Diversity Best Practices

RESEARCH REQUEST

Measuring Business Sponsorship Return on Investment

September 2011

Introduction

Many businesses sponsor or otherwise support nonprofit organizations representing racially, ethnically, and culturally diverse constituents as part of their missions to be inclusive and demonstrate social responsibility. The Society for Human Resource Management (SHRM) indicates that these companies often struggle with effectively measuring the results of diversity initiatives, which are often considered to have "intangible" results. Yet according to SHRM, such improvements may have a significant impact on productivity, growth, and profits.[i]

A search of a variety of sources revealed limited information related specifically to the return on investment for sponsorship of diverse/minority organizations. However, more information is available on sponsorship of socially responsible marketing efforts, with diversity and equal rights being a key cause supported by consumers and companies. This report provides summaries of articles and research that indicate some of the non-financial benefits for supporting not-for-profit organizations and socially responsible causes, several examples of the results of corporate sponsorship programs related to diversity, and a brief look at a financial method to review diversity management's return on investment (ROI).

Creating Positive Image

Companies often approach their sponsorship of diverse organizations and support for socially responsible causes as a demonstration of their corporate values and responsible business practices. A report by Cone, LLC, a communications agency that has been studying cause marketing since 1983, notes that companies are increasingly integrating their cause commitments into their business operations and product development to ensure they are aligned, and that each is reflective of the company's core values, mission, principles, and policies. [ii]

The Cone "Past. Present. Future. The 25th Anniversary of Cause Marketing" report points out that support for causes "is no longer just about driving short-term sales, but also creating trusted and lasting relationships with diverse stakeholders." [iii] According to the 2008 Cone/Duke University Behavioral Cause Study mentioned in

the report, 85 percent of Americans say that they have a more positive image of a product or company when it supports a cause they care about.

In an article by Demand Media, an arm of Hearst Publications targeted to small businesses, about the advantages for corporations sponsoring not-for-profit organizations, author KJ Henderson says that one of the biggest advantages given to businesses is the increased visibility gained in the community. Similarly, Henderson notes that when a business donates to worthy causes, it is no longer considered as simply a profit-seeking corporation. A business' investment in the community signals a commitment and concern for its neighbors. In many cases, people will go out of their way to support companies that support their community. The article goes on to say, "The increased visibility of a company's name … leads to increased brand recognition throughout the community. An easily recognized brand makes closing sales all the more effortless. Increased sales equals increased revenue." [iv]

Leading Issues

While economic development was the top issue that Americans wanted companies to address, diversity and equal rights ranked among the top 10 in a study by Cone, with 66 percent of respondents pushing for that issue.[v] Interestingly, the diversity issue was the only issue in that top 10 that saw a three-point increase in its public ranking from 2008 to 2010. All of the other issues, including economic development, saw a one-to-five point drop in the percentage of consumers interested in the subject. Based on this report, diversity and equal rights (or inclusion) is important to the American public.

Employee Pride and Retention

While cause marketing of the past primarily targeted consumers in sales transactions, Cone says that today it is often concerned with a company's strongest ambassadors: its employees. It reports that employees seek more meaning in their work, and companies that provide substance and meaning will be rewarded with high employee pride, morale, and retention.[vi]

Additionally, in an article in the *Michigan Chronicle*, Janice Tessier, vice president and manager of diversity initiatives at Comerica Bank's Detroit office, suggested that companies can demonstrate their commitment to diversity and inclusion through active involvement of their employees in diverse organizations. She advises senior executives to, "become involved with diverse chambers of commerce and professional organizations. Comerica colleagues…are actively involved with many diverse chambers and organizations such as the National Association of Black Accountants, the Hispanic Chamber of Commerce and Inforum, to name a few." [vii]

The bottom line? Getting employees at all levels involved in diversity organizations proves to staff members and the community at large the company's commitment to diversity. In return, companies can reap the benefits of an engaged and productive staff as well as a positive community reputation among consumers.

Communicating Support

While sponsoring diversity organizations and supporting worthy causes can bring intangible, but real, benefits to companies, it's important to inform employees and the community of these efforts. Doing so, ensures that the return on investment, both tangible and intangible, is realized throughout the organization in, for example, sales/marketing, reputation management, hiring and recruiting, as well as other company functions. The 2000 Cone/Roper Executive Study stresses that it is not enough just to support a cause – companies must tell their employees and public what they are doing. "Companies that communicate their cause programs are significantly more likely to feel they achieve their business objectives, confirming that companies that keep quiet about their cause efforts leave a very critical opportunity untapped." Mark A. Feldman, executive vice president at Cone, further noted, "There is a growing public demand for companies to become more transparent in communicating their social initiatives." [viii]

Social Responsibility

In his research paper, "Integrating Corporate Social Responsibility with Competitive Strategy," author Dan O'Brien, the winner of the Center for Corporate Citizenship at Boston College's *Best MBA Paper in Corporate Citizenship* competition, refers to

"socially anchored competencies (SACs) that can be used to benefit society as well as increase profitability." He notes that corporate philanthropy has "evolved from the donation of cash and products" because "it's the right thing to do" to strategic philanthropy that has some relationship to the company's core business. [ix]

O'Brien cites two primary reasons why traditional corporate social responsibility (CSR) programs have had minimal benefits: funds are allocated to a wide range of community-based charities, which dilutes the real impact, and cash is allocated to projects without taking advantage of the company's non-financial assets or how the social projects could directly support business objectives.

He cautions that "a favorable corporate reputation can enhance a company's competitive standing and financial performance. However, the misalignment between business and CSR strategies can result in decisions that harm its hard-earned reputation."

Examples of Corporate Sponsorship and its Benefits

Comerica Bank's Janice Tessier explained in an interview in *Crain's Detroit Business* that the company's employee resource group for lesbian, gay, bisexual and transgender employees (LGBT) uses the majority of its annual budget to sponsor events and organizations in metropolitan Detroit's LGBT community. This outreach effort not only gave Comerica some visibility in the LGBT community, but also helped the bank understand its market.

Another example of the benefits of supporting an organization serving the interests of minority participants comes from The Consortium for Graduate Study in Management, an organization promoting diversity and inclusion in American business. The Consortium notes that sponsoring organizations that fund their student fellowships, for instance, acquire early access to those qualified MBA recruits, "which enable their respective organizations to achieve their strategic goals of increasing diversity within the workplace while demonstrating a significant return on investment to stakeholders."[x]

In February 2011, the UPS Foundation donated $7 million to more than 80 diversity organizations. Among the recipients of this grant are the NAACP, the National Council of LaRaza, Alexander Graham Bell Association, and Girls, Inc. Eduardo Martinez, director of philanthropy and corporate relations for The UPS Foundation explained that this donation represents UPS' commitment to diversity extends beyond philanthropy and into its approach to business. The company's ROI for this donation is based on its reputation in the community and the alignment of its philanthropy with its business goals and objectives.

Purchase Influence

The Cone "2010 Cause Evolution Study" reports that 41 percent of Americans say they have bought a product because it was associated with a cause or issue in the last year–doubling since they first began measuring in 1993. They add that "cause branding not only drives purchase, but it also serves as a powerful differentiator. Eighty percent of Americans are likely to switch brands, about equal in price and quality, to one that supports a cause. But looking a bit deeper, cause also motivates many of these consumers to step outside their comfort zones and try new, generic, or more expensive brands."[xi]

Return on Investment (ROI)

While this report has focused on the non-financial benefits of sponsoring external diverse organizations and causes, an article by the Society for Human Resource Management explains the link between non-financial benefits and the bottom line. Measuring the ROI of diversity management initiatives, such as sponsorship of diverse organizations, provides greater internal support for diversity management initiatives, helps link diversity initiatives to a company's strategic goals, and demonstrates diversity management's value to the organization.

According to the SHRM article,

> "As illustrated in Figure 1 [on page 7], many intangible variables are linked to diversity results. The following five basic steps can establish monetary values for intangible results:
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> 1) Identify a unit of measure that represents a unit of improvement.

2) Determine the value of each unit.

3) Calculate the change in performance data.

4) Determine an annual amount for the change.

5) Calculate the total value of the improvement.

The diversity return on investment (DROI) is calculated by using the diversity initiative cost and benefits to get the benefit/cost ratio (BCR). BCR = diversity initiative benefits ÷ diversity initiative costs. This ratio is also referred to as a cost-to-benefit ratio. Specifically, the DROI calculation is the net benefit of the diversity initiative divided by the initiative costs: DROI% = (net diversity initiative benefits ÷ initiative costs) x 100. This formula is the same basic formula used to evaluate other investments in which the ROI is reported as earnings divided by the investment. For example, the initial cost of a diversity awareness program may be $50,000. The measurable value of the program is determined to be three years. During a three-year period, the program will have a net savings of $30,000 ($10,000 per year). Since the average book value is approximately half the cost, the average investment in this case is $25,000 ($50,000 ÷ 2). The average ROI = annual savings average ÷ investment ($10,000÷$25,000) x 100 = 40%."

Figure 1: Typical Intangible Variables Linked With Diversity	
Attitude Survey Data	**Employee Transfers**
Organizational Commitment	**Customer Satisfaction Survey Data**
Climate Survey Data	**Customer Complaints**
Employee Complaints	**Customer Response Time**
Grievances	**Teamwork**
Discrimination Complaints	**Cooperation**
Stress Reduction	**Conflict**
Employee Turnover	**Decisiveness**
Employee Tardiness	**Communication**
Source: *The Diversity Scorecard: Evaluating the Impact of Diversity on Organizational Performance*, 2004. [xii]	

Here's a brief look at the ROI for an earlier diversity initiative by Nextel Communications, before it became Sprint Nextel. For the company, diversity training had always provided intangible benefits, particularly as it relates to diversity management. But the HR function wanted more quantifiable and measurable results

from the effort. After a review of the goals and objectives of the training, the company established quantifiable metrics, and began a diversity-training program with an eye to measuring the outcome. The goals involved improving employee retention, satisfaction, and productivity. Based on survey results, which had been decided the way to measure the results, turnover fell with training contributing to the change. Using the formula above, it was determined that diversity training saved Nextel about $3.2 million, while the program cost approximately $1.22 million. This provided a ROI of 163 percent. So for every dollar spent on diversity training, the company realized a $1.63 net benefit.[xiii]

Summary

The benefits of sponsoring external diverse organizations and supporting socially responsible causes includes the tangible benefits of increased business, as well as the intangible benefits of improved employee recruitment, retention, and job satisfaction; increased company visibility; better understanding of the market, and positive public perception. An important task in reaping the full benefits of cause support is telling others about that support. Ultimately, Cone's predictions of future trends are that "companies will serve as a catalyst in increasing understanding and fostering empathy among mainstream consumers," and that they "will be forced to redefine measurement metrics no longer based on outputs, but on the outcomes for society and their business."[xiv] As such, sponsoring external diverse organizations and supporting socially responsible causes can be an integral piece of a strategic diversity management effort.

Endnotes

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[i] Lockwood, Nancy R., "Diversity Management Series Part II: Measuring ROI for Diversity Management," Society for Human Resource Management, April 1, 2005 http://www.shrm.org/Research/Articles/Articles/Pages/Diversity_20Management_20Series_20Part_20II__20Measuring_20ROI_20for_20Diversity_20Management.aspx

[ii] Cone, LLC, "Past. Present. Future. The 25th Anniversary of Cause Marketing," 2008 www.coneinc.com

[iii] Cone Research Studies http://www.coneinc.com/research/index.php

[iv] Henderson, KJ, "Advantages for Corporations Sponsoring Charitable Organizations," Demand Media http://smallbusiness.chron.com/advantages-corporations-sponsoring-charitable-organizations-503.html

[v] Cone, LLC, "2010 Cause Evolution Study" http://www.coneinc.com/research/index.php

[vi] Cone, LLC, "Past. Present. Future. The 25th Anniversary of Cause Marketing," 2008 www.coneinc.com

[vii] Tessier, Janice, "10 ways to incorporate diversity, inclusion into your organization," abstract, Michigan Chronicle, October 20-October 26, 2010
[viii] 2000 Cone/Roper Executive Study http://www.coneinc.com/content1084
[ix] O'Brien, Dan, "Integrating Corporate Social Responsibility with Competitive Strategy," J. Mack Robinson College of Business, Georgia State University, 2001
http://www.reportesocial.com/Eng/Files/Biblioteca/4/Integrating%20CSR%20with%20competitive%20strategy.pdf
[x] The Consortium for Graduate Study in Management http://www.cgsm.org/corporations/index.asp
[xi] Cone, LLC, "2010 Cause Evolution Study" http://www.coneinc.com/research/index.php
[xii] Lockwood, Nancy R., "Diversity Management Series Part II: Measuring ROI for Diversity Management," Society for Human Resource Management, April 1, 2005
http://www.shrm.org/Research/Articles/Articles/Pages/Diversity_20Management_20Series_20Part_20II__20Measuring_20ROI_20for_20Diversity_20Management.aspx
[xiii] Lockwood, Nancy R., "Diversity Management Series Part II: Measuring ROI for Diversity Management," Society for Human Resource Management, April 1, 2005
http://www.shrm.org/Research/Articles/Articles/Pages/Diversity_20Management_20Series_20Part_20II__20Measuring_20ROI_20for_20Diversity_20Management.aspx
[xiv] Cone, LLC, "Past. Present. Future. The 25th Anniversary of Cause Marketing," 2008 www.coneinc.com