Diversity: A strategic and value added or requirement?

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Abstract: Over the past few years most business organizations have been embracing the idea of having diverse workforce. But there are very few studies that point to the relevance of diversity to the strategic business growth or added cost to business. Most organizations either do it to protect their organization reputation or to remain compliant with law and/or suppliers. But the world demographic landscape is changing at a disparate rate. This change call for a global view around talent management and the need to hire for global & not local need. So the study is intended to identify what diversity really means for many businesses and how it actually adds value through innovation, the potential it represents for the business and the risk of doing nothing. In doing so we used data from many sources, most of which are from Economic census data. Overall theoretical data show that having a diverse workforce is a great source of innovation and profitability. While statistical data show that by 2050 the population will grow significantly, mostly coming from developing world and from Spanish–speaking background within us. Those data point to the fact that businesses need to adapt a long term strategic approach to Diversity if they are to remain relevant.

Keywords: Strategy, Human Resources, Demography, profitability, Diversity, Globalizations, Risk.

The word diversity has gained lot of traction over the past few years and many organizations have been shifting their work environment to have more representation from different group. With that said we find it interesting to understand some of the fundamental ideology that brings us to where we are. Obviously, the civil right act of 1964 have contributed to a bigger extend and have been a catalyst for other programs and law like the Affirmative Action Program and the equal employment opportunity Act. With that, many organizations have been taking proactive steps to eliminate discrimination in their hiring and promotion process (Affirmative Action Program) as well as ensuring that different groups are being given an equal employment opportunity as required by law. In addition; suppliers are increasingly being required to have a diverse workforce and have contributed as well to the dynamic. On the other hand some organizations in quest for Innovation are making the diversity part of their core value and strategy. L affirmation Action Programs (AAPs), Equal Employees Opportunities (EEO) acts, and suppliers Diversity can be classified in the compliance group as opposed to diversity, which is voluntary and culture-based/value–oriented (Jody 2002). But what diversity really means for your organization beyond meeting the compliance requirement and/or “doing the right thing”? Is there value added as a result of the company’s diversity initiative or do we see the diversity as cost center that organizations would rather eliminate? Those are some of the common and genuine questions that many of us and our organization’s leaders are having. But In the process to understand what diversity really means; we must first understand our organization’s objective, its strategic goal and some of the world’s most dynamic component that most likely can affect our ability to meet our objectives: World demographic shift and the Globalization.

Why diversity matters?

“Because, it is the right thing to do” This is the most common answer when the question is asked. For sure, it is the right thing to ensure that we provide all regardless of color, gender, national origin, sexual orientation, and religious affiliation…an equal opportunity. It is also “the right things to do” that as a corporate citizen, we reaffirm our commitment to continually evaluate and ensure that our organization is fair to any group in the hiring and promotion process. But above all, we must all remember that organizations exist to create mutual value: Value for the shareholders and value for the other stakeholders (employees, community…). In that quest, aren’t or shouldn’t we be in search for best talent for the business? Don’t we owe to our organizations to bring talents that can add value today and/or in the long run by “doing the right
thing” for the organization? This is what diversity means and the thus the need to answer the interesting questions below:

As a front line employee and/or strategic leader, do we consider what make the most sense for the corporation by “doing the right thing” when it comes to hiring and promoting diverse candidates? Coming from different households, we all gather in the office for one reason and that is the reason the organization was created and the reason we have the privilege to work with one another. The same reason requires that we take personal responsibility and avoid that our personal preferences become liabilities for the organization’s strategic growth by doing the “right thing”.

**Because of the changing world**. The world disparate growing demography and the globalization are without doubt an opportunity. But with opportunities most of the time come risks. So it is critical if we are to survive that we prepare ourselves to meet present and future customers’ needs and secure our share of the growing market. Those are opportunities for our organization. Are we prepared to capture them? Are we prepared to respond to risks that come with them? Are accountants playing key role in the process? Understanding our organization’s goals, its strategic approaches and what extend they are aligned are key to our ability to capture the growing demographic and market dynamic. But more visible are the significant cost’s associated with hiring and training new employees. This is one way accountants can come into play with metrics to help drive business into a new direction. My personal observation of turnover as a result of lack of workplace diversity culture and the resulting cost associated is alarming and seemingly lack the adequate attention and control needed. Turnover represents enormous cost for many businesses and lost opportunity for the nation wealth (Corporate Leavers Survey 2007.) It is estimated that the lack of diversity has cost U.S. employers $64 billion on an annual basis. An equivalent according to the same report “to the 2006 combined revenues of Google, Goldman Sachs, Starbucks and Amazon.com”. With that number in mind; one can hardly assert that we are maximizing our shareholders value. Especially when we are allowing visible and controllable cost to slip, even assuming a short minded business strategy.

**Understand your organization objectives and strategic goals**

All organizations exist to bring solutions to a given or expected problem. Though, the problem may vary, all organizations must start with a well-defined and clear objectives for the organization, the strategies to achieve those objectives both on the short and /or long term. This is in other words laying out plants for “the current and future needs of customers and potential customers of the business”. That plant is what varies from one organization to another and can be time; growth oriented or blended of the two. Organizations strategies can be classified in many ways depending on company objective. One of the most comment classifications is what we generally call short term and long term strategy. These classifications can be assimilated to stability-oriented and growth-oriented (Pamela 2008.)

Pamela found that stability oriented or short term oriented strategic organization will benefit from getting staffs with similarities as the organization’ desire the status quo and are not in need for change or growth (Mostly small family business). This is opposed to growth –oriented strategic organization that has to fuel growth through innovation. So it all goes down to how well we understand our organization’s business strategy and all risks (external and internal) related to achieving them.

There are many tools available to help uncover and manage risks related to businesses strategies. Among those are the matrix of Strength, Weakness, Opportunities and Threat (SWOT), the SCORE and the Committee of Sponsoring Organization of the treadmill (COSO) framework just to mention few. We refer to them as Enterprise Risk Management (ERM) tools. They can be used to ensure that People understand their organization risk universe and are able to respond with adequate solution (Risk avoidance; Risk sharing, Risk mitigation, Risk acceptance.)

The IIA research Foundation study shows a direct correlation between Risk Management and shareholder value management. Shareholders invest with the expectation to have a return on their investment and researched by conducted Tillinghast-Towers Perrin has showed that consistent increase in
earnings cause an increase in demand for the stocks and therefore a material market valuation. This study is consistent with the recent trend in the valuation of Apple stock that soared from $255 per share on September 2010 to $377 on September 2011 and then $664 per share on September 2012. During the same period Apple gross profit went from $25 billion to $43 billion and then $68 billion.

**Understand the world and local demographic shift**

The world population has been growing and has increased by 13% during the decade ended 2010. Many censuses are projecting the world population currently 6.87 billion (2010 census) to top around 9.53 Billion by 2050. But the contribution of each continent and even regions within continent are disproportionate and will continue according to those projections. This means an increase of 39% of which 15.7% and 20% will come from Africa and Asia respectively and the rest 4% to the remaining regions. Even within the same region contribution is scattered. Of the 20% attributed to Asia, 14% will result from south central Asia growth. American, Europe, and oceanic population will be relatively stable with growth ranging from 1 -2%,-1-0% and 0% respectively. Other hand African region will be relatively dispersed with a range from 0-7%. Data for period 1950-2010 shows that the USA populations more than double (US census 2010). But the changes in demographic landscape were not equally distributed. The west coast more than tripled while the northeast increased by less than half over the same period. Even within the region, we saw dissimilar trend. For example Maryland and Virginia saw an increase of 140% and 66% respectively while on the other end the neighboring District of Columbia and West Virginia populations shrank by 25% and 8% respectively. In addition, states like Nevada (1587%), Arizona (753%), Florida (578%) saw the population sky-rocking (US census 2010). But an In-depth exploration shows the same dispersion between regions during the time period 2000-2010. But change in that period was consistent with 1950-2010 change for the same geography. But projected data is even more interesting. By 2050 the US population landscape will be different from the current landscape with Hispanic representing 30% of the population. The remaining groups share of the population increase will see only slight or no improvement (Black share will remain around 12%, while white population will see a decrease from 65% to 46 %.) Distribution by sex will remain stable during the same time. Population will age and there will be 9% less workforce available and 7% more elderly relative to the population. The Current Income distribution is relatively dispersed with Asia pacific leading way with the highest median income, followed by white, black and Hispanic. This trend is expected to continue according to the projection.

**Understand the globalization**

During the time period 2000-2010 the US trades deficit grew by 31%. On the other hand the US foreign direct investment (FDI) grew by 86% for the same period. But most of the US FDI is concentrated in Europe (72%) second by Asia pacific with 15% and Canada with 9%. Although the FDI was relatively stable over the decade, Europe share increased while the Latin American shares deceased each by 1%. The other regions were unchanged. Although each region share was relatively stable in absolute value; of the 86% increased, Europe’s pie represented 64% while Asia pacific and Canada followed with 13% and 7% respectively. Africa, Latin American and Middle shared the remaining 2%.

**Making sense of the data**

Because we are in the business of increasing our shareholders value or fulfilling a giving mission and given the fact corporate life is unlimited, it is crucial that our actions be both short and long term focus as possible. This is even more important because the world demographic and economic landscape is changing and is expected to continue to change with a projected 39% population increase by 2050 (US census 2010). Africa and Asia share of the change will be tremendous with each contributing 15.7% and 20% respectively. On the other hand the US foreign direct investment (FDI) for these two regions is insignificant in the first place or has shrunk over the past decade (Africa (0.09%), Asia (15%)). This single indicator is signaling that if we are to capture all the opportunity available, our investments on both regions will see significant increase ((35.7)/39)*86%=78.8% by 2050. This investment
should include human capital and will heighten the
need to hire for global and not for local needs.

Within our US boundaries, similar change is
projected with an expected increased of population of
35% by 2050, of which 23% will come from Spanish
background while 5%, 4%, 1% will come from
Asian, Black, and white respectively. Even with
lower Income, Hispanic will still represent the
highest market potential with 22%, followed by
Asian with 9%. This represents a combine annual
revenue potential of $4,395 trillion of the $5,018
trillion projection for the year 2050.

What this means for your Organizations? It means
opportunities, but also Risks.

The revenue potential available on the horizon is
enormous if we prepare our organization to capture
them. This is a potential $4,495 trillion that will be
able to capture by investing and taking a strategic
approach as opposed to compliance approach. Will
our organization be able to understand the need of
diverse group of consumers and the product of the
future? This is the direction data are pointing us to
and therefore an area we should be giving a lot of
attention and investment. It is no longer a theory of
potential revenue from a “true diversity” in the
corporate. It is here already and lots of corporations
like Google, Apple and Microsoft have already been
reaping the fruit of diverse and inclusive workforce
as a result of innovation. The risk of doing nothing
means that we lost the opportunity to capture the 35%
share of market on the horizon, worse the possibility
of losing our current market share as result of lack of
innovation. With Diversity comes difference and
conflict, which itself is not bad if you are able to
manage those conflict and transform them to
opportunities for the organization. This is what lot of
Technologies companies like Google, Apple, and
Microsoft have been able to capture by hiring people
from around the globe or having a virtual platform
where employees around the globe exchange idea on
the project and therefore the resulting innovation.

How diverse is your organization? How can you
add value? It is critical to understand your
organization approach and where they stand in term
of diversity if you are to help fuel your organization
growth. This responsibility bears on all level
employees and thus the below framework to help you
assess and add value to your organization.
Assessment Framework:

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<tr>
<th>Questions to ask yourself</th>
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<tr>
<td>Do you have a communication or discussion with your manager about the business strategy?</td>
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<td>Do you understand how your action affects the company bottom line?</td>
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<td>Is your organization a multinational, national or regional?</td>
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<td>Do you consider yourself and your colleagues as a local or your organization enterprise-wide employees?</td>
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<td>Does your organization have an executive responsible for diversity?</td>
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<td>Do you understand the business trend and the big issue facing your organization (Demographic, Innovation, growth...)?</td>
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<td>Do you understand the impact of the diversity strategy on your organization financial objectives?</td>
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<td>Does your organization have training on diversity?</td>
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<td>Is the training tailored to a specific? What group?</td>
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<td>How you can help?</td>
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<td>Communicate your organization business strategy to your direct reports</td>
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<td>Conduct a self assessment of your organization</td>
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<td>Educate your businesses managers and reports on the relationship between diversity and profitability.</td>
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<td>Value difference, be curious and willing to learn from different group and to share your learning</td>
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<td>Educate yourself about macroeconomic trend and how it affects your business</td>
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<td>Hired for global not local</td>
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