

THE HUMAN CAPITAL FACTOR

Linking Diversity Management to the Stock Price & Earnings

The dEPS–Diversity ‘Earnings Per Share’ Financial Metric tm



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THE HUMAN CAPITAL FACTOR: Linking Diversity Management to the Stock Price & Earnings The dEPS–Diversity ‘Earnings Per Share’ Financial Metric [™]

A key competency of today’s Chief Diversity Officers (CDOs) is understanding the business case for diversity as both an internal and external challenge. In the early years of ‘diversity management’ (1980-2000), external factors drove the business case for diversity—with a focus on recognizing the needs and buying habits of diverse consumers. Some organizations have mastered this challenge and have seen their bottom lines flourish and grow. Others are still struggling with fundamental dichotomies such as, “Why should we advertise in a Hispanic or Latino publication? Studies show that all ethnic backgrounds read the *Wall Street Journal*—we advertise there, so what’s the problem?”

Today, however, CDOs must also understand the internal business case for diversity. The U.S. Department of Labor estimates that by 2008, over 70 percent of the people entering the U.S. workforce will be women, immigrants, or people of color. How you ‘become’ diverse, then, is not the challenge. It’s how you create a workplace that encourages all people to consistently give their best, or ‘discretionary,’ effort at work—**not** just when someone is watching or monitoring them!

CDOs must have the ability to explain diversity in terms that go beyond parables, risk mitigation, and social justice—and to focus on the concerns of all organizational stakeholders, from employees to customers, investors to society at large.

FIDUCIARY OBLIGATION

With cutbacks and downsizing the order of the day, getting the best effort from employees is a prime business imperative. Discretionary effort can make the difference between succeeding and falling short. Using all assets effectively, including diverse human capital, is often the pivotal point between profit and loss.

Indeed, one of the top three costs on the balance sheet of almost every Fortune 1,000 company is ‘human capital related costs.’ Notice the term used here is human *capital*, not human *resources*. In management terms taught in the ‘70s, ‘Taylorisms’ reigned, i.e., people are an extension of their machine, with limited discretion in job tasks. Many of those thoughts still drive today’s managers. As a result, people feel as though they are a resource--on the expense side of the ledger.

Yet other companies today, with the help of CDOs, recognize that a key part of their organizational value lies between the ears of their employees! However, getting the organizational culture to treat people as capital is a much bigger challenge. Capital is an asset to be protected, valued, and nurtured. In fact, it’s on the ledger’s asset side and is viewed entirely differently than resources.

With most capital acquisitions, we hedge our investment with policies and agreements to nurture and protect our investment. When we start treating people as an asset, we view them in a way that mandates respect, value, and dignity. This acknowledgement is the first step toward getting discretionary effort from our employees.

WHOM CAN YOU AFFORD TO UNDER UTILIZE?

Effective management of human capital is a rightful expectation of today's company shareholders and stakeholders. How certain are you that your human capital is performing at its peak? A recent study by the Sp@rtacus Group's Center for Human Capital asked employees what percentage of their best efforts they regularly give at work. The answers were surprising. Of those responding, 60 percent said they regularly give 90 percent or less of their best efforts on the job; only 40 percent self-reported regularly giving 100 percent.

Surely, 40 percent optimization is unacceptable for every other business area. If production, manufacturing, distribution, product acquisition, or any operational part of your business were being optimized at a rate of 40 percent of peak efficiency, someone would be completing a new resume and readily engaging the services of an executive search firm! It should be unacceptable, too, for one of the largest expenses on the balance sheet. . . people.

MEASURING THE IMPACT OF DIVERSITY MANAGEMENT ON HUMAN CAPITAL

Recent studies indicate workplaces are rife with diversity-related acts of incivility (DRIs) associated with the primary dimensions of diversity—race, gender, age, religion, and sexual orientation. These violations of dignity have a direct impact on workplace productivity, because when dignity entitlements are broken, employees no longer feel obligated to fulfill their responsibilities. How prevalent is this issue?

61 percent of respondents stated they had witnessed acts of incivility at work based on race, age, gender, religion, or sexual orientation in the last 12 months!

Sp@rtacus Group studv. November 2003

Progressive companies understand that diversity management extends far beyond EEO compliance. It includes a wide range of activities designed to proactively create an inclusive work culture—succinctly described by the U.S. Military's Officer Training Corp as an environment that gives “all members of the workforce the opportunity to be productive, without disadvantaging anyone.”

Financial markets have begun to understand the value of inclusive corporate cultures that respect and foster workforce diversity. Institutional investors are encouraging many companies to take a closer look at the issue of diversity management not only as a representation issue, but as a strategic necessity.

Over 700 investment funds—representing an asset base of over \$2.15 trillion—now screen companies based on their track record in social responsibility. Of that number, 25 percent screen for labor and employment issues, including diversity! Those companies that are the most effective at managing diversity will attract additional investors, making increased capital available and providing some companies with a competitive edge.

**Managing and Leveraging Diversity:
If your competition does it better than you do, they win. It's that simple!**

A NEW MEASURING TOOL

The Sp@rtacus Group has created a human capital management system that speaks to shareholder expectations. The system enables companies to effectively manage their workplaces in ways that can be measured, quantified, and validated—including earnings per share, shareholder equity, and more. Details of the system are presented in a recently released corporate white paper, *Linking Employee Commitment and Workplace Incivility to Corporate Earnings*. (Available upon request at no charge. e-mail: Info@TheSpartacusGroup.com)

Engagement + Commitment = Ownership Attitude

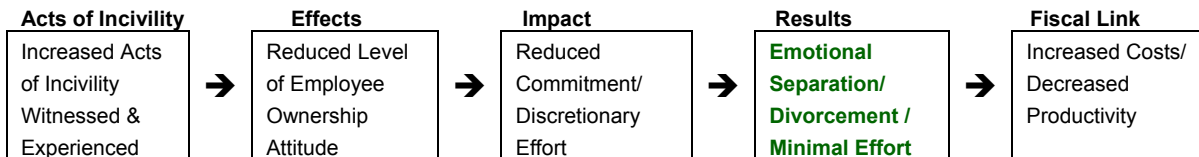
By connecting ‘soft’ issues such as employee commitment, ownership attitude, and level of discretionary effort to a consistent metric, organizations can conduct a comparative analysis to determine what changes are needed to ensure acceptable behaviors—and a vigilant corporate governance that reinforces these behaviors. Using this system, they can proactively instill a culture of inclusion, attract socially responsible investors, and dramatically increase their bottom line.

Measuring effective diversity management is an issue increasingly important to the socially responsible investment (SRI) community--evidenced by recent actions of one of the country’s largest SRIs, Calvert Group (<http://www.calvert.com>). A NASDAQ firm with over \$10 billion in assets, Calvert recently announced that it has issued model charter language for corporate nominating and governance committees focused on attaining diversity in corporate board rooms.

The human capital management system developed by the Sp@rtacus Group is driven by the financial metric called the Diversity Earnings per Share, or dEPS, Index. The metric provides the connection between reducing acts of incivility and enhancing business profitability, including better performance, decreased expenses, and increased growth. Return on Investment (ROI) can be directly connected to dollars spent on diversity management and its impact on the organization’s overall profit equation.

Using the dEPS, companies can potentially save millions of dollars in costs each year by measuring and managing the impact of acts of incivility in the workplace. To date, the dEPS Index has been presented to some 250 CDOs of the Fortune 500 Companies, along with dozens of CEOs.

The Link Between Increased Levels of Incivility and the Bottom Line



INTEGRITY AND ACCOUNTABILITY: THE AFTERMATH OF SARBANES-OXLEY

Effective management of diverse human capital is particularly critical in the wake of the Sarbanes-Oxley Act, as CEOs and Boards are held personally responsible for the ethics of their organization.

The ethical breaches in Enron, Tyco, and WorldCom didn't happen behind the closed doors of corporate privilege. Many of these lapses occurred with the common knowledge—and in some cases encouragement—of the overall organization. Is your organization on in which:

- Acting with integrity is viewed as an obstacle to success.
- The status quo is not openly debated.
- Discussion of company values is seen as a ploy not a statement of commitment.
- The further up line you, the outlook is shoot the messenger.
- Bad news is not confronted head on, instead it gets finessed.
- Information is power – therefore it is rarely shared.

Some corporate cultures stress success at all costs. When these cultures are confronted with inappropriate behavior, decisions are based on the bottom line, not ethics, respect, or employee dignity. These behaviors tell others in the organization that they can commit acts of incivility and violate ethics and employee dignity entitlements without reproach.

EXAMPLES OF INCIVILITY

Consider the effect on team members who feel they:

- Work for or with someone who is consistently or intentionally rude or who purposely disregards their opinions in team meetings and demonstrates their disregard in a way meant to be demeaning.
- Have a boss or co-worker who intentionally leaves them, or someone else on the team, out of a meeting with the goal of embarrassing or humiliating.
- Are unfairly criticized behind their back by a coworker—solely to humiliate and/or disgrace them, and at the same time, to provide personal gain for the perpetrator of the incivility—i.e., ‘backstabbing.’

Data show that even if the culture does not reprimand the individual perpetrating these acts, the company pays a price as employees separate themselves not only from the perpetrator, but also from the organization.

This feeling of divorcement has a significant impact, if the person on the receiving end of the act of incivility feels part of the reason is due to their race, gender, religion, sexual orientation, or age. Data show that people observing these acts of incivility go through feelings of ‘divorcement’ as well as those to whom the behaviors were directed.

People of Color Reported Being up to 250% More Likely to Leave when Encounter Acts of Incivility – Than Caucasian Employees Encountering Acts of Incivility

BALANCING THE WATER

Achieving integrity and accountability requires that companies invest in something that many are hesitant to invest in.... an assessment of their **organizational culture**. Millions of dollars a year are invested in corporate training and personal development. Yet little attention is given to the culture within which our people are asked to perform. Comparisons have been made to investing in expensive salt-water fish and coral for an aquarium, yet never measuring the balance of the water. Just like a toxic fish tank, our work environments can be deadly for the people we manage. Sometimes they quit and leave; even worse is when they quit...and stay!

It doesn't have to be this way. Eliminating acts of incivility and maintaining employee dignity entitlements takes work, but without maintaining an equitable balance in corporate culture, the results are inevitable, predictable, and worst of all. . .avoidable.

Don't waste your investment.

Getting Involved: Next Steps

- Email a request for the corporate white paper today! (Hundreds have been downloaded.)
- Participate in a:
 - Fourth-quarter case study, 2004 (limited opportunities)
 - Diversity Best Practices (DBP) Study (to be released in 2005)
- Request a:
 - Corporate Snapshot Report (potential savings)
 - *Diversity Annual Report*, the deliverable for case study participants
 - Presentation to Executives and Boards

For more information, contact The Sp@rtacus Group at 281-879-9500.
Or email: info@TheSpartacusGroup.com

About the Author

Craig B. Clayton, Sr., is the founder and CEO of the Sp@rtacus Group based in Houston, Texas. A global consulting and software firm, the Sp@rtacus Group specializes in providing organizations with analytical tools that measure the connection between the ROI from managing diversity and the organization's bottom line.



He also created the Center for Human Capital Management, which is a Sp@rtacus Group company providing business-focused research and studies in the field of human capital management.

Since 1999, Craig has also been the Director and Diversity Strategist of the International Institute for Diversity & Cross-Cultural Management. The Institute is located in the University of Houston's C.T. Bauer College of Business.

Craig has over 20 years of diverse business experience, including positions as a CEO, COO, board member, and corporate executive. He has worked with Fortune 500 firms in a variety of capacities, from operations to sales and marketing, training to research. Representative clients have included Compaq Computers, Hewlett-Packard, Bank of America, MD Anderson Cancer Center, Shell, U.T. Health Science Center, HEB Grocery, Chevron-Phillips Chemical, Rohm & Haas Engineering, Central Parking System, Coral Energy, Lanier Middle School, St. Lukes Medical Center, and many more.

Craig has a seasoned talent for designing and facilitating executive leadership workshops and creating customized corporate cultural assessments by using focus groups, surveys, and employee interviews. He has designed and developed training curricula; facilitated training sessions; mentored diversity councils, committees, and board members; and designed and developed programs and services to support organizations in their efforts to create and sustain long-term change in corporate culture. To date, his global outreach has spanned 14 countries including Mexico, the Caribbean, and Asia.

In his diversity management work, Craig has created key tools for diversity practitioners, including the Diversity Earnings Per Share Metric™, a measurement tool, and created Project Boardroom, a program to develop women and minorities for positions on corporate boards. He has also launched the Joshua Project, an initiative to help American educators tear down walls through diversity dialogue and education.

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