under development. This new investment is in addition to the existing $40 million funded annually for almost 20 university-wide programs earmarked for diversity topics, programs, and topics (University of Michigan Resources, 2018).

Previous literature reported that in 2015 President Mark Schlissel of UM launched a campus-wide initiative to enhance diversity, equity, and inclusion, and started implementation in 2016. The university has completed year one, and the findings and outcomes presented in the Strategic Plan for DEI: Year One Progress Report, which was dispersed campus-wide at the annual diversity summit in November of 2017. Quantifying and qualifying outcomes after year one sheds light on various dimensions and perspectives of campus, staff, and faculty life. The following graphs and data accounting for UM-Ann Arbor stakeholders will help to capture demographic metrics and benchmark levels from which this university can operate in year 2 and beyond. Progress reports shared in year three and year five and expectations that additional plans will be forthcoming after year five (The University of Michigan Strategic Plan, 2018).

In 2017, the UM campus community totaled 69,703 students, staff, and faculty, not including the UM Health Systems. Staff members accounted for 15,139, faculty 7,331, and students with 46,002. Of that amount, 23% is of an ethnic or racial minority group, and 12% is international.
The changes in racial and ethnicity distribution of undergraduate students from fall 2010 to fall 2017 resulted in the following statistics: White student numbers experienced almost no difference and still is the predominant racial group; Asian students increased 25% from 3,125 to 4,153; African American students with a slight increase of 4% from 1,214 to 1,263; Hispanic American students with the highest growth of 31% from 1,167 to 1,696; and International students from 1,644 to 2,157 with a boost of 24%. The other ethnic groups that include: Native American, Hawaiian, Two or More Under-Represented Minorities, Two or More Non-Under-Represented Minorities, and Unknown were slight (University of Michigan Almanac, 2018)
Table 3 - Race and Ethnicity Distribution of Undergraduate Students at UM-Ann Arbor, Fall 2010 and Fall 2017

| Race and Ethnicity Distribution of Undergraduate Students, Fall 2010 and Fall 2017 |
|-----------------------------------|-----------------------------------|-------------------------|-------------------------|
| International                     | Hispanic American                 | African American        | Asian                   |
| White                             | 15,000                            | 1,000                   | 2,000                   |
| Increase/Decrease                 | 20,000                            | 4,000                   | 3,000                   |

Source: U-M Student Data Sets; U-M Human Resources Data Sets (excludes U-M Health System)

The sex distribution of the campus community computes as 49% of the student body is female, 43% of faculty are female, and females make up 61% of the staff community. Again, the number of women in the workforce today do not look anything like they did a century ago (Michigan Almanac, 2018).

**Return on Investment on Inclusive and Diversity Strategies**

When one mentions the return on investment, intuitively one thinks of measuring an investment and how the investment performs to appraise and assess its efficiency. Of course, investors are expecting a positive return on investment. How do we evaluate the performance and effectiveness of inclusive and diversity strategies? Financial performance is a measure of efficiency, but that does not account for the subtler metrics like employee retention, customer orientation, employee satisfaction and ability to participate in the decision-making process.
Segmenting company reports by demographics is a good practice to track and monitor the progress of an organization’s diversity policies:

- Employees overall, by function, seniority, and tenure
- Management and leadership
- Board of Directors
- Candidate pools and hiring channels, by role and position
- Promotion rates
- Voluntary and involuntary attrition rates
- Formal and informal complaints with complaint resolution status

Tracking for a return on investment (ROI) on diversity and inclusion tends to be viewed as output-focused as opposed to outcome-oriented, which in many cases, metrics like demographic body count, diversity events, and training, number of inclusive candidates in the hiring pool do not provide hard data. Quite the contrary, these metrics will appear at first as expenses, rather than revenue or productivity and may not undoubtedly impact the bottom line (Smiley, 2016). Each organization will create their metrics that align with their objectives and goals and senior leadership surveys the results for revisions to strategic planning.

There are five metrics that are key to diversity professionals should track and benchmark according to (Smiley, 2016):

1. Retention – formulas for clear cost savings

\[
\text{(Average value of employee in terms of output } \times \text{ years in organization)} - \text{(Cost of recruitment and training)} = \text{(Human capital value of employee)}
\]
(Average length of stay pre-inclusion efforts) – (Average length of stay post-inclusion efforts) = (Retention improvement)

(Retention improvement) X (Average value of employee in terms of output X years in organization) – (Cost of inclusion efforts) = (Value of inclusion efforts)

2. Employee satisfaction tied to productivity and/or customer satisfaction

Employees that are happier produce more and make a good case that employee engagement along diversity and inclusion efforts works. Disney practices the model of revenue generation in this manner: Great Leadership – Engaged Employees – Thrilled Customers – Revenue Results.

3. Positive PR (vs. Negative PR) – any diversity and inclusion award, initiative, participation in diversity efforts that receive press coverage has its rewards. Contrarily, incidences of racial slurs, graffiti, or more recently, calls to police on people of color for non-criminal activities can also get an organization or university negative and unwanted press.

4. Lawsuits prevented – cost savings and adverse opportunity cost prevention

5. Market Penetration/Share – by increasing current market share by reducing your competitors share or break into markets not currently established. An example would be a market that is heavily-laden with Hispanic customers would be better served with a Spanish-speaking representative.

(Smiley, 2016)

These metrics are a good starting point to gather and collect data.
Summary and Recommendations

Where there is real inclusion there is a higher capacity for the crowdsourcing of ideas. In this environment, real inclusion is not apparent to the naked eye or by experiences real or perceived. It is total acceptance and an understanding there is still more to learn from all for all.

“In the United States, the richest 1 percent of the population now holds 40 percent of the nation’s wealth while 80% share only 7 percent of the country’s wealth (Frost, 2014).” The inequality and disparity between the “haves” and “have-nots” is just the tip of the general moral case for action. The disparity trickles down into social groups that are left out and behind (Frost, 2014). The trend also exists in the United Kingdom where one in four children are in poverty (Frost, 2014). It is time that our organizations and institutions inspire, create, and promote talent, wherever it comes from and whatever it appears to be. In the current hostile environment that the United States and the world is experiencing, let us not forget who we are and whom we serve.

As more data and best practices shared within the industry, organizations will get better at tabulating the return on their diverse and inclusive plans. Metrics used should be outcome-oriented, rather than output-focused. In this design, everyone wins.
References


