
The Center for Human Capital

A SP@RTACUS GROUP COMPANY

CORPORATE WHITE PAPER

TITLE

“Linking Employee Commitment & Workplace
Incivility to Corporate Earnings”

Introducing the dEPStm Metric

dEPS: Diversity Earnings Per Share

A New Financial Metric for Increasing Shareholder Value

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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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I. Executive Summary

Diversity management today is much more than a feel-good social issue or a sensible employment practice. It is a critical approach to protecting and enhancing profitability—and leveraging diversity for competitive advantage.

A new financial metric developed by the Sp@rtacus Group enables companies to accurately measure the effect of diversity management on their bottom line. Using this measure, called the Diversity Earnings per Share, or dEPS™, Index, companies can potentially save millions of dollars in costs each year by measuring and managing the impact of diversity-related acts of incivility (DRIs) in the workplace.

Studies have found that 71 percent of the workforce has experienced some form of workplace incivility in the past five years.ⁱ These DRIs are associated with the primary dimensions of diversity: race, gender, age, religion, and sexual orientation. Incivilities cause employees to separate emotionally from their organization, resulting in commitment and productivity declines and a diminished bottom line.

Financial markets have begun to understand the value of inclusive corporate cultures that respect and foster workforce diversity. Institutional investors are forcing many companies to take a closer look at the issue of diversity management not as a representation issue, but as a strategic necessity. In fact, over 700 investment funds—representing an asset base of over \$2.15 Trillion—now screen companies based on their track record in social responsibility.ⁱⁱ Those companies that are the most effective at managing diversity will have the competitive edge. It's that simple.

The dEPS Metric was developed to help organizations gain this edge by measuring, quantifying, and validating their effectiveness in diversity management. Our research and tools provide the connection between reducing DRIs and enhancing business profitability, including better performance, decreased expenses, and increased growth.

Using the dEPS Metric, companies now have for the first time a way to measure levels of workplace incivility. 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 dEPS Metrics, companies now have for the first time a way to measure levels of workplace incivility and dignity entitlements.

II. Introduction

What does diversity mean in today's corporate world? Many organizations have rapidly become diverse, because with shifting US demographics, achieving diversity doesn't require much effort. The US Department of Labor estimates that by 2008, 75 percent of those entering the US workforce will be women, immigrants, or people of color.

For many, though, diversity is still a code word for Affirmative Action. Many companies have developed diversity programs, but their only metric for success is measuring the hiring and promotion of women and people of color. Yet progressive companies are understanding 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 US Military's Officer Training Corp as an environment that gives “all members of the workforce the opportunity to be productive, without disadvantaging anyone.”

Inclusiveness is easy to envision, but difficult to achieve. 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.

Diversity, then, is a bottom-line issue, presenting not only cost challenges, but profit opportunities. In monitoring companies for activities that return investment value, shareholders are increasingly interested in diversity management. They are seeking to invest in companies committed to building respectful, inclusive, and productive workplaces—and asking for measurements that can accurately gauge this commitment.

Human capital management is a bottom-line issue, presenting cost and profit issues and opportunities, including diversity management.

The Sp@rtacus Group has created a human capital management system that enables companies to effectively manage their workplaces in ways that can be measured, quantified, and validated—including earnings per share, shareholder equity, and more. By connecting ‘soft’ issues such as commitment, ownership and level of 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.

III. The Fiscal Impact of Workplace Incivility

A study by the American Academy of Management Executives finds that respectful, inclusive workplaces rely on a balance of employee responsibility and dignity entitlements.ⁱⁱⁱ Employees have the responsibility to:

- React positively to challenges and opportunities to grow.
- Make a contribution to the organization.
- Accept constructive feedback and supervisory support to improve.
- Commit to the success of the organization.
- Receive an honest day's wage for an honest day's work.

In exchange for fulfilling these responsibilities, employees expect certain dignity entitlements, defined as the right to be:

- Heard.
- Recognized in proportion to their contribution.
- Evaluated fairly based on performance, not on personality style, professional background, or age, race, gender, religion, and sexual orientation.

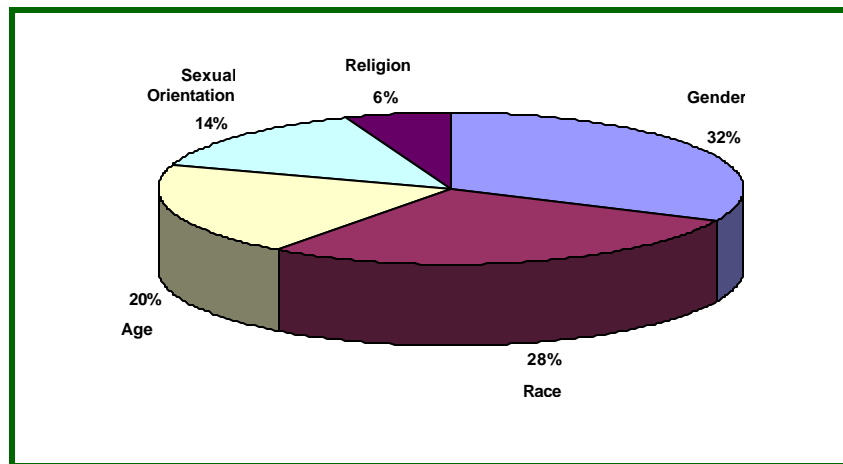
Yet all too often, employees are gauged not on their ability, but on their identity. Incidents of incivility are rife. A 2002 study by the Brookings Institute's Don Zander documents that 71 percent of all employees experienced some sort of workplace incivility over a five-year period. "Incivility is evidenced by disrespectful behavior," Zander writes. "It undermines the dignity and self-esteem of employees, creating unnecessary suffering. Incivility indicates a lack of concern for the well-being of others. It is not just about being polite!"

"Incivility is evidenced by disrespectful behavior. It undermines the dignity and self-esteem of employees, creating unnecessary suffering."

A follow-up study conducted by the Sp@rtacus Group in November 2003 found that over a 12-month period, 61 percent of employees reported witnessing diversity-related acts of incivility, disrespect, and/or discrimination at work. Our preliminary study validates the link between witnessed levels of DRIs and numerous business metrics. The higher the degree of DRI, the more negative the impact on business metrics identified in this report.

Percent of Survey Respondents Who Have Witnessed a DRI

Ranked by Frequency Observed



The impact on employees who are on the receiving end of DRIs is devastating. The negative impact is not limited only to the individual experiencing the act of incivility, but it influences also those who observe it. It is reasonable to assume that some employee turnover is directly associated with acts of disrespect or discrimination in the workplace.

The Sp@rtacus Group is collaborating with DiversityUS.com (<http://www.DiversityUS.com>) on a broader national study, schedule for August 2004, to document the percentage of people who leave because of these issues as well as numerous other business metrics. The study, *Assessing & Attacking Workplace Incivility*, has already documented the fiscal impact of acts of incivility as noted below:

Fiscal Impact of Workplace Incivility ^{iv}

- 28% lost work time avoiding the instigator of the incivility
- 53% lost time worrying about the incident/future interactions
- 37% believe their commitment at work declined
- 22% have decreased their effort at work
- 10% decreased the amount of time that they spent at work
- **12% actually changed jobs to avoid the instigator**

Pearson – Andersson & Porath Journal Title: *Organizational Dynamics*, Fall 2000.

IV. Survey Tool: Employee Commitment Inventory

In an effort to determine the link between workplace incivility and employee commitment, performance, and/or discretionary efforts, we developed a process to measure the level of emotional investment employees have in their organization. We worked with organizations managing diversity programs whose focus was measuring ROI. When discussing how to mitigate inappropriate diversity-related behaviors, executives were asked what qualities they would want to see more of in their workforce. Three qualities were mentioned universally: proprietorship, an attitude of ownership, and emotional investment.

Based on these priorities, we developed a quantitative analytical survey tool called the *Employee Commitment Inventory*TM (*ECI*). The inventory is a proprietary, patented, Web-based tool that benchmarks these three employee qualities in a way that correlates with shareholder value and demonstrates organizational and individual worth. The Employee Commitment Inventory provides a link between employee commitment and key business metrics—from frequency with which employees contribute ideas or suggestions to their likelihood of leaving the organization.

Sample questions include:

1. At work, I react positively to challenges and opportunities to grow.
2. I feel responsible for providing early warnings on impending problems at work.
3. I give enough to avoid being seen as slacking off.

Using the survey tool, employees are categorized based on their perceived level of proprietorship, ownership, and emotional commitment. We identified three levels of employees:

1. **Highly Committed, or “Invested”: 19% of survey respondents**

These employees are often referred to as the “go to” people in their organization. They:

- Submit ideas and suggestions for process improvement
- Build relationships based on respect and value with colleagues and bosses

2. **Obligated/Compelled, or “Divested”: 73% of survey respondents**

These employees see work as a business transaction. They provide a service, and their employer provides payment in return. These employees:

- Have no passion for work; the job provides a way to pay their bills
- Are primarily focused on doing only what is required or necessary

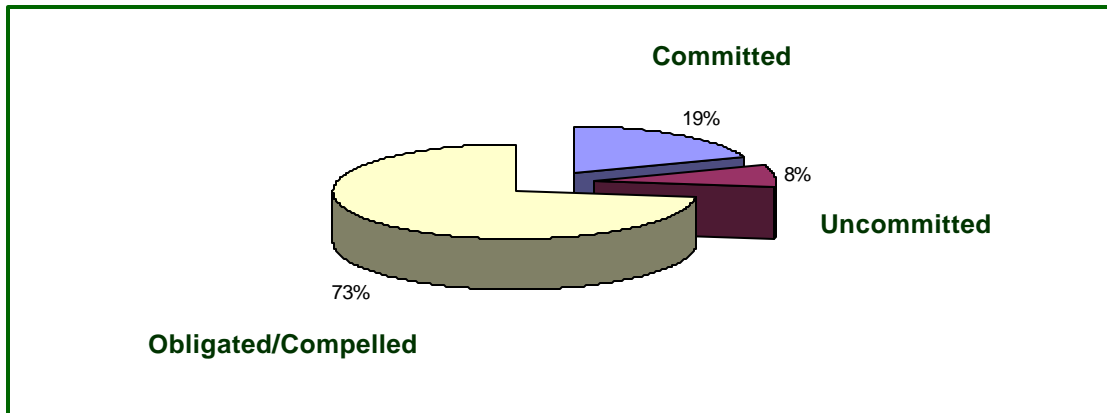
3. **Uncommitted, or “Vested and Rested”: 8% of survey respondents**

These employees are divorced from the organization. Not only are they unhappy, they want others to be unhappy with them. They:

- Give the least amount of effort; Increase organizational costs
- Are emotionally withdrawn from the company, boss, and peers

Many employers are concerned about employees who quit and leave, but in reality, the bigger problem is the Obligated/Compelled and Uncommitted—those who quit and stay!

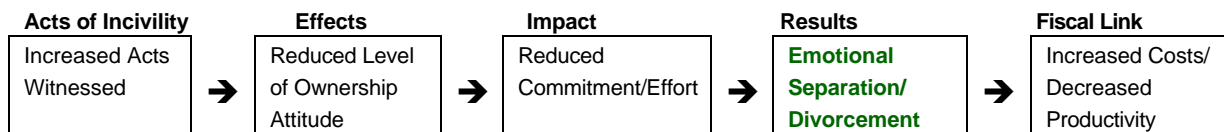
Three Types of Employees Ranked by Level of Emotional Commitment



Note: Level of commitment in our preliminary study may not reflect the actual numbers in your organization. Keep in mind that organizational change management issues have an impact on employee commitment and ownership attitude, while other events have an overall negative impact—such as recent mergers and/or acquisitions and economic downturns resulting in layoffs, downsizing, and workforce reductions.

We found that employees whose commitment level was ranked at Obligated/Compelled or Uncommitted to the organization felt their dignity entitlements—the right to be heard, be recognized in proportion to their contribution, and be evaluated based on performance—had been broken at work. When that dignity was violated, they went through a feeling of ‘divorcement’ that caused them to withdraw from the workgroup and often the organization.

The Link Between Increased Levels of Incivility and the Bottom Line



Summary of Statistics From Preliminary Study

November 2003--Funded by The Sp@rtacus Group

Employees who reported giving the least amount of effort at work:

- Were **six times** more likely to quit when a better job becomes available than those who reported giving their best efforts
- Had 58% more unexcused absences than those who reported giving their best efforts.
- Took 36% more sick days than those who reported regularly giving their best efforts at work

Older employees (over the age 50) reported that they were 33% more likely to give their best efforts at work, compared with those who are 25-40 years old. **Women** were 50% more likely to be emotionally invested than men. **Employees of color** witnessing DRI's reported being up to 250% more likely to leave if another job were available, compared to Caucasian employees.

Our study also found that:

- 61% of all respondents had witnessed disrespect or discrimination at work
- 50% of all respondents said they could be significantly more effective at work than they were now.
- 62% who said they could be significantly more effective witnessed disrespect and/or discrimination at work
- 79% who would leave for another job if one were available had witnessed disrespect or discrimination on the job
- 75% who gave the least amount of effort had witnessed disrespect and /or discrimination at work.

We found that the higher the level of commitment/ownership attitude :

The higher the:

- Level of discretionary effort given at work
- Willingness to improve quality and efficiency
- Likelihood of increased performance and earnings

The lower the:

- Level of diversity-related workplace incivilities
- Number of unexcused absences
- Number of sick days/health care costs
- Propensity to leave (reduced turnover)
- Likelihood of increase performance and earnings

V. Financial Metric: The dEPS Index

While researching the Employee Commitment Inventory™, we found a significant link between the amount of Diversity-Related Acts of Incivility in the workplace and measurable business indicators that affect earnings and the bottom line. Among the areas influenced are:

- Amount of discretionary effort given
- Sick days and company medical expenses
- Frequency of safety incidents
- Overall propensity to leave (turnover)
- Impact on employee ideas and suggestions (creativity)
- Lost revenue per FTE
- Effect on regrettable losses
- Impact on unexcused absences
- Quality of customer service given

The *Diversity Earnings Per Share, or dEPS, Index* measures DRIs and directly links the consequences of those actions to corporate earnings.

For example, discretionary effort is the amount of exertion an employee gives **above** what is required to avoid being seen as “slacking off.” In an effort to reduce redundancy, outsource, and drive down costs, fostering discretionary effort is critical to helping organizations get more out of less. Employers pay for 100 percent of an employee’s effort. If the employee gives less effort than the employer is paying for, a ‘discretionary effort deficit’ results. If an employee self-reports giving the employer 75 percent of their best efforts on a regular basis, and their total compensation is \$70,000, the employer is actually getting \$52,500 and leaving \$17,500 in money already paid sitting on the table.

Our initial study indicates one in five employees self-report giving less than 80 percent of their best effort at work on a regular basis. Yet when employees feel a sense of ownership, engagement, and commitment, their amount of discretionary effort increases in turn—leading to reduced costs and increased profitability.

The Link Between Employee Ownership and Increased Profitability



For employees whose level of commitment and ownership attitude were adversely affected by DRIs, we also found an increased numbers of sick days and unexcused absences. Unplanned absences include such costs as lost productivity, overtime paid to other staff members, payments to temporary workers hired to fill in, decreased productivity for workers having to put in extra hours, and decreased employee morale, which causes problems in performance and turnover. Some increases in sick leave are associated with physical ailments that result from stress; however, sometimes employees aren’t physically ill; they’re just ‘sick’ of coming to work!

Sample of Fiscal Model—Preliminary Study

Clearly, acts of incivility adversely affect the bottom line. A snapshot of our findings for an organization of 31,000 employees yields the following annual estimates of the financial impact of diversity related acts of incivility:

Time lost avoiding or worrying about the instigator, or withdrawing from the organization	\$ 2,344,888
Lost innovation and ideas	\$ 1,200,000
Increased costs associated with safety incidents	\$ 420,000
Turnover related to Diversity-Related Acts of Incivility	\$ <u>13,500,000</u>
Estimate subtotal	\$ 17,464,888

Many of us have intuitively felt the link between incivility and lost dollars. The dEPS Index is the first step in framing the dialogue to position diversity management as a strategic organizational process. Organizations that use dEPS can identify, measure, and manage actions that contribute to exclusion and inappropriate behavior; track the link to business metrics; and develop custom intervention strategies. The dEPS includes several measurements, as shown on the following page.

Additional Costs Include:

- Lost Revenue per FTE associated with DRIs
- Cost of workplace bullying
- Costs associated with unplanned absenteeism associated with DRIs

The total ‘cost opportunity’ far exceeded \$25 million dollars per year! These costs are divided into the number of common or diluted shares outstanding on a quarterly EPS basis identifying the potential dEPS opportunity.

As a time series comparative analysis, the percentage of improvement is what would get reported to the financial markets, indicting the progress, commitment, and fiscal impact of managing workplace culture.

Fiscally progressive, responsible companies will implement the dEPS metric. . .to drive out the costs of incivilities in the workplace.

dEPS Measurements

dEPS Metric. This metric is used in evaluating the profitability and success of a company's diversity management process on a per-share basis. It is calculated by taking the total diversity-related earnings and dividing it by the number of common shares outstanding. The database for comparative benchmarking currently being validated.



dEPS Factor. This is the metric reported to the financial community. It is a time series comparative analysis that benchmarks where organizational opportunities in diversity management can be found. The dEPS Factor then validates improvement against the benchmark. It includes weighting for diversity processes and support mechanisms such as diversity councils, mentoring, and retention programs.



DE: Diversity Earnings. This figure is calculated by factoring the 1) Diversity-Related Cost Reductions, or DCR, 2) Diversity-Related Intangibles, or DRI, and (3) Diversity Management Program Costs, or DMPC. Once this number is calculated, the Diversity ROI can be determined.



Diversity ROI. The ROI considers the overall impact of the diversity management program on the organization's bottom line business metrics. This includes costs reductions, intangibles, and associated program management costs.



dEPS Validation Process. This patented process measures how much an organization is managing and leveraging the diverse environment of today's workplace. After reviewing documentation from leading socially responsible investors (SRIs), several systemic processes, policies, and practices were considered key in employment and workplace practice reviews when screening for investment. These factors were integrated into a validation process that involves completing quantitative and qualitative measures of the workplace environment.

VI. Stakeholder Benefits

Actual reports to financial markets, gauging improvement in the overall dEPS Factor, are issued by the Sp@rtacus Group's Center for Human Capital. (<http://www.centerforhumancapital.com>) These measures are determined by assimilating qualitative and quantitative data in a proprietary formula developed and patented by The Sp@rtacus Group. Also available to SRIs is the level of validation achieved by the participating organization. An extensive process, organizational validation involves periodic, highly detailed assessments of corporate culture to gauge conformity with best practices while providing documented improvement.

The dEPS Validation Process gives organizations a process-oriented approach to eliminating inappropriate behaviors from the workplace. It also documents specific benefits for each constituent:

<u>Constituent</u>	<u>Benefit</u>
<i>Employees</i>	Improved workplace
<i>Management</i>	Increased employee performance and production
<i>Labor representatives</i>	Enhanced value of labor and intellectual capital
<i>Board members</i>	Improved shareholder value through increased performance
<i>Investors</i>	A fair return on investment through responsible practices

The dEPS Validation Process gives organizations a process-oriented approach to eliminating inappropriate behaviors in the workplace.



VII. Putting It All Together: ROI Model

In today's global economy, becoming diverse is inevitable, but retaining and leveraging diverse talent is critical for success. Maximizing the value of human capital is difficult, though, if differences are not appreciated. Organizations that strive for sustained success must develop a corporate culture of fully engaged and committed employees—supported by a culture that values, monitors, and continuously manages diversity.

In connecting organizational culture and diversity to the bottom line, the dEPS™ Index offers an organizational ROI model that enables buy-in from all corporate stakeholders. It provides a financial performance measure to increase shareholder value and leverage investment capital. And it serves as a compliance tool to reinforce corporate ethics and drive best practices in diversity management.

An Organizational ROI Model

For years, associations and best practice groups have been working on solutions to the diversity ROI challenge. In our research on the importance of diversity-related ROI, we found that many companies are not overly concerned about validating their ROI for diversity, but they understand intuitively that managing diversity in their organization makes good business sense, and it's "the right thing to do."

Most studies of the topic have looked at the impact on performance and productivity from "having" diversity but are inconclusive in providing empirical data that connect diversity benefits to the bottom line. Exceptions are studies highlighting the importance of niche marketing and ethnic marketing as ways to grow business opportunities or expand product offerings. Research conducted by the American Management Association, for example, has documented increased sales connected to organizations with diversity in their senior management teams.^v Yet these studies have not delivered the fiscal links that validate the business case for managing diversity in the workplace versus the marketplace.

Fortune 500 companies invest an average of \$2.8 million each year in their diversity organization.^{v1} However, when companies are forced to tighten their fiscal belt, diversity initiatives are often vulnerable. Linking corporate diversity efforts to ROI processes is the first step in positioning diversity management not as another cost center but as a strategic initiative. In an environment of increased cost controls, the dEPS Index drives ROI to a bottom-line number that can serve to justify an organization's diversity budget. Strategic applications for the dEPS metric involve leveraging investment capital and developing organizational accountability models that have a positive impact on the P&L while increasing total shareholder value.

The dEPS Index drives ROI to a bottom-line number that can serve to validate an organization's diversity budget.

VIII. Accountability Metric

A Corporate Accountability Tool

Accountability and ethical corporate governance are resonant buzzwords in today's corporate America. Sarbanes-Oxley compliance has taken center stage in many management and executive-level discussions as a method of ensuring market and investor confidence.

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. The cultures of these organizations were as much to blame as the individuals.

Some cultures stress performance over ethics. 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. Data now show, though, 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 from the organization.

The dEPS Index provides a method of driving accountability around best practices in diversity management. It considers the existence of diversity support mechanisms such as diversity councils, affinity or networking groups, supplier diversity, recruiting and retention programs, and more. It doesn't predict success. Instead, it provides a time series analysis of improvement in such targeted areas as revenue growth, cost reductions, and productivity improvement.

Fiscally progressive, responsible companies will implement the dEPS metrics, as well as other qualitative and quantitative measures, to drive out the costs of incivilities in the workplace. Its analytic approach to managing costs and productivity metrics can be connected to existing balanced scorecards.

Quotes From Thought Leaders on Diversity

The comments below do not constitute an endorsement of the dEPS Index or the Sp@rtacus Group. The thoughts and opinions expressed are those of the individuals, not their respective organizations.

IX. Endnotes

ⁱ “Workplace Incivility and the Management of Human Capital.” Author: Don Zander, Senior Fellow, Brookings Institute & American University. Journal Title: *The Public Manager*.

ⁱⁱ Social Investment Forum: National nonprofit membership organization.
<http://www.socialinvest.org>

ⁱⁱⁱ “A New Career Lexicon for the 21st Century.” Authors: M.B Arthur & D. M. Rousseau. Journal Title: *The Academy of Management Executives*

^{iv} “Assessing & Attacking Workplace Incivility.” Authors: Pearson, Andersson & Porath – Journal Title: *Organizational Dynamics*, Fall 2000.

^v AMA. “American Management Association Study Finds Diverse Leadership Teams Are More Productive.” For more information, see <http://www.amanet.org/research>

Websites

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