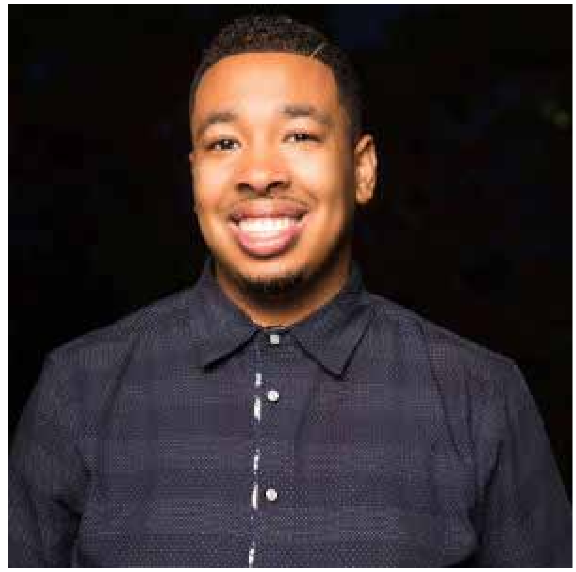
Executive Summary: The 7 Ways Highly Profitable CUs Calculate the Value of DEI

A primer on the ROI of diversity, equity and inclusion

CU Strategic Planning

Forward by Ronaldo Hardy

In 2019 I joined CU Strategic Planning as an owner and Chief Diversity and Inclusion Officer with the goal of unlocking opportunities for credit unions to change their communities. This is only made possible when credit unions are profitable; understand the value of Diversity, Equity and Inclusion (DEI); and experience a return on investment (ROI) from our collaboration. Measuring the ROI of DEI is essential, as with the value of any credit union investment of time and resources.



In an industry with precise financial measurement, quantifying return on assets (ROA) to determine success, executive teams can be tempted to overlook value that is not easily quantifiable. As a result, this paper outlines ways to quantify the ROI of DEI. It is essential to keep in mind that the results of the most profitable credit unions in the country are built on successful cultures, innovation and authentic brands where diversity is embraced and leveraged.

A tremendous body of research prove that diversity, equity and inclusion have large impacts on organizational performance and growth. In addition to the seven ways highly profitable credit unions calculate the value of DEI, this paper will cover the costs savings overlooked when considering diversity, equity and inclusion. The actions at one branch by a manager, loan officer or teller can lead to a costly discrimination lawsuit or brand destruction in the community and media, multiplied quickly on social media.

Credit unions are inherently good organizations, run by good people. It is most often unintentional, unconscious bias and not an action staff would consciously choose that produces racial brand and legal crisis. Unconscious bias is defined as underlying factors or assumptions that skew viewpoints. In other words, it is how we make decisions automatically based on our limited experience and exposure. Our viewpoints with unconscious bias miss information that we do not know that we do not know. It can be hard to embrace, because by nature we have to admit that our life experiences can at times give us perceptions that do not consider the experience of and impacts to others. In fact, much of how we view the world can be through the lens of our personal feelings without us even realizing it. We can find ourselves being insensitive to an experience that is different than ours, and even invalidating it because it is not our reality. It is in retrospect of crisis that we hear, "I didn't know that's how he/she experienced that situation. I'd never thought of it that way."

To better understand this, let's explore the right-handed society. Research published in a 2019 issue of Scientific Reports claims 90% of the worldwide population is right-handed. This population does not consciously register the many things in society that have been designed to our comfort as the majority. In fact, simple things such as scissors or school desks were designed for many years without persons that are left-hand dominant in mind. By nature, this created discomfort for 10% of the population without the awareness of the impact in the other 90% who would not have chosen to make their peers uncomfortable. Left-hand dominant persons had to assimilate to a culture that was not designed for them. If you asked the average right-handed person if they found anything wrong with the design of those items, they would say no. It's because it is not their lived experience. They do not have to live with the discomfort. That does not mean that the reality does not exist for left-handed people. We often judge situations and experiences from our personal seat of comfort and make broad-based assumptions without embracing a different perspective. A commitment to DEI is a commitment to learning and embracing that a different reality does exist outside of our own.

The elimination or reduction of unconscious bias in our organizations can have tremendous impact on our bottom line by reducing our exposure to potential lawsuits based on missteps. Even if a credit union doesn't lose the lawsuit, the loss of time and financial resources to defend the organization can deter the credit union from pursuing activities that do produce positive results for the bottom line.

From Halloween costumes in branches to toys sitting on desks and the application of dress codes, credit unions have been in the national news and protested in their local communities from the actions of the few.

There's also other value that can be produced by deepening the relationship with the community as a result of removing barriers that exclude various populations. Not only does it increase brand equity, but it also creates a pathway for field of membership growth and expansion, and product penetration. All factors that assist in boosting our bottom lines. So, while on the surface some credit union teams may struggle to understand the value of doing the work to create equitable organizations, it will in fact bring both a quantifiable and unquantifiable ROI.

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The Business Case

Diversity is important in our lives for many reasons, not the least of which is our primal human need to seek fresh, different and unique experiences. But it is even more important in the workplace and boardrooms.

It's no surprise DEI is becoming increasingly important to businesses around the world. Business leaders who are genuinely committed to and value diversity understand that there's a lot more to it than simply becoming familiar with some new nomenclature. They know—and abundant research supports their belief—that DEI creates value for employees, members, and organizations.

Here are seven ways highly profitable credit unions calculate the value of DEI.

1: DEI Propels Profits

Few would disagree that diversity is the right thing to do. Social responsibility and non-discrimination are two Credit Union International Operating Principles. Beyond credit union system values, research from McKinsey & Company found that the most diverse companies were 35 percent more likely to have above-average earnings in their industries.

Diverse companies are 35% more likely to have above average earnings.

More specifically, companies in the top quartile for gender diversity on executive teams were 21% more likely to out-perform on profitability and 27% more likely to have superior value creation, while those in the top quartile for ethnic/cultural diversity on executive teams were 33% more likely to have industry-leading profitability, according to another McKinsey study.

In the United States, there is a linear relationship between racial and ethnic diversity and better financial performance: for every 10 percent increase in racial and ethnic diversity on the senior-executive team, earnings before interest and taxes (EBIT) rise 0.8 percent.

Credit unions are currently completing diversity assessments with the NCUA. When applied to the 5300 report, those assessments should bear out similar results. These results can be used to quantify the ROI of DEI inside credit unions.

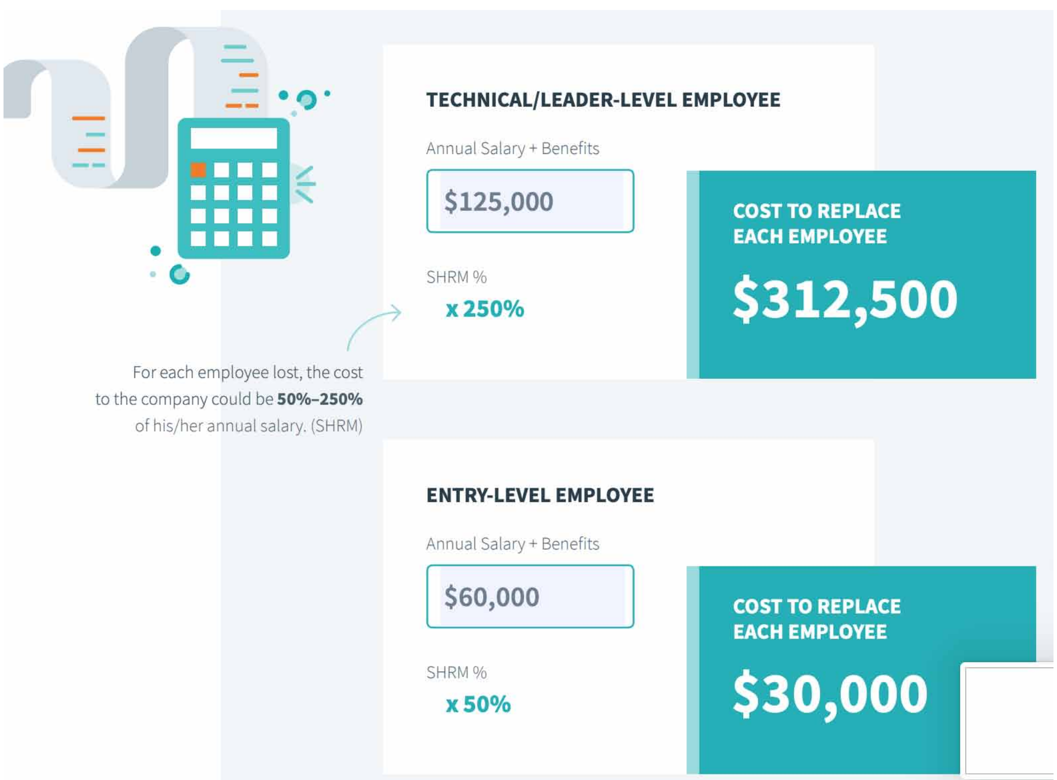
2: DEI Facilitates Employee Recruitment and Retention

The ability to attract dedicated employees is a significant value of DEI. In a strong economy such as today's, employers struggle to find high-quality employees. But organizations with strong DEI practices place themselves ahead of the curve in the race to find top talent. A Glassdoor survey found that 67 percent of job seekers evaluate a company's diversity practices before accepting a job offer. Moreover, employees with the highest level of engagement perform 20 percent better and are 87 percent less likely to leave the organization, according to a survey by Towers Perrin.

67% of job seekers say diversity is a major factor in job choice.

For women and people of color, this has an even greater influence. For example, nearly 75 percent of female candidates considered diversity a priority when choosing a job, as did nearly ninety percent of African American applicants. Organizations that satisfy candidates' DEI expectations get stronger applicants and better employees.

Based on LinkedIn's data of a half billion professionals across all industries, the turnover rate in the financial services is one of the highest at 10.98 percent. On average, losing an entry-level employee costs employers 50 percent of that person's annual salary, and losing a technical or senior-level employee costs employers 50-250 percent of their annual salary.



Sound DEI practices don't just bring employees in the door, they encourage them to stay. Given the high costs of employee turnover, successful organizations find it's unacceptable

to lose employees. However, companies without DEI suffer from high rates of employee attrition. Research from Deloitte found that 72 percent of employees surveyed would leave their company for a more diverse organization. The survey also found 53 percent of millennial respondents had already done just that.

A clear, contemporary DEI strategy can help organizations keep the best talent—which can be measured in a credit union's rate of turn over and cost of turnover. The ROI can be calculated by measuring turnover reduction by cost savings per employee.

3: DEI Improves Employee Performance

Employee engagement equals productivity. Yet, according to USA Today, the average American worker is engaged at a 50 percent level. On the other hand, it's widely known that high-performing companies strive for 80 percent engagement.

Not surprisingly, 78 percent of business leaders rate retention and engagement as urgent or important, according to a recent Deloitte study. But only 15 percent believe they are ready to address it.

Another study found that organizations which *capitalize on the strengths* of all employees and *leverage their differences* and unique values have the most engaged employees.

Employees in diverse environments consistently outperform those in organizations with sub-par diversity. Numerous studies report that when employees feel valued for their uniqueness, they remain happier and more productive. On the flip side, when employees experience racism, sexism, homophobia, or other negative treatment, they react negatively.

It's no surprise employees working in these unfriendly environments divert their focus to their worries rather than their work. It makes common sense: DEI policies keep employees happy, and happy employees are productive.

Headcount x 17.2% = # of disengaged employees

Median annual salary x 34% cost of disengaged employee = total disengagement cost to credit union

LinkedIn developed a calculator for quantifying the cost of disengagement. It defined disengagement as unhappiness manifesting in tardiness, missed workdays and decreased productivity. By applying the Gallup estimate that a disengaged employee costs an organization $3,400 for every $10,000 in salary, and 17.2% of the workforce is actively disengaged, credit unions can determine the ROI for DEI employee engagement efforts.

The ROI of incorporating DEI can be quantified by increased employee engagement resulting in increased productivity. Measurements can include a reduction in tardiness, missed workdays and increases in transactions per employee.

4: DEI Increases Innovation and Creativity

Diversity promotes creativity. A *Forbes* survey reveals 56 percent of international business leaders "strongly agreed" that diversity improved innovation in their companies. According to the *Harvard Business Review*, "Diversity unlocks innovation by creating an environment where 'outside the box' ideas are heard. When minorities form a critical mass and leaders value differences, all employees can find senior people to go to bat for compelling ideas and can persuade those in charge of budgets to deploy resources to develop those ideas." Similarly, a Boston Consulting Group (BCG) study found there is a strong correlation between the diversity of management teams and overall innovation. Companies that reported above-average diversity on their management teams also reported innovation revenue that was 19 percentage points higher than that of companies with below-average leadership diversity—45% of total revenue versus just 26%.

A clear DEI strategy allows employees to focus their mental energies on creative thinking and problem solving.

5: DEI Promotes Member Satisfaction

Diversity improves member service. The value measurement is most often quantified by Net Promoter Score (NPS) and/or CUNA's Member Customer Experience Survey, among others. These results can additionally be quantified by increased product penetration and resulting organic growth. As the U.S. is becoming more and more ethnically diverse, credit unions need to adapt accordingly. A demographic milestone was reached in America in 2012: The majority of babies born across the country were Black, Latino, Asian, multiracial or another race/ethnicity other than non-Hispanic White. The future of credit union membership is diverse.

Boards that understand their diverse communities, their product needs and behaviors are more likely to approve policies and strategic initiatives that support organic growth. The same is true of diverse executive teams. The diversity and inclusion of boards and executive teams also creates equity in the outcomes from the diverse communities they serve. In this new reality, organizations will need diversity and cultural competence to compete.

Beyond the satisfaction of individual members, DEI measurements and customer satisfaction will be increasingly looked at in the banking industry's push for taxation.

6: DEI Opens New Opportunities

America is more diverse than ever before. The buying power of Black and Latino people has consistently risen since 1990, and by 2018 is estimated to be $1.3 trillion and $1.6 trillion respectively. Fintech and the expansion of nontraditional players in the financial services landscape make innovation essential to credit union relevance.

In the financial services sector, the ROI of DEI has been measured by the revenue from new lines of business. PayPal's Working Capital (PPWC) loan uses alternative forms of credit assessment and thus eliminates factors traditionally influenced by race. Between 2013 and 2018, PPWC disbursed $3 billion to 115,000 customers. Twenty-five percent of its loans were in credit-starved counties that are predominantly communities of color.

Similarly, Regions Bank designed the Now Banking suite of products for people of color, so they could cash checks with minimal fees and no minimum account balance. One in five Now Banking customers opens a checking account, creating a new pipeline of long-term customers.

According to PolicyLink, the financial services industry including credit unions has a $141 billion market of unbanked people in the U.S., mostly in communities of color. This does not include the vastly larger segment of underbanked minorities which represent far more than $141 billion. In 2016 alone, $12.7 billion in investment poured into technology-based financial services for the unbanked, of which approximately half is estimated to be in products specifically designed for the underserved.

Measuring profitability from innovation is an excellent measurement of the ROI from DEI. According to BCG, companies with above-average diversity scores experienced a 45% average innovation revenue in 2017, compared to only 26% experienced by below-average diversity scores. This 19% increase in innovation revenue is essential as a credit union's regulatory cost and the expense of keeping up with technology are a tremendous burden on the bottom-line.

7: DEI Boosts Brand Reputation

Diversity enhances a company's brand. Companies that respect diversity show consumers that they are forward-thinking, relevant and not out of step with American values. In an increasingly diverse America, companies that value diversity tell their members that they are valued. A 2019 Edelman Trust Barometer found that 64% of consumers are now belief-driven buyers who want brands to deliver on societal issues, as well as products. This is up by 13 points since 2017.

One of the most important findings from the research is the fact that brand trust is one of the biggest considerations for consumers when making a purchase. Some 81% say that the ability to trust a brand to do what is right can be a deciding factor or deal-breaker. However, only one in three people can trust most of the brands they buy.

Pertinent to credit unions and DEI, 56% of consumers think brands are all talk and no action, which is seen as "trustwashing", a marketing ploy. This is why incorporating DEI into recruiting and board succession are essential to ensure a credit union brand is built on the equity and inclusion of the diverse members it seeks to serve.

Additionally, when brands earn trust the rewards multiply. Forty-seven percent of people who buy first and stay loyal make the progression to advocate, and defend the brand based on trust in the product alone. This increases by 8+ points to 55 percent when they trust the product and how they treat customers, and by 21+ points when the trust the products, treatment of customers and the brand's treatment of society. The willingness to stay loyal, advocate for the brand and defend increased to 68% when including social responsibility.

Most credit unions do not have the marketing budgets to go head to head with megabanks. Yet winning top of mind and top of heart brand position is essential to organic membership and loan growth. By including DEI as a social issue and authentically creating equity, credit unions can increase product per member, organic membership and loan growth—driving ROA.

The ROI of DEI can be quantified by promoting the value after incorporating DEI practices and quantifying the ROI compared to a three-year average of prior campaign expenditures.

Marketing ROI formula:

[((number of leads x lead-to-customer rate x average sales price) - cost or ad spend) ÷ cost or ad spend] x 100.

DEI Consultancy at CUSP

CU Strategic Planning provides expert consulting to credit unions which includes the creation of a DEI assessment, designing a DEI strategy and recruiting and board succession, as well as transitioning brand and culture to produce measurable ROI. It additionally assists credit unions in times of brand crisis resulting from the unconscious bias of staff.

The DEI Consulting practice is headed by Ronaldo Hardy. His new role as Chief Diversity and Inclusion Officer began in October 2019. Hardy is a highly sought-after speaker on DEI, raising awareness of and knowledge about the practicum and ROI for credit unions. He is published in the *CU times*, *CU Insight*, *Credit Union Magazine* and *CU Today*. He has been a keynote speaker at CUNA Management School, the Cornerstone Credit Union League, State Employees Credit Union, CU Watercooler and the CU Leadership Convention. Dozens of peer CEOs receive his counsel annually in areas including recovering from, responding to and establishing new processes in the wake of the credit union industry's most significant headline making racial crises in 2018 and 2019.

Contact Us

To request a DEI strategy session and staff training, reach out to us today by emailing Ronaldo@creditunionstrategicplanning.com or by calling (253) 200-0418.

CU Strategic Planning

CU Strategic Planning was founded in 2008 with the goal to help credit unions increase their double bottom line: driving both impact to community and financial strength. Its work has garnered $119 million in CDFI grants since inception. The grants are just one measurement of ROI from the consultancy's work. Leveraging best practices from the field of community development and mastery of the credit union financial model, CU Strategic Planning's clients have ROA four times the industry average (without grants). Consultants guide credit unions to profitability and community impacts through strategic planning, charter/FOM expansion, product and policy enhancement, partnership development, succession planning, ALM consulting and the resolution of NCUA LUA and DORs.

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