SELLING THE DIVERSITY ROI TO YOUR CFO

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Box One, Inc.

OUR DISCUSSION TODAY

- The diversity business case
- Calculating the ROI
- Mission impossible ROI’s
- What is your role?
  What is the finance role?
THIS FISCAL YEAR:

- Total cost of your proposed diversity initiative = $1 million
- 27 capital project requests total $15 million
- Amount available for investment = $5 million

HOW WILL YOU DECIDE WHAT TO FUND?

There are 3 times more project requests than money available. How will you decide which projects to invest in?
HOW WILL TOP MANAGEMENT SELECT THE “RIGHT” INVESTMENTS?

REVIEW OF BUSINESS CASES and BUSINESS PLANS
DIVERSITY BUSINESS CASES

- “Making a Business Case for Diversity”, The Diversity Training Group
- “The Business Case for Diversity: How Companies Keep Their Competitive Edge”, Texas Diversity
- “The New Business Case for Diversity”, Diversity Executive

THE BUSINESS CASE v. BUSINESS PLAN

- Business case
  - Initial screen for a new business initiative
  - “Go/no go” before investing significant time and money to develop a full business plan
  - Enough data for preliminary financial assessment

- Business plan
  - Definition of the product or service, the business model, the market, the competition
  - Full assessment of the strengths and weaknesses of the proposed project
  - Detailed financial forecast for next 5, 7 or 10 years with Return on Investment (ROI)
ULTIMATE GOAL OF BUSINESS PLAN

- Implementation roadmap
- Calculate ROI
- Determine which projects should be funded (e.g. 1 out of every 3)

WHY PICK THE “RIGHT” INVESTMENTS?

- Implement strategy
- Increase value
- Improve the financial statements
  - More revenues
  - Better margins
- And … INCREASE CASH
WHAT ARE THE “PICKING” TOOLS?

POPULAR VIEW: “SIMPLE” ROI

- Identify costs and benefits
- Plug in the numbers
- ROI% =

\[
\text{ROI} = \left( \frac{\text{Total benefits} - \text{total costs}}{\text{Total costs}} \right) \times 100
\]

- ROI = 540%
THE MEASUREMENT PROBLEM:

- Every project has
  - Different time lines
- Every project has
  - Different cash flows

APPLES TO ORANGES

- Must ensure that different projects are comparable
THE CFO’s ROI TOOLS

- Three classical ROI tools
  - Payback period
  - IRR
  - NPV

ROI: A VERY CONFUSING & MISUSED CONCEPT

- A few ROI quotes from diversity-focused articles/websites:
  - Measuring Diversity’s Return on Investment
  - Measuring ROI for Diversity Management
  - The ROI Virtual Toolkit of Resources
  - HR 101: The ROI of Workplace Diversity and Inclusion
  - Improving ROI through diversity

- An ROI is **NOT** Return on Equity (ROE), Return on Assets (ROA), Return on Invested Capital, etc.
CALCULATING THE ROI

Data is based on cash flow, not on financial statement numbers

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CASH FLOW FORECAST
Illustration: Implement New Diversity Initiative

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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<tbody>
<tr>
<td><strong>CASH INFLOWS</strong></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>$ Increase in revenues (or savings)</td>
<td>1,450,000</td>
<td>1,740,000</td>
<td>2,088,000</td>
<td>2,505,600</td>
<td>3,006,720</td>
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<tr>
<td>Cash Inflows</td>
<td>1,450,000</td>
<td>1,740,000</td>
<td>2,088,000</td>
<td>2,505,600</td>
<td>3,006,720</td>
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<td><strong>INITIAL INVESTMENT</strong></td>
<td></td>
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<tr>
<td>Initial investment</td>
<td>(2,400,000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Additional one-time costs</td>
<td>(775,000)</td>
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<tr>
<td><strong>OTHER CASH OUTFLOWS</strong></td>
<td></td>
<td></td>
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<tr>
<td>Payroll costs</td>
<td>(812,000)</td>
<td>(852,600)</td>
<td>(895,230)</td>
<td>(939,992)</td>
<td>(986,991)</td>
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<td>Payroll taxes &amp; benefits</td>
<td>(219,240)</td>
<td>(230,202)</td>
<td>(241,712)</td>
<td>(253,798)</td>
<td>(266,488)</td>
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<td>Additional support staff</td>
<td>(65,000)</td>
<td>(68,250)</td>
<td>(71,663)</td>
<td>(75,246)</td>
<td>(79,068)</td>
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<tr>
<td>Payroll taxes &amp; benefits</td>
<td>(17,550)</td>
<td>(18,428)</td>
<td>(19,349)</td>
<td>(20,316)</td>
<td>(21,332)</td>
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<tr>
<td>Other associated costs</td>
<td>(145,000)</td>
<td>(174,000)</td>
<td>(208,800)</td>
<td>(250,560)</td>
<td>(300,672)</td>
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<tr>
<td>Cash Outflows</td>
<td>(4,433,790)</td>
<td>(1,343,480)</td>
<td>(1,436,753)</td>
<td>(1,539,911)</td>
<td>(1,654,491)</td>
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<tr>
<td><strong>ANNUAL CASH FLOW</strong></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td></td>
<td>(2,983,790)</td>
<td>396,521</td>
<td>651,247</td>
<td>965,689</td>
<td>1,352,229</td>
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<tr>
<td>Cumulative Cash Flow</td>
<td>(2,983,790)</td>
<td>(2,587,270)</td>
<td>(1,936,023)</td>
<td>(970,334)</td>
<td>381,895</td>
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<td><strong>ROI USING EVALUATION TOOLS BELOW:</strong></td>
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<tr>
<td>Payback Period</td>
<td>4+ years</td>
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<tr>
<td>Internal Rate of Return</td>
<td>16.9%</td>
<td></td>
<td></td>
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<tr>
<td>Net Present Value</td>
<td>$421,535</td>
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</tbody>
</table>

(assuming a 12% discount rate)
### WHICH ROI IS BEST?

#### DECISION TOOLS: Return on Investment

<table>
<thead>
<tr>
<th>Payback Period</th>
<th>Project #1</th>
<th>Project #2</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>3 years</td>
<td>5 years</td>
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<tr>
<td>Internal Rate of Return (IRR)</td>
<td>8%</td>
<td>12%</td>
</tr>
<tr>
<td>Net Present Value (NPV)</td>
<td>$83,000</td>
<td>$124,000</td>
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</table>

**WHICH NUMBER DO YOU LIKE?**
CAUTION

- Predicting the future …
- Revenue forecasts, expense estimates
- Assumptions

“MISSION IMPOSSIBLE” ROI’s

- Measuring the ROI on
  - Ethics
  - People
  - Policies
  - Other qualitative factors such as increased diversity

- What can we measure?
  - Actual revenues and expenses
  - Concrete future savings based on a change in revenues or expenses
And … “MISSION IMPOSSIBLE” BUSINESS CASES

- “Making a Business Case for Diversity”, *The Diversity Training Group*
- “The Business Case for Diversity: How Companies Keep Their Competitive Edge”, *Texas Diversity*
- “The New Business Case for Diversity”, *Diversity Executive*

Is There a Business Case for Diversity? Yes – But It's Not in the Numbers

- “Try applying traditional metrics like cost and return on investment to find the value of diversity, and you're likely to come up empty handed.

- It is very difficult for anything around diversity and inclusion to stand up to a traditional business case. There is a danger when you set up the expectation of that kind of payback.”

Clarence Mitchell, partner in Accenture's Communications and High Tech market unit, speaking at a Panel of African-American executives at Wharton's 33rd Annual Whitney M. Young Memorial Conference
THE DIVERSITY BUSINESS CASE/PLAN

- If legally required, it's not a “business case”
- If it’s about ethics and morals, look to “governance” for guidance
- If you want to prove it with numbers, focus on measurable business aspects of diversity
  - How can a diverse workforce drive additional sales?
  - How can reduction in turnover improve the sales process?
- Be reasonable
- Clearly state all of the assumptions
- Tie it to the overall business strategy

THE 5 GREAT DIVERSITY ROI MYTHS

- Diversity is a financially “measurable” concept
- The math is difficult …
- And, the rest is easy
- The “simple ROI” delivers a number acceptable to the CFO
- The “the biggest ROI” is the “best” number
THE “BEST” RETURN …

- Has a “good” ROI, not necessarily the highest
- Provides high support for current strategy
- Is about execution – The “Dream Team”
- Has convincing assumptions
- Was reviewed/partnered with Finance
- And … has an understood and acceptable business purpose

WHAT IS YOUR ROLE?
ROLE OF DIVERSITY TEAM

- **Identify** the critical diversity initiatives
- **Sponsor and develop** the diversity business case/plan
- **Team** with the key organizational contributors – HR, finance, marketing, operations, R&D, to develop the business plan
- **Work with finance** to forecast new revenues/benefits and expenses

ROLE OF FINANCE TEAM

- **Provide data** for the business case/plan
- **Help with assumptions, spreadsheets, calculation of ROI**
- **Provide insight** on strategic focus
- **Develop industry and competitive financial information**
- **Ensure finance stamp of approval**
FINAL THOUGHTS … don’t try to prove the “diversity business case” … prove the *business reason* for diversity

"Not everything that counts can be measured, and not everything that can be measured, counts."

Einstein
THANK YOU!

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GUDRUN GRANHOLM, MBA, CFP

- Founder of Box One, Inc., a Financial Training and Consulting Firm
- Focused on helping “operational” managers and executives:
  - Understand the financials
  - Make better business decisions based on understanding the numbers
  - Connect strategy and finance
  - Communicate more effectively by using the Box One Model™
- Established 1982
- Industry focus in healthcare, technology, retail and distribution
- Custom training clients include Cisco Systems, Standard Insurance (StanCorp), San Diego Children’s Hospital, Costco, Hewlett Packard, Unified Grocers, IBM (Sequent), Mission Foods, FHP (merged with PacifiCare/United Health Group), Boeing, Wells Fargo, Sun Healthcare, Sybase, Ingram Micro.
- Work with a variety of universities to design, develop and deliver financial curriculum and training customized for specific audiences, including UCSD; University of Oregon; the PSU MBA program; Food Industry Leadership Center at Portland State University including development of Executive Education for the activewear industry; UC Irvine; the OHSU MBA program; San Diego State; and SMSU.
- Career CFO. Received her BA from Harvard University and an MBA from Stanford University Business School.