

Diversity in Dollars and Sense

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A look at how employee bias, versus equal opportunity in the workplace can affect a company's bottom line -

What motivates business? The simple answer is money. Yet, even if businesses, large or small, operate from this simple motivation, the human factor comes into play sooner or later. Around the same time the infamous 1996 Texaco scandal was coming to public attention, an interestingly related report was released. According to research conducted by Covenant Investment Management, the earnings of companies with the highest rating on equal employment opportunities have performed better in the stock market than companies with poor performances in those areas. The Covenant report has become the foundation on which many progressive and proactive companies have sought to establish more diverse workplaces.

In the Covenant study, the performance of the Standard and Poors 500 was rated on a series of factors relating to the hiring and advancement of women and non-Whites, compliance with The Equal Employment Opportunity Commission (EEOC) and other regulatory requirements, and employee litigation. The study then compared these ratings to the annualized return on investment in the stocks of the same companies over the then most recent five-year period.

Diversity ROI

The study's analysis indicated that the annualized return for the companies rated lowest on the glass ceiling-related measures (the bottom 100) averaged 7.9 percent compared to 18.3 percent for the top 100. Firms that were intermediate on the glass ceiling-related measures had returns of 15-16 percent. Thus, the stock market performance of the firms that were high performers on the glass ceiling-related goals was 2.5 times higher than that of the firms that invested little in glass ceiling-related issues.

Unfortunately though, a look at the number of discrimination and harassment charges and lawsuits filed each year makes it evident that there is still much work to be done. Mishandling employee management can become a serious financial concern in the form of lawsuits.

In 2006, the EEOC reported filings of 27,238 charges of racial discrimination, 23,247 charges of gender discrimination and harassment, 8,327 charges of national origin discrimination and 2,541 charges of religious discrimination. Thousands of these charges were settled out of court, usually through mediation. Yet thousands of aggrieved individuals filed suits as part of group and class action lawsuits resulting in settlements in excess of \$44 million that year, and these are only the complaints and suits handled by the EEOC.

It's hard to place a total figure on the costs, on national, state and local levels, of workplace bias. The fourth *Annual Workplace Class Action Litigation Report*, produced by national law firm Seyfarth Shaw LLP, reports that in 2007, aggregate settlements in employment discrimination class action suits alone totaled \$282.1 million.

As the U.S. Department of Labor's *Managing Diversity and Glass Ceiling Initiatives* report points out, settlement amounts don't include other financial losses related to bias in the workplace. In one of the few published accounts of the dollar cost of identity-group bias in organizations, the annual after-tax losses due to gender bias for a company with around 27,000 employees was estimated at \$22 million, or one percent of total operating expenses. These costs included turnover, absenteeism, and lost productivity and addressed systemic bias, as well as losses related to sexual harassment. This study focused on a Fortune 500 utility company and addressed only one dimension of diversity - gender.

Consumer and Investor Reactions

There are also the outcomes to consider from public knowledge of a company's equal employment actions, as well as employment bias. A Labor Department's *Glass Ceiling Initiatives* study examined the impact on stock prices of announcements of recipients of Labor Department awards for exemplary affirmative action programs during the period of 1986 through 1992. They also examined the effects of the announcements of settlements of discrimination lawsuits on stock returns to corporations.

Results indicated that stocks of award-winning companies did increase significantly during the days immediately following the announcement of the award. They also indicated that announcements of settlement of a discrimination case had significant negative effect on the stocks of the firms found at fault in the case during the days immediately following the announcement.

Every business must consider the impact of how it treats its employees. The Society for Human Resource Management (SHRM) found that having a reputation for fair treatment is among the top reasons women and minority consumers say they remain loyal to a company. This is an important factor to consider when comparing the diversity of a company's workforce to its customer base. Also consider this:

- "Minorities" are actually the majority in six of the eight largest metropolitan areas of the U.S.
- The combined Black, Hispanic and Asian buying power is more than \$750 billion.
- Women are the primary investors in more than half of the U.S. households.

Addressing equal opportunity issues and discrimination in the workplace is a societal and business concern. Where common sense, decency, or even law won't dictate, ultimately, the bottom line will.