



Diversity Study  
Report of Findings

May 2005

CONFIDENTIAL

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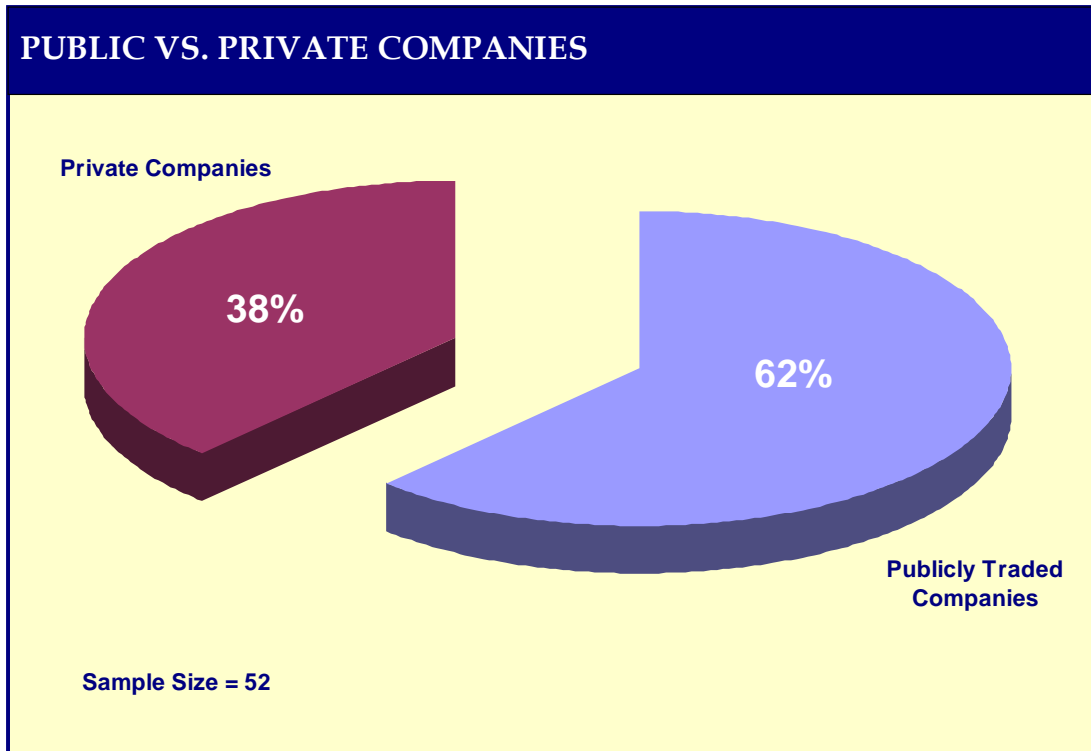
## Introduction

Five leading real estate firms recently sponsored a study of diversity practices in the real estate industry conducted by FPL Advisory Group (“FPL”). The goal of the Diversity Study was to understand the real estate industry’s perspective and current status regarding workforce diversity and to define a path towards effectively driving new diversity initiatives.

Several forms of research were conducted for the Diversity Study. First, FPL closely examined formal practices, initiatives and existing studies regarding diversity across corporate America in order to understand successful efforts in other industries. Next, FPL compiled information collected by other researchers through interviews with professionals in a broad range of industries and conducted additional interviews with leaders in the real estate industry. These interviews included discussions with executives in the commercial and residential mortgage finance, senior housing, homebuilding, hospitality and commercial ownership (private and public), and brokerage sectors. Finally, FPL launched the groundbreaking Diversity Survey to quantify diversity practices within the real estate industry today. The ultimate goal of the Survey was to identify diversity best practices specific to real estate companies.

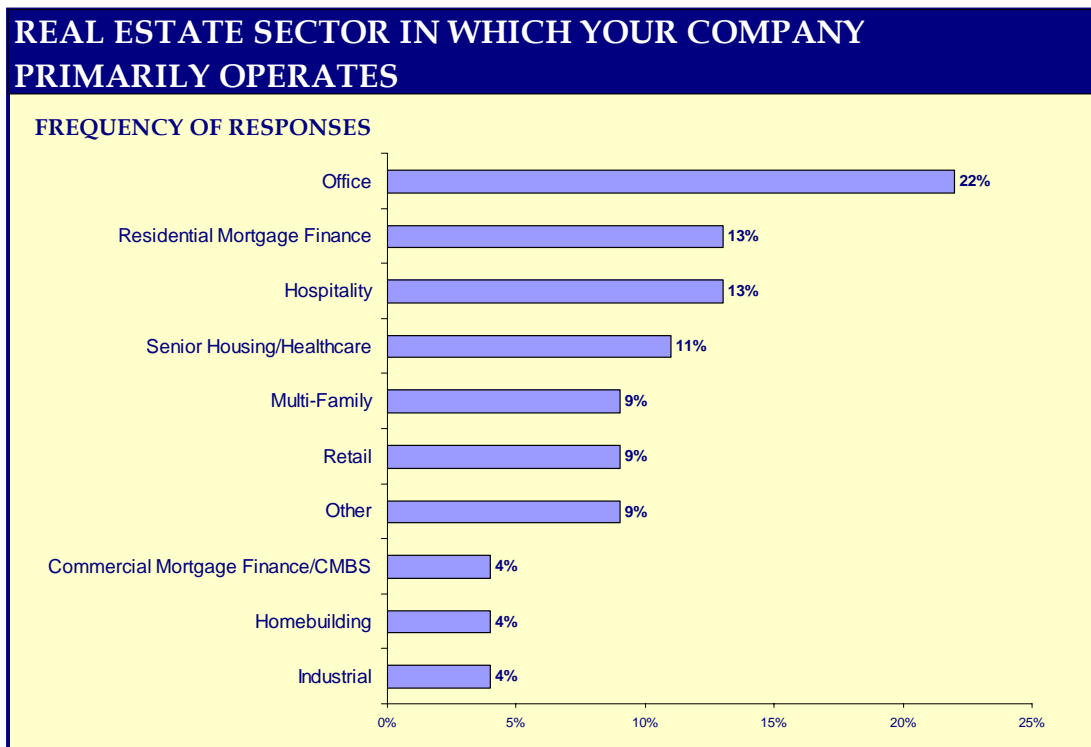
FPL sent the Diversity Survey to more than 200 of the largest real estate firms in the following six sectors: hospitality; senior housing/healthcare; commercial (real estate investment trusts (REITs) as well as private firms); brokerage; commercial mortgage finance/CMBS; residential mortgage banking; and homebuilding. The response rate was 22%, with 38% of the respondents from private organizations and 62% from public companies (Charts 1 & 2).

### Chart 1



Source: FPL Diversity Survey

### Chart 2



Source: FPL Diversity Survey

The ability to build and manage a diverse workforce is a competitive advantage in today's marketplace and one that organizations cannot ignore. Taylor Cox, a noted diversity researcher and consultant, defines the management of diversity as "planning and implementing organizational systems and practices to manage people so that the potential advantages of diversity are maximized while its potential disadvantages are minimized." According to Mr. Cox, the goal of a company's diversity initiatives is "maximizing the ability of all employees to contribute to organizational goals and to achieve their full potential unhindered by group identities such as gender, race, nationality, age, and departmental affiliation."<sup>1</sup>

As Mr. Cox suggests, embracing diversity is about more than social consciousness. In fact, diversity efforts have proven to be critical for organizations in improving and maintaining a competitive advantage. Real estate companies need to be more aggressive in their pursuit of diversity initiatives. In an industry characterized by national and global partnerships and opportunities, customers, partners and vendors vary across a wide range of demographics. As the real estate industry faces a more diverse America over the coming years, varied perspectives will continue to become increasingly fundamental to business success.

## The Business Case for Diversity

Before implementing diversity initiatives at an organization, it is necessary to understand the impact that workforce diversity will have on business performance. While the case for diversity will vary for each enterprise, there are compelling motivators for achieving and managing such an effort in the workforces of most companies.

There are numerous reasons for an organization to pursue diversity. First, diversity improves the quality of decision-making at all levels. Second, companies that have a diverse labor force reap the benefits of being perceived as a socially-conscious and progressive organization. The third reason, and perhaps the most convincing, is that organizations with a diverse workforce are more likely to capitalize on new markets. Businesses benefit from employing individuals who reflect the different markets they serve. Research has indicated that the customer base for businesses today is becoming more diverse than the businesses' own employees.<sup>2</sup> Frequently, workers at all levels are required to understand and respond to the demands of an increasingly diverse clientele. Employees whose ethnicity reflects the customers they serve can literally and figuratively speak their language, identify their needs and discover potential new opportunities in untapped markets.

The U.S. population is becoming less homogenous. According to the Census Bureau, the percentage of white Americans is steadily shrinking. Statistics indicate that the white population in this country decreased from 74% of the total population in 1995 to 71% in 2001.

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<sup>1</sup> Cox, Taylor, Jr. 1993, "Cultural Diversity in Organizations", p. 11.

<sup>2</sup> Society for Human Resource Management, SHRM online, (28 October 2004), <http://www.shrm.org/diversity/businesscase.asp>.

Furthermore, studies indicate that the Caucasian population will decline to 60% by 2030.<sup>3</sup> In fact, by 2050, 53% of the population will likely be white, 24% will be Hispanic-American, 14% will be African-American, 8% will be Asian-American, and 1% will be American-Indian.<sup>4</sup> Given these trends, building and maintaining a diverse workforce will not be simply a means of improving business success but rather will be critical for a company's survival.

The prevalence of racial and ethnic minority groups equates to greater economic power. Already, minority groups as a whole are the majority in six of the eight largest metropolitan areas of the United States.<sup>5</sup> African-American, Native American and Asian-American consumers, combined, spent an estimated \$1.1 trillion in 2004, more than triple the \$242 billion spent in 1990. This number continues to grow; by 2009, their buying power will increase to over \$1.5 trillion and will represent 14.1% of the nation's total buying power, up from 10.7% in 1990. By 2009, the buying power of Latinos will have nearly doubled since 2000, ballooning from \$504 billion to \$992 billion.<sup>6</sup>

The increasing influence of women will also have profound effects on the economy of tomorrow. Women-owned businesses are already having a vital impact on our changing economy. Of the 5.1 million privately-held firms, 50% or more are women-owned.<sup>7</sup> These firms employ 9.5 million people and generate \$1.3 trillion in annual sales.<sup>8</sup> Perhaps even more importantly, women's income, wealth and spending are all increasing. Women currently earn over a trillion dollars a year. Their incomes have increased 63% after inflation over the past three decades, while men's median income has remained flat (0.6% increase after inflation).<sup>9</sup> The wage gap between women and men is narrowing, and by 2010 it is estimated that two-thirds of all private wealth in the United States will be controlled by women.<sup>10</sup>

Additionally, diversity positively impacts the bottom line by enhancing the success of human resource practices and policies. One of the biggest budget items in a corporation is spending on salaries, benefits, training, development and recruitment. Research suggests that an environment in which all employees feel included and valued yields greater commitment and motivation, often resulting in fewer resources spent on turnover and grievances.<sup>11</sup>

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<sup>3</sup> Charles Davidson, National Real Estate Investor, NREI Online, 1 March 2002, (17 October 2004).

[http://nreionline.com/mag/real\\_estate\\_diversity\\_long\\_go/index.html](http://nreionline.com/mag/real_estate_diversity_long_go/index.html)

<sup>4</sup> Jennifer Alvey, "Culture Shock." Public Utilities Fortnightly 141, no. 11, June 1st, 2003, p. 32-37.

<sup>5</sup> Sondra Thiederman, PhD, Monster Online, (20 December 2004) <http://diversity.monster.com/articles/bizcase/>.

<sup>6</sup> Jeffrey M. Humphreys, "The Multicultural Economy 2004: America's Minority Buying Power." Georgia Business and Economic Conditions, The Selig Center for Economic Growth at the Terry College of Business, The University of Georgia, vol. 64, no. 3, third quarter 2004.

<sup>7</sup> Althea R. DeBrule, RadsGroup Organizational Consultants, RadsGroup Online, (20 December 2004) <http://www.radsgroup.com/Documents/Special%20Report%20-%20Hiring%20Diverse%20Talent.pdf>

<sup>8</sup> Center for Women's Business Research Online, 20 September 2004, (20 December 2004) <http://www.womensbusinessresearch.org/pressreleases/9-20-2004/9-20-2004.htm>.

<sup>9</sup> Lisa Johnson and Andrea Learned, "Don't Think Pink: What Really Makes Women Buy," AMACOM, 2004, p. 6.

<sup>10</sup> Johnson and Learned, pp 7-8.

<sup>11</sup> Society for Human Resource Management.

It has long been understood that diversity provides a broader, richer environment for creative thinking, innovation and problem solving. A 1992 study examined whether racial and ethnic diversity results in benefits or drawbacks to organizational performance. They discovered that racially heterogeneous groups produced higher-quality ideas in brainstorming exercises than did homogeneous groups.<sup>12</sup> Employees from varied backgrounds often contribute different perspectives, ideas and solutions, leading to the formulation of new products and services, the challenging of accepted views and more dynamic cooperation that may yield new business opportunities.

While not every organization will have the same business incentive for pursuing diversity, all companies will benefit to some degree from a diverse population. It is critical that business leaders identify their business case and communicate it to the firm at large.

## Diversity in Corporate America

There is no doubt that successful diversity initiatives require the dedication of significant company resources and that the benefits often take months or years to be realized fully. However, as numerous companies across a range of industries have demonstrated, the benefits of increased workforce diversity far outweigh the costs of implementing these programs. Already, a majority of the nation's leading companies have already made the strategic decision to improve diversity within their ranks. A 1998 study by the Society for Human Resource Management concluded that three out of four Fortune 500 companies have formal diversity programs in place and over half (58%) have staff members dedicated to these issues.<sup>13</sup>

FPL's goal in conducting this study was to identify best practices for improving workforce diversity within the real estate industry. Research identified examples of important changes made within companies across a broad range of industries. In order to increase diversity within their organizations, company leaders have made important changes the areas of communications, leadership, recruiting, training and culture.

*FORTUNE* Magazine systematically analyzes companies to identify the fifty organizations that most effectively hire, retain and promote minorities. Its "List of Best Companies for Minorities," has been published annually for the last seven years. The report illustrates that corporate America is raising the bar in terms of diversity efforts<sup>14</sup> (Appendix Chart 17). Based on survey results collected from the Fortune 1,000 and the 200 largest privately-held U.S. companies, rankings are derived from a model that weighs data such as the number of minorities in the workforce and on the Board, the rate at which minority employees are hired (and fired), and

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<sup>12</sup> David W. Pitts, "Diversity, representation & Performance: Evidence about Race & Ethnicity in Public Organizations." University of Georgia School of Public & International Affairs, Prepared for presentation at the 7th National Public Management Research Conference, Washington, D.C., October 9-11, 2003, pg 6.

<sup>13</sup> Shari Caudron, September 1999, *Black Enterprise*, Diversity Watch Special Report, (24 January, 2005) [http://www.findarticles.com/p/articles/mi\\_m1365/is\\_n2\\_v29/ai\\_21076394](http://www.findarticles.com/p/articles/mi_m1365/is_n2_v29/ai_21076394)

<sup>14</sup> Cora Daniels, "50 Best Companies for Minorities Introduction: The Best Keep Getting Better," 28 June 2004, (27 October 2004) <http://www.fortune.com/fortune/subs/article/0,15114,649158,00.html>.

accountability of managers for hiring, promotion, and retention. A team of reporters then spoke with employees of the companies surveyed to gain an additional perspective.<sup>15</sup>

While the numbers seem to indicate significant improvements in the value placed on workplace diversity, many argue that today's issues of diversity have become more complex than in years past. Increased hiring of minorities is not enough; mentoring and professional advancement are critical as well. Bob Carr, head of strategic planning issues for the Society of Human Resources Management told *FORTUNE*, "It is not about getting in the door. It is about leading the organization. It is about power and influence, and people want a greater share of both."<sup>16</sup> Indeed, *FORTUNE*'s list of the 50 best companies for minorities is comprised of firms that make an effort not only to hire minorities, but also to retain and promote them. These companies collaborate with outside minority communities and make management accountable for diversity efforts.

### **DIVERSITY IMPLEMENTATION**

In conducting its research, FPL collected a number of examples of companies that have successfully increased diversity. Some of these organizations originally implemented diversity efforts only after facing legal issues. Others increased efforts to recruiting minority employees as part of a changing marketing strategy, and still others took a sweeping approach, incorporating diversity initiatives into every core function of the business. Regardless of the differences in their approach, these companies share a common experience: all have reaped significant benefits, financial and otherwise, from their investments in improving diversity.

### **A RESPONSE TO LEGAL ACTION**

In the early 1990's, Denny's Corporation, owned by the Advantica Corporation, was saddled with more than 4,000 anti-discrimination lawsuits and several costly settlements for denying service to African-American customers.<sup>17</sup> In the years that followed, Denny's lost an estimated \$100 million annually as African-Americans refused to dine at its restaurants. Denny's began to be perceived as unreceptive towards minorities. The company took action and introduced several new initiatives. First, the company created a multicultural group of Board members, senior management, corporate employees and franchise owners. The company also instituted a training program and created the Chief Diversity Officer position in 1995. These initiatives have been unquestionably successful. Today, 50% of Denny's Board of Directors and Senior Management Committee are women and/or minorities. 12-18% of the company's annual purchasing contracts are with minority suppliers and 45% of franchises are minority-owned.<sup>18</sup>

ChevronTexaco Corporation also established diversity initiatives as a result of discrimination allegations. As part of a 1996 settlement for one of the largest racial discrimination suits in history, Texaco allocated \$35 million to a task force to implement changes in its human resource

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<sup>15</sup> Cora Daniels.

<sup>16</sup> Cora Daniels.

<sup>17</sup> Claudia M. Milian Arias, "Denny's Still Has A Way To Go," *The Progressive Online*, October 1998, (20 December 2004) <http://www.progressive.org/mpmilian1098.htm>.

<sup>18</sup> Denny's Corporation website, (18 April 2005) <http://www.dennys.com/en/cms/Diversity/36.html>



programs. The company focused on creating a plan for retention of minority employees, career development, workplace initiatives, accountability, partnering efforts and retail performance.<sup>19</sup> The company's Supplier Diversity/Small Business program was created to provide opportunities, contacts and outreach assistance to small and minority- and women-owned businesses. In 2003, nearly 10% of supplier expenditures (totaling \$425 million) were with women- or minority-owned businesses, and the company stated that it had aggressive plans for continuing to reach its goals in 2004. ChevronTexaco has won several awards for improvements in supplier diversity, including an Outstanding Rating for Small Business Program from the U.S. Department of Defense, Minority Advocate of the Year from the U.S. Small Business Administration and a Top Corporation for Women Businesses ranking from the Women's Business Enterprise National Council.<sup>20</sup>

### **DIVERSITY AS A TOOL TO ENTER NEW MARKETS**

Many organizations have implemented diversity through changes to their recruiting strategy, with the goal of hiring diverse populations in order to enter new markets. For example, in the early 1990s the Bank of Montreal increased its hiring of Chinese-speaking employees as a means to build rapport through improved communications with the local Chinese community.<sup>21</sup> The bank focused on implementing diversity efforts to enhance the experience of its Chinese-speaking customers. It launched a portal for these customers to obtain information on Chinese language services and began offering telephone banking services with dedicated toll-free and local numbers supported by Chinese-speaking staff. The result was a significant: the bank increased its business within the Chinese community by 400% between 1990 and 1995.<sup>22</sup>

The DuPont Corporation enjoyed a similar revenue boost which resulted from diversity efforts. One of the many of DuPont's success stories is the achievement of a multicultural product development group which achieved approximately \$45 million in new sales by changing the way they approached the development and marketing of decorating materials including Corian countertops. Armed with an understanding of what would appeal to overseas customers, the team recommended an array of new colors that were highly successful.<sup>23</sup> In an area of the company's website dedicated to diversity, Charles O. Holliday, Jr., DuPont's Chairman and CEO, is quoted as saying, "Experiences in our company confirm that a diverse workforce increases innovations in product development and production processes. A diverse and global workforce helps us create higher value solutions for our customers in more productive and less capital-intensive ways."

DuPont's diversity efforts are also evident at the highest levels of the organization. Its Board of Directors is comprised of a multicultural group of global leaders committed to the success of their company. Of its 12 outside directors, three are women, one is African American, and three

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<sup>19</sup> Court TV, Court Online, Texaco Press Release of 18 December 1996, (20 December 2004)

[http://www.courtTV.com/archive/legaldocs/business/texaco/diversity\\_plan.html](http://www.courtTV.com/archive/legaldocs/business/texaco/diversity_plan.html).

<sup>20</sup> ChevronTexaco website (18 April 2005) <http://www.chevrontexaco.com/about/supplierdiversity/awards.asp>.

<sup>21</sup> United CSR Forum, (24 January 2005) <http://www.indianngos.com/corporate/workplace/diversity.htm>.

<sup>22</sup> Asia Internet, 2 February 2001, (24 January 2005) <http://asia.internet.com/news/print.php/674481>.

<sup>23</sup> "Developing a Culture for Diversity", Chris Speechley and Ruth Wheatley, 2001

are from outside the U.S.--Asia, Europe and South America. Of DuPont's 16 highest ranking officers, 19% are women and people of color. Equally impressive is the fact that of its five major operating business groups, two are directed by women, together leading 14,000 employees globally.<sup>24</sup>

## DIVERSITY AS CORPORATE STRATEGY

Verizon Communications, Inc., also on *FORTUNE*'s "List of Best Companies for Minorities," is a prime example of a company which has successfully delivered a comprehensive diversity strategy encompassing the entire organization. Verizon allocated 26% of its 2003 marketing budget to multicultural marketing and 16% of its media budget to ethnic media.<sup>25</sup> Senior leaders are held accountable for promoting diversity, with a percentage of their bonuses being tied directly to the hiring of women and minorities and the procurement of minority contracts. (In 2004, the company spent nearly \$1.8 billion with diverse suppliers of telecommunications products and professional services, making it a member of the elite Billion Dollar Roundtable, a group of companies that spend \$1 billion or more each year with minority- and women-owned businesses.)<sup>26</sup> The staffing department plays an equally critical role, responsible for gathering a diverse slate of candidates for job openings at the managerial level and above. A mentoring program requires company executives to mentor two people, one of whom must be a member of a minority group or a woman. The company also has 12 employee resource groups, which have their own mentoring programs as well. Verizon leverages training as another means of fostering diversity and has launched a manager's workshop focused on cultural-awareness. The company relies heavily on external contacts and relationships, with groups like the Organization of Chinese Americans, the Japan- Americans Citizens League, and National Asian Legal Consortium, to tap diverse candidate pools.<sup>27</sup>

Perhaps the most notable component of Verizon's diversity strategy is the methodology it has developed to quantify the success of diversity efforts across a range of parameters. The measurements include an inclusion index (measures employees' sense of belonging; based on responses to an Employee Opinion survey); a diversity performance incentive index (tracks workforce composition in each line of business); and a supplier diversity index (measures procurement opportunities across a diversified supplier base).<sup>28</sup>

Abbott Laboratories places a premium on having an employee population that reflects the customers and markets it serves. The company's success in its diversity efforts underscores the importance of having a commitment to diversity that starts with top leadership. Chairman and Chief Executive Officer Miles D. White is the company's chief diversity champion. In addition, he chairs Abbott's Executive Inclusion Council, and sets diversity and inclusion goals and expectations for himself and his management team. Mr. White launched the Abbott Women

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<sup>24</sup> DuPont website, (3 March 2005) <http://www.peoplediversity.dupont.com/about.html>

<sup>25</sup> Barbara Frankel, "The Top 10 Companies for Diversity: What Sets Them Apart," 19 April 2004, (2 November 2004) <http://www.diversityinc.com/members/6722.cfm>.

<sup>26</sup> Verizon website, (18 April 2005) <http://multimedia.verizon.com/diversity/index.asp?PageID=diversity&SubPageID=strategy>

<sup>27</sup> Sandra Lee (3 March 2005) [http://www.adiversity.com/magazine/article\\_detail.htm?AID=22005583&rd=cs](http://www.adiversity.com/magazine/article_detail.htm?AID=22005583&rd=cs).

<sup>28</sup> Verizon website, (18 April 2005)

Leaders in Action program (a mentoring and networking organization for female managers)<sup>29</sup> and instituted mandatory half-day diversity training for all managers.<sup>30</sup>

Exelon Corporation also embraced diversity with the support of its top leadership. John Rowe, Chairman and Chief Executive created the position of Vice President for Diversity in an effort to successfully manage all diversity efforts. On the company's web site, Mr. Rowe states that his push for diversity is a practical business decision. He explains that Exelon serves Chicago and Philadelphia, communities in which minorities are the majority.<sup>31</sup> Additional efforts include creating a Diversity Council to develop and implement diversity initiatives that most effectively meet the business needs of the organization. Members of the Council are charged with understanding issues of diversity and examining diversity best practices from companies across the nation in order to recommend diversity strategies to the corporation and its business units.<sup>32</sup>

There are many outstanding organizations in corporate America that have implemented successful diversity initiatives. The examples listed above serve as only a sample of the many organizations that understand that embracing diversity gives companies today a competitive advantage. Diversity efforts provide tangible benefits and deserve the resources and commitment to ensure their success.

## Diversity in the Real Estate Industry

Success in the real estate industry requires the establishment of a wide range of contacts, development of trusting partnerships, entrance into new markets and engagement of loyal customers. As real estate professionals develop relationships with diverse populations, they become better able to explore all opportunities the marketplace offers.

Results of the Diversity Survey clearly indicate a lack of successful diversity efforts in the real estate industry. Additional research supports this claim. For example, of the 80,000 licensed real estate appraisers in the U.S., less than 2,000 are minorities, according to Don Kelly, Vice President for Public Affairs at the Chicago-based Appraisal Institute.<sup>33</sup> However, the Diversity Survey discovered that many professionals in the industry appreciate the business advantages associated with diversity. In fact, 74% of respondents believe that diversity initiatives impact their company's bottom line by attracting the best and brightest talent or by improving the quality of their work environment (Chart 3). So, the question remains: If many real estate professionals recognize the advantages of diversity in business, why is the industry so far behind corporate American when it comes to implementing it?

Charles Davidson, in his compelling article published in the National Real Estate Investor (March 2002), strives to explain the lack of diversity in the real estate industry. First, he argues

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<sup>29</sup> Abbott website, (3 March 2005) <http://abbott.com/news/facts/diversity.cfm>

<sup>30</sup> Cora Daniels.

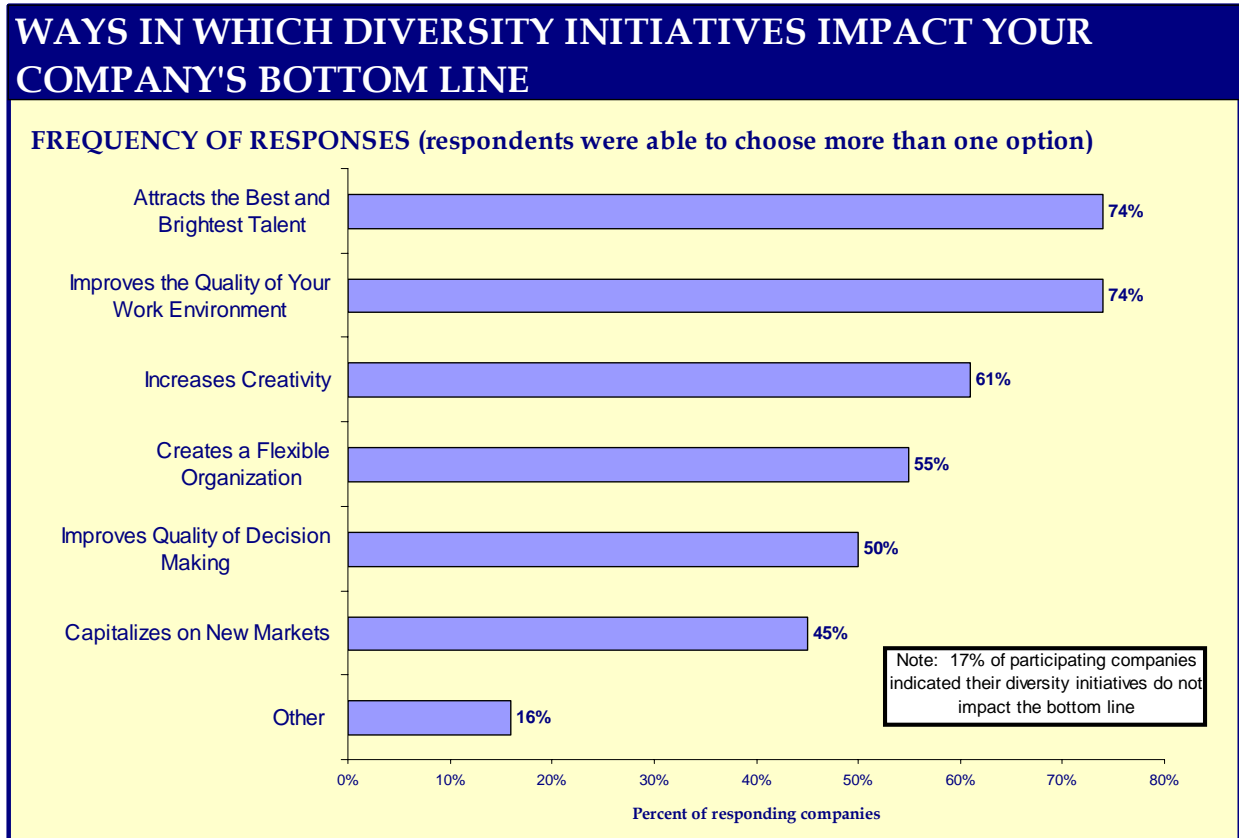
<sup>31</sup> Robert Manor, *Chicago Tribune*, "Exelon Chief Pursuing Future, Past" (26 December 2004).

<sup>32</sup> Exelon website, (3 March 2005) <http://www.exeloncorp.com/corporate/diversity/div%5Fcouncil.shtml>

<sup>33</sup> Charles Davidson.

that in comparison to corporate America, commercial real estate is typically less aggressive in dealing with corporate change. Davidson interviewed Quintin Primo III, an African-American who is co-founder and co-Chairman of Capri Capital, a real estate investment firm. Primo elaborated on the comparison of the real estate industry with corporate America by explaining that the real estate industry has lacked the decades of public market discipline and scrutiny that other industries have faced.<sup>34</sup>

Chart 3



Source: FPL Diversity Survey

Davidson’s article further explains that it is often difficult to find qualified minorities who are eager to join the real estate industry. Paul Chiles, President of Seattle-based commercial brokerage firm Chiles & Co., notes that among African-Americans, real estate is traditionally not viewed as a career of choice. Chiles stated, "When you're growing up as a young African-American, the things you aspire to be are a doctor, lawyer, teacher or clergyman. Those are the occupations that seem to be revered in the African-American community."<sup>35</sup>

Additionally, success in real estate is often based on long-standing relationships, which tend to isolate newcomers. The real estate business typically involves transactions with large amounts of capital and a high degree of risk. This creates a need for trust and comfort, feelings that

<sup>34</sup> Charles Davidson.

<sup>35</sup> Charles Davidson.

typically develop between those that have a well-established history and/or share commonalities. Pamela Bundy, an African-American woman who is president of Bundy Development Corporation in Washington, D.C., points out that real estate transactions often occur between relationships that go back decades. She bluntly explains the industry's racial disparity with, "My grandfather didn't go to school with their grandfather."<sup>36</sup>

Ultimately, real estate companies will embark on diversity initiatives once they understand that it is essential to emulate the community they are trying to serve. Successful minority leaders in real estate must become visible in order to expose other minority members to the opportunities within the industry. In the end, most companies, even those in real estate, will address issues of diversity once the decision-makers understand that it is good for business.

### **SUCCESS STORIES IN THE REAL ESTATE INDUSTRY**

While the real estate industry clearly lags behind the rest of corporate America when it comes to diversity, examples of successful diversity initiatives at some of the industry's more forward-looking companies demonstrate that a shift in thinking may already be underway. FPL discovered several examples of companies that are implementing diversity strategies. Some of the companies FPL interviewed requested that their confidentiality be maintained in reporting the survey findings. Consequently, company names and other identifying information have been omitted for some of the following examples. Regardless, these stories serve as notable examples of the direction the industry is taking with regard to diversity.

For one REIT, changes in recruiting practices were an instrumental first step in the company's plan to build a diverse workforce. In an interview, the CEO indicated that in his experience, revamped hiring practices are particularly critical for organizations that are just beginning to launch diversity initiatives. He explained that the company recently changed its hiring practices by advising its human resources staff to search for minority candidates to fill positions in technology, legal, administrative and finance departments. Despite obvious efforts to improve diversity, the company recognizes that the efforts to hire more minorities have so far been limited to support functions. However, the company hopes that such efforts are only the beginning to become a more diverse organization. To achieve this effort, the firm has retained the services of external executive search firms and has communicated its goal of identifying a more diverse candidate pool.<sup>37</sup>

Another organization, a homebuilder, has articulated an aggressive strategy to creating a multicultural workforce. It has implemented a program to recruit new employees by targeting minority and women's colleges.<sup>38</sup> It also provides support for new employees through a twelve-week mentoring program. Finally, to aid in employee retention, it is currently planning a separate summit for women and minorities to discuss the development of strong leadership skills. This inclusive environment has resulted in a significant decrease in the company's historically high turnover rate of around 40%.<sup>39</sup>

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<sup>36</sup> Charles Davidson.

<sup>37</sup> Personal interview.

<sup>38</sup> Personal interview.

<sup>39</sup> Personal interview.

One large real estate investment management (REIM) firm improved diversity by focusing attention on increasing diversity among senior positions. While the firm's support staff has been characterized by a diverse population, its upper ranks have not. Realizing the need for employees of different backgrounds in revenue-generating roles, the company is currently focused on improving diversity in management positions. To create opportunities for these employee groups, the company has implemented several initiatives. First, the company created a program titled "Talent Reviews" to evaluate the pipeline of candidates for management positions and to assist in the development progress of promising employees identified as having management potential. The company invests in these employees, sending them to leadership conferences to refine their supervisory skills. Second, the company instituted job rotations and created new positions to support company growth. Through these initiatives, the company discovered that job variety often creates a chain reaction of improved employee satisfaction, promotions and retention.<sup>40</sup>

Other leaders interviewed, including a REIT and a commercial lender, recommend focusing on communications to support diversity efforts. Both stated that strong, consistent messages help to change the view of the organization, both internally and externally. At the REIT, management created a diversity policy statement to articulate the organization's diversity goals. By crafting such statements, senior executives are able to succinctly convey their diversity management goals to their employees and outside interested parties. Similarly, organizations that articulate diversity goals in their annual report show the connection between these goals and basic business objectives to shareholders, employees, customers, vendors and analysts.<sup>41</sup> The commercial lender also stressed that communication was especially relevant for his organization due to its decentralized structure. The company strives to convey diversity in all company communications. The goal is to be viewed as a diverse organization by outside parties and shareholders. The company leverages advertising and marketing campaigns to communicate to the external market. For example, publications, signage and employee surveys are presented in multiple languages.<sup>42</sup>

CB Richard Ellis Group, Inc. (CBRE) is an example of an organization focused not only on retaining minority employees, but on developing these individuals into leaders. An example of CBRE's commitment to diversity is evidenced by the company's recent appointment of a Chief Diversity Officer. This position was created by the Chairman and President of the firm and is responsible solely for implementing diversity initiatives and global talent development within the company.<sup>43</sup> Additionally, CBRE recently began to provide increased leadership opportunities for women through its "Women's Network," which features mentoring and networking activities for women. This new group raises issues that are not typically discussed in an open forum in most organizations.<sup>44</sup> Its primary goal is to motivate women to strive for senior-level positions at the firm rather than go elsewhere.

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<sup>40</sup> Personal interview.

<sup>41</sup> Personal interview.

<sup>42</sup> Personal interview.

<sup>43</sup> CBRE website <http://www.cbre.com/US/NY/New+York+Lex/tprofile/aang.htm?pageid=3> (2 March 2005)

<sup>44</sup> Charles Davidson.

Employees are also leading the push to diversity at CBRE. For instance, Eric Yarbrow, a Senior Vice President, initiated a network of African-American brokers in the company. He hosts a monthly conference call for this group to come together to share business practices, and in his words, “encourage each other.” Similarly, Lisa Konieczka, a senior vice president in Chicago, started a women’s group in 2000 that has become one of the strongest in the industry.<sup>45</sup>

Another real estate company that has successfully implemented diversity efforts is Jones Lang LaSalle, Inc. This organization made a conscious effort to value diversity, understanding that it is a competitive edge. The company has spent several years building a strong platform for embracing and nurturing diversity. It formed its Diversity Council several years ago and targeted four areas in order to improve its diversity status: recruitment, mentoring, employee development and internal and external communication. One of the most critical aspects of this four-pronged approach is ensuring that managers receive diversity training.<sup>46</sup>

The positive results from these efforts are clearly evident. Women now represent a substantial number of Jones Lang LaSalle managers, and in the western United States they comprise a majority of its staff. Moreover, the firm has established a mentoring program and guided scores of women and minorities up the corporate ladder, shattering the proverbial glass ceiling. Jones Lang LaSalle works at creating an open environment that accommodates the diverse needs of all employees by establishing a flexible work week. The plan, which allows employees to work from home, is used by up to 10% of the firm's total work force, many of whom are mothers.<sup>47</sup>

During its fifth year as a company, Starwood Hotels & Resorts Worldwide, Inc. established a Diversity Council, made up of senior leaders charged with partnering with other company leaders to drive the diversity strategy forward. This dedicated group has developed a strategy and a multiyear plan for making accelerated change, particularly in the area of minority representation. The company also created a leadership position titled “Vice President, Diversity, Communications and Community Affairs”, to further enforce diversity efforts. In 2002, Starwood rolled out an inclusion-training program, beginning with senior management, which helps participants uncover their inner biases. Additionally, the company’s compensation program is linked to achieving diversity goals.<sup>48</sup>

## INDUSTRY-WIDE EFFORTS

Numerous individuals and associations are working aggressively at changing the status quo of diversity in the real estate industry. Perhaps the best known association is the Real Estate Associate Program (REAP). This program, which was launched in Washington in 1997 and in Atlanta in 2001, aims to recruit African-Americans and other minorities for careers in the commercial real estate industry through education, networking and internships. REAP’s

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<sup>45</sup> Amy S. Choi, “Creating Diversity at the Top Levels of Service Firms,” *Commercial Property News*, 16 June 2004.

<sup>46</sup> Amy S. Choi.

<sup>47</sup> Jessica Materna, *San Francisco Business Times*, 7 June 2002, (3 March 2005)

<http://www.bizjournals.com/sanfrancisco/stories/2002/06/10/focus5.html>

<sup>48</sup> Starwood website, (3 March 2005) [http://www.starwoodhotels.com/corporate/company\\_values\\_div.html](http://www.starwoodhotels.com/corporate/company_values_div.html).

semester evening course meets once a week. This employee development program not only provides structured classes, but offers exceptional networking opportunities and a year-long paid internship from sponsoring firms. The courses are endorsed by companies representing a broad spectrum of the industry, such as Simon Property Group, Duke Realty Corporation, Cushman & Wakefield and CB Richard Ellis.<sup>49</sup>

INROADS is another non-profit organization available to real estate companies interested in pursuing diversity. INROADS was established in Chicago in 1970 with the mission to develop and place talented minority youth in business and industry. Selection, education and training, and performance are viewed as the three keys to success for INROADS students. Today, INROADS is an international organization with more than 55 offices serving more than 5,500 interns at over 600 companies.<sup>50</sup> Indianapolis-based Duke Realty Corp. is proud to be an active sponsor for INROADS/Indiana and INROADS/Atlanta. At the INROADS/Indiana Annual Banquet in January 2003, several Duke Associates were recognized for their ongoing commitment to the INROADS organization.<sup>51</sup>

Associates in Commercial Real Estate (ACRE) was established in Fall 2004 to provide minorities with a formal education program and local networking opportunities. Marquette University, the United Community Center and the Milwaukee Urban League and Initiative for a Competitive Milwaukee are spearheading ACRE. Professionals in the industry teach a 25-week class at Marquette University. Each of the six top ACRE graduates will be awarded a 12-month associate position with an industry partner.<sup>52</sup>

The Real Estate Executive Council (REEC) is focused on achieving economic parity and recognition for minorities in the real estate industry. The program strives to promote education within the broader minority community and act as a collective voice in the research and formulation of public and social policy. In support of the mission, the organization has successfully implemented many great programs, including: an Emerging Leaders Program dedicated to improving the pipeline of qualified minority real estate professionals; development of a database used to match job candidates with job opportunities; a speaker series for members to share information on particular topics of interest; and a public relations campaign to address issues that are important to membership.<sup>53</sup>

Programs such as these are critical to successfully improving diversity in the real estate industry. They focus on exposing, training and motivating minorities to pursue careers in real estate, and they recognize that education is absolutely critical for long-term success of these efforts. Minority leaders who have had success in the industry can greatly encourage others to consider such a career by simply offering advice and highlighting their accomplishments.

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<sup>49</sup> REAP, "About Project REAP" (1 November, 2004) [http://www.projectreap.org/About\\_REAP.html](http://www.projectreap.org/About_REAP.html)

<sup>50</sup> INROADS, (20 December 20 2004) <http://www.inroads.org>

<sup>51</sup> Duke Realty Corporation (20 January 2005) <http://www.dukerealty.com/site/diversity.asp#ac>

<sup>52</sup> Marquette University, "Milwaukee Associates in Commercial Real Estate (ACRE)", (20 December 2004) <http://www.busadm.mu.edu/acre/index.shtml>.

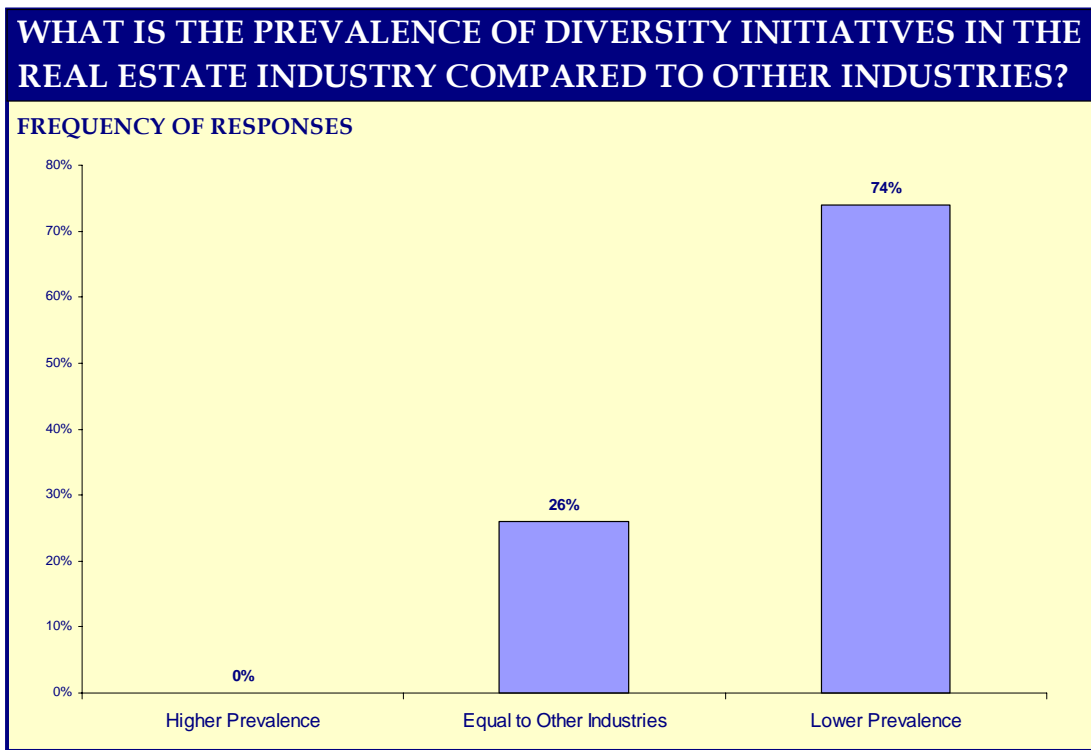
<sup>53</sup> Real Estate Executive Council, REEC Online, <http://reec.org/index.php> (20 December 2004).



## Diversity Survey Results

Undoubtedly, the real estate sector lags behind other industries in its drive to implement diversity efforts. The industry acknowledges this discrepancy, as 74% of the Diversity Survey participants indicated that they believe that their field has a lower prevalence of diversity initiatives as compared to others (Chart 4).

**Chart 4**



Source: FPL Diversity Survey

One of the most important requirements for successfully implementing diversity efforts and changing the status quo is the support of top leadership. While the Diversity Survey suggested that 70% of the participants believe that their senior leadership team and/or CEO demonstrate commitment to diversity, 48% indicated that there was no formal position assigned to the oversight of the company’s diversity initiatives (Appendix Charts 12 & 13).

Senior management must demonstrate commitment for diversity initiatives with not only their words, but their actions. Leadership often demonstrates such support by approving diversity funding, communicating the importance of diversity, reviewing diversity metrics and leading the organization’s Diversity Council. In fact, the Diversity Survey found that those participants that indicated that their senior leadership or the CEO demonstrates commitment for diversity initiatives over the years work in organizations with a higher of minority population.<sup>54</sup>

<sup>54</sup> Statistics determined by cross tabulation of Diversity Survey results.

Such leadership must be demonstrated with the inclusion of minorities at the Board and executive team levels. Many Boards in corporate America seem to recognize this requirement. For example, during the seven-year life of the *FORTUNE* Magazine’s list of best companies for minorities, the Boards of those companies examined for the list became much more diverse. People of color made up almost 21% of boardrooms in 2003, compared with 19% the year before and 11% in 2001.<sup>55</sup> However, Board membership in the real estate industry tells a much different story. The 2004 National Association of Real Estate Investment Trusts (NAREIT) Benchmark Survey, conducted by Ferguson Partners Ltd., designed to provide real estate participants with current information and trends on a variety of business practices, indicated that only 9% of those surveyed had one or more minority Board members.<sup>56</sup> Furthermore, the Diversity Survey indicated that only 2% of those polled had at least 15% African-American Board members (Chart 5).

### Chart 5

<b>WHAT PERCENTAGE OF THE FOLLOWING MINORITY GROUPS ARE CURRENTLY ON YOUR COMPANY’S BOARD?</b>				
	<i>0% - 4%</i>	<i>5% - 14%</i>	<i>15% - 24%</i>	<i>25% and Above</i>
Female	43%	36%	14%	7%
	<i>0% - 2%</i>	<i>3% - 7%</i>	<i>8% - 14%</i>	<i>15% and Above</i>
African American	86%	2%	10%	2%
	<i>0% - 2%</i>	<i>3% - 4%</i>	<i>5% - 7%</i>	<i>8% and Above</i>
Asian	98%	0%	0%	3%
Latino	100%	0%	0%	0%

Source: FPL Diversity Survey

The statistics regarding the senior leadership team within the real estate industry were also alarming. While 54% of respondents indicated that women represented 31-54% of their total employee population, 51% of respondents stated that only 15% or less of their senior management team was female. Sadly, not one participant indicated that their senior management team was 15% or more African-American (Charts 6 & 7).

<sup>55</sup> Cora Daniels.

<sup>56</sup> Ferguson Partners Ltd. NAREIT Benchmark Survey, 2004.

### Chart 6

<b>WHAT PERCENTAGE OF THE EMPLOYEE POPULATION DO THE FOLLOWING MINORITY GROUPS REPRESENT?</b>				
	<i>0% - 15%</i>	<i>16% - 30%</i>	<i>31% - 54%</i>	<i>55% and Above</i>
Female	0%	13%	54%	33%
	<i>0% - 4%</i>	<i>5% - 14%</i>	<i>15% - 25%</i>	<i>26% and Above</i>
African American	32%	53%	13%	2%
	<i>0% - 1%</i>	<i>2% - 3%</i>	<i>4% - 5%</i>	<i>6% and Above</i>
Asian	23%	36%	21%	19%
	<i>0% - 3%</i>	<i>4% - 6%</i>	<i>7% - 10%</i>	<i>11% and Above</i>
Latino	25%	29%	27%	19%

Source: FPL Diversity Survey

### Chart 7

<b>WHAT PERCENTAGE OF THE FOLLOWING MINORITY GROUPS ARE CURRENTLY ON YOUR COMPANY'S SENIOR MANAGEMENT TEAM?</b>				
	<i>0% - 15%</i>	<i>16% - 34%</i>	<i>35% - 49%</i>	<i>50% and Above</i>
Female	51%	33%	14%	2%
	<i>0% - 3%</i>	<i>4% - 7%</i>	<i>8% - 14%</i>	<i>15% and Above</i>
African American	85%	10%	4%	0%
	<i>0% - 1%</i>	<i>2% - 4%</i>	<i>5% - 7%</i>	<i>8% and Above</i>
Asian	73%	10%	2%	14%
	<i>0% - 1%</i>	<i>2% - 3%</i>	<i>4% - 5%</i>	<i>6% and Above</i>
Latino	84%	6%	4%	6%

Source: FPL Diversity Survey

Leadership support tends to create a welcoming environment, making all employees feel comfortable and valued and often creating long-term relationships. The Diversity Survey verified this correlation by demonstrating that companies with leadership support had reduced turnover (voluntary or involuntary) in 2004 among all minority groups. These results were especially powerful when comparing turnover at the lowest level (1% or less) for the Latino population. The survey revealed that turnover decreases 12% for this subset when the leadership or CEO displays a commitment to diversity. Equally powerful, the survey indicated that those companies that have a Board that is at least 26% female have 10% more women among the overall workforce.<sup>57</sup>

Successful implementation of diversity efforts not only requires the leadership team's support, but requires formal accountability as well. Leaders, diversity committees and managers must all be held responsible for diversity efforts. The Diversity Survey reflected that those respondents that held managers (or diversity committees/teams) accountable (through hiring, promoting

<sup>57</sup> Statistics determined by cross tabulation of Diversity Survey results.

and retaining minorities) for diversity efforts in their company had a higher percentage of all minority groups within the employee population. In addition, those organizations that established such a process had more positions filled in 2004 by all minority groups.<sup>58</sup>

Accountability and follow-through can also be established by creating a standing committee or team to oversee the implementation of any diversity initiatives. This group, typically called a Diversity Council, should ideally be led by the CEO. While research determined that a Diversity Council does in fact produce results, the Diversity Survey indicated that 67% of respondents do not have a standing committee or team responsible for implementing diversity initiatives (Appendix Chart 11). The impact of these teams is evident. The survey found that those participants that had a standing committee to implement diversity initiatives had a higher percentage of total positions filled by women, African-Americans and Latinos. The data further supported the need for Diversity Councils by demonstrating that those companies with a standing committee had a higher percentage of different minority groups within the senior management team. In addition, they had a higher percentage of women and African-Americans in the top 10% of the highest-paid employees.<sup>59</sup>

It is equally critical that organizations enhance internal policies and practices to support diversity efforts. The Diversity Survey results indicated that recruiting policies in the real estate industry require revisions to enhance diversity, as only 31% of the respondents claimed to have filled at least 55% of their open positions with women. In addition, only 5% filled at least 30% of job openings with African-American candidates, while only 22% filled at least 6% of its vacancies with Asian-American candidates (Chart 8).

### Chart 8

<b>WHAT PERCENTAGE OF TOTAL POSITIONS WERE FILLED BY MINORITIES IN 2004?</b>				
	<i>0% - 15%</i>	<i>16% - 30%</i>	<i>31% - 54%</i>	<i>55% and Above</i>
Female	11%	16%	42%	31%
	<i>0% - 6%</i>	<i>7% - 17%</i>	<i>18% - 29%</i>	<i>30% and Above</i>
African American	43%	39%	14%	5%
	<i>0% - 1%</i>	<i>2% - 3%</i>	<i>4% - 5%</i>	<i>6% and Above</i>
Asian	33%	29%	16%	22%
	<i>0% - 1%</i>	<i>2% - 4%</i>	<i>5% - 7%</i>	<i>8% and Above</i>
Latino	31%	18%	18%	33%

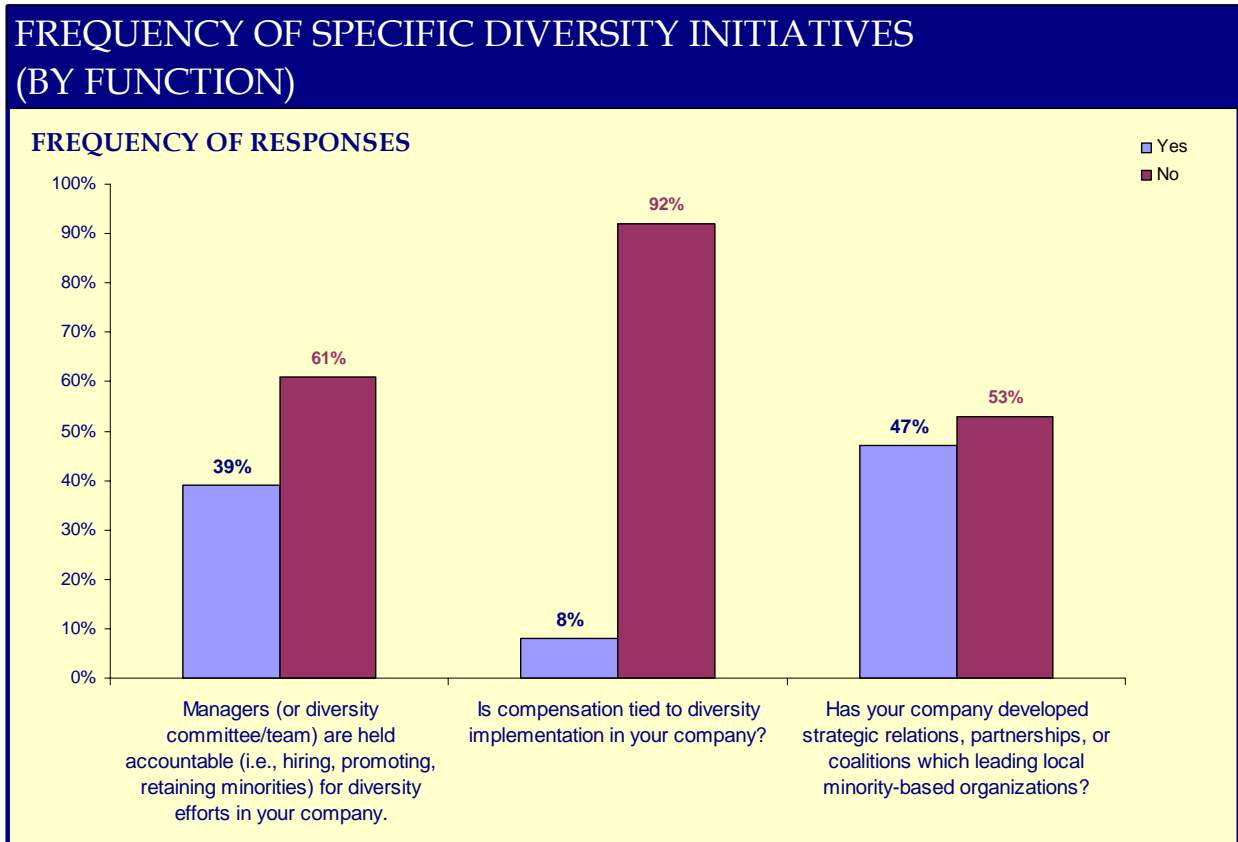
Source: FPL Diversity Survey

Aside from recruiting practices, the real estate industry must enhance compensation policies to further support diversity initiatives. The Diversity Survey indicated that 92% of the real estate companies surveyed currently do not align their compensation policy with the company's diversity goals (Chart 9).

<sup>58</sup> Statistics determined by cross tabulation of Diversity Survey results.

<sup>59</sup> Statistics determined by cross tabulation of Diversity Survey results.

**Chart 9**



Source: FPL Diversity Survey

Diversity efforts often require incorporating diversity statements into a company’s vision statement. The Diversity Survey determined that companies that included diversity in their vision statements had a higher percentage of minority group representation in the total employee population. In addition, the survey indicated that those companies with diversity as part of the vision statement had less turnover (voluntary and involuntary) across all minority groups in 2004.<sup>60</sup> This further proves that communication initiatives can serve as a valuable tool for establishing a diverse workforce.

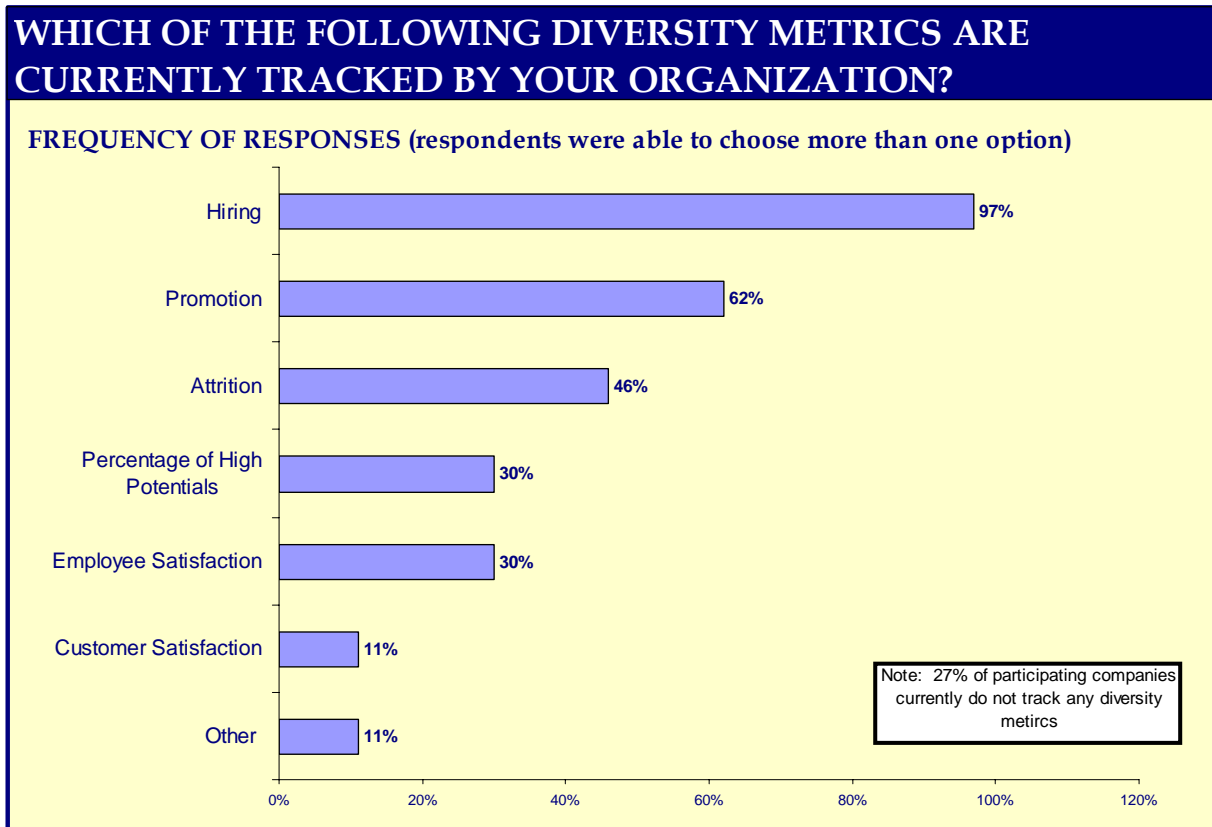
Organizations must strategically outline their long-term diversity goals. Long-term objectives create direction for the organization and are used to guide other relevant organizational decisions and actions. The Diversity Survey discovered a higher percentage of minorities among senior management in organizations that had developed long-term diversity goals of three to five years. In fact, those organizations that had developed long-term diversity plans had a higher percentage of women, African-American and Asian-American populations in the top 10% of its highest-paid employees. Additionally, respondents with long-term diversity strategies had a higher percentage of total positions filled by all minority groups in 2004 and less turnover, voluntary and involuntary, within these demographics over the past year.<sup>61</sup>

<sup>60</sup> Statistics determined by cross tabulation of Diversity Survey results.

<sup>61</sup> Statistics determined by cross tabulation of Diversity Survey results.

Finally, failed diversity programs typically lack metrics and accountability. It is suggested that organizations create and live by a timetable with periodic measurement. Unfortunately, 27% of participants indicated that they do not track diversity metrics. However, of those companies that did measure diversity, it was discovered that 97% use hiring to track these initiatives, 62% follow promotions of minorities and 46% measure attrition (Chart 10).

### Chart 10



Source: FPL Diversity Survey

Additionally, the Diversity Survey determined that 33% of participants do not conduct employee satisfaction and engagement questionnaires. And of those organizations that do conduct such surveys, 35% do not ask questions pertaining to diversity initiatives (Appendix-Chart 11).

## Conclusion

In conclusion, the real estate industry unquestionably lags behind corporate America in the implementation of diversity efforts. As the world continues to change and our country becomes less homogenous, real estate leaders must aggressively foster diversity within their organizations.

Diversity impacts the real estate industry more than one may think. While many professionals in this industry rely on established relationships, often describing this trend with a catchphrase, it's all about "who you know," real estate professionals in all types of roles interact with minorities every day. This includes the leasing agent who searches for the appropriate site for Wal-Mart and Starbucks in undeveloped urban markets, the CEO of the large REIT who is ramping up transaction activity abroad and must negotiate with senior leaders from a variety of countries, the property manager who communicates with Hispanic-American tenants regarding conditions of a lease, the commercial broker who negotiates with the Chinese property owner and the lender who negotiates on behalf of his or her Latino-American client. Relationships are a critical component of the real estate industry and embracing diversity is required to fully leverage all of them. The time to address diversity in your business is now.

## Acknowledgements

### SPONSORS

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- ◆ Capri Capital LP
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Pamela Puryear is Founder and Lead Consultant of Pamela Puryear Consulting (PPC), providing organizational development and management consulting services to corporations, non-profit-organizations and foundations. PPC assists organizations in designing, implementing, and integrating sustainable solutions and systems that maximize the value and effectiveness of human capital. Two areas of focus include developing leaders through assessment, training, and coaching; and managing diversity. Recent clients include Yale School of Management, Goldman Sachs, the Hispanic Scholarship Fund, the Tavis Smiley Foundation, and the Real Estate Executive Council.

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## About FPL Advisory Group

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## Appendix A - Additional FPL Diversity Survey Results

Chart 11

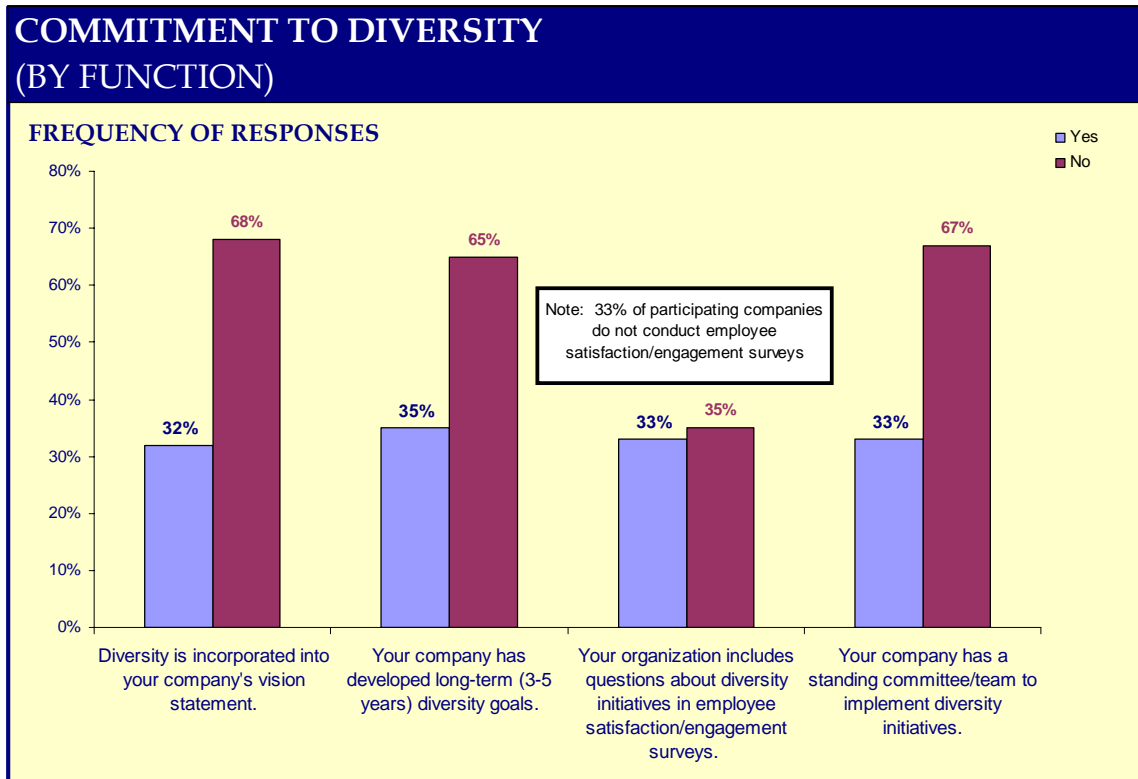


Chart 12

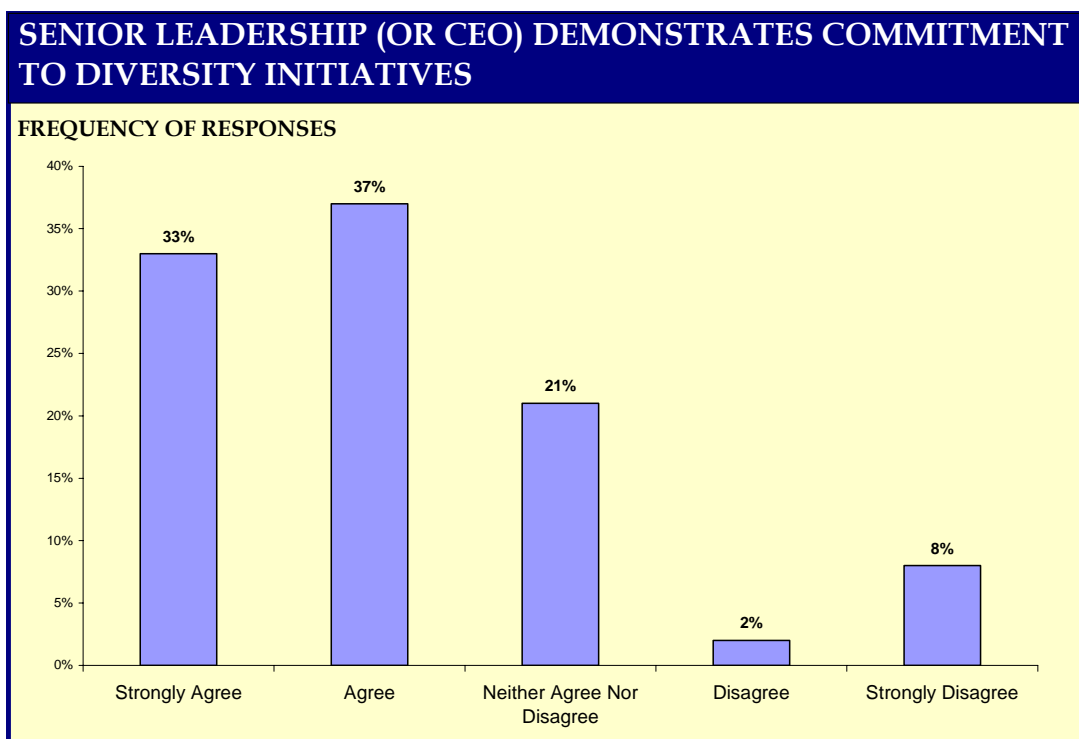




Chart 13

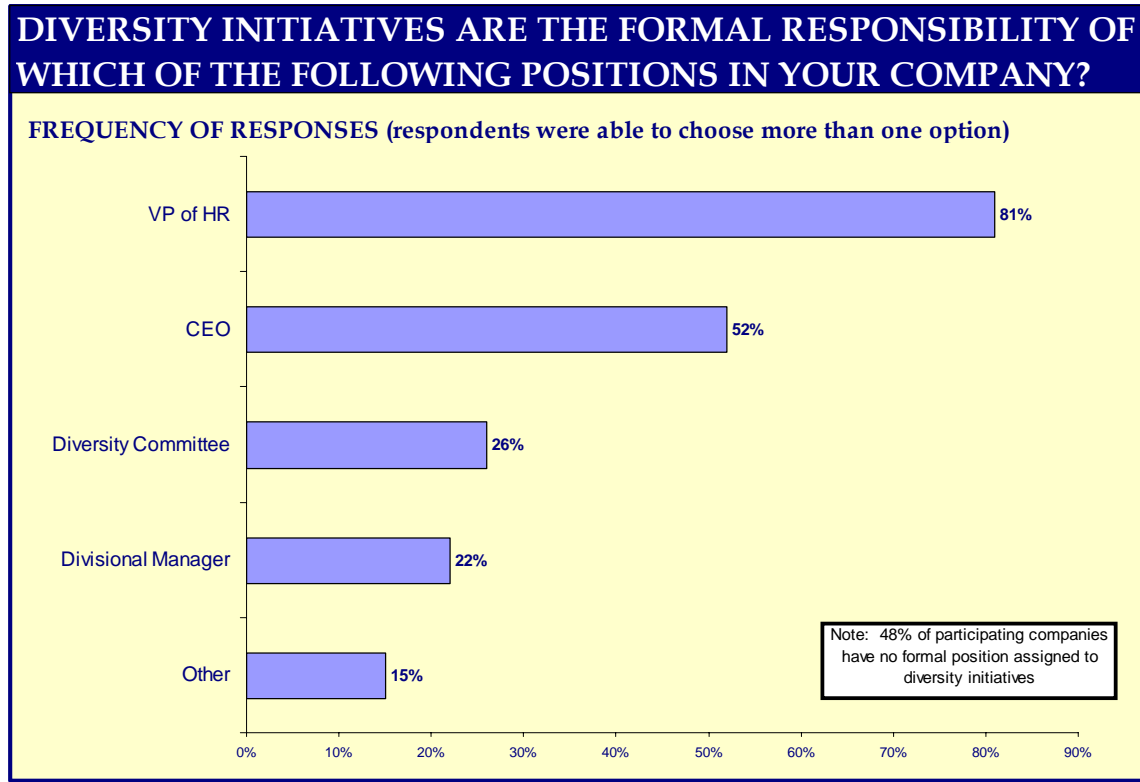


Chart 14

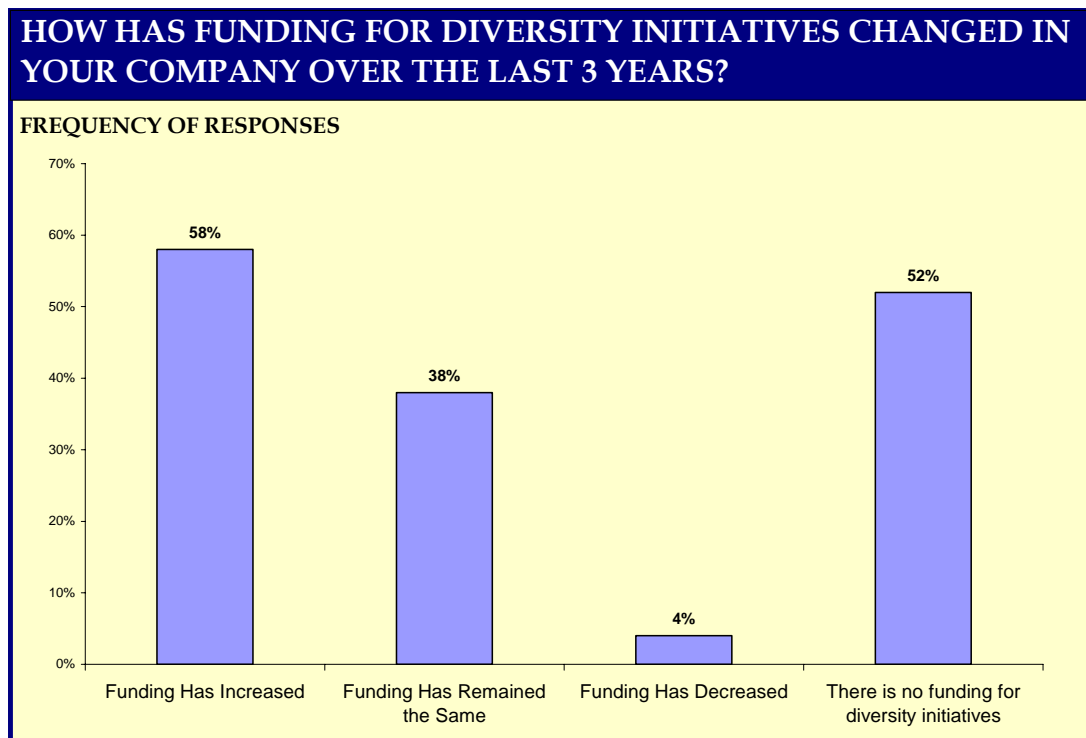




Chart 15

<b>WHAT PERCENTAGE OF THE FOLLOWING MINORITY GROUPS ARE IN THE TOP 10% OF HIGHEST PAID EMPLOYEES?</b>				
	<i>0% - 6%</i>	<i>7% - 17%</i>	<i>18% - 29%</i>	<i>30% and Above</i>
Female	33%	24%	20%	24%
	<i>0% - 1%</i>	<i>2% - 4%</i>	<i>5% - 7%</i>	<i>8% and Above</i>
African American	78%	17%	4%	0%
Asian	70%	14%	7%	9%
Latino	75%	14%	9%	2%

Chart 16

<b>OF ALL EMPLOYEES THAT LEFT THE COMPANY (VOLUNTARILY OR INVOLUNTARILY) IN 2004, WHAT PERCENTAGE WERE MINORITIES?</b>				
	<i>0% - 15%</i>	<i>16% - 30%</i>	<i>31% - 54%</i>	<i>55% and Above</i>
Female	35%	5%	40%	21%
	<i>0% - 6%</i>	<i>7% - 17%</i>	<i>18% - 29%</i>	<i>30% and Above</i>
African American	53%	35%	12%	0%
	<i>0% - 1%</i>	<i>2% - 3%</i>	<i>4% - 5%</i>	<i>6% and Above</i>
Asian	51%	28%	2%	19%
	<i>0% - 1%</i>	<i>2% - 4%</i>	<i>5% - 7%</i>	<i>8% and Above</i>
Latino	50%	17%	12%	21%



**Chart 17**

FORTUNE Magazine’s “List of Best Companies For Minorities”, June 2004.

Rank	Company	Revenue (\$ mil)	% Minority Employees
1	McDonald’s	17,141	53.1
2	Fannie Mae	53,767	44.7
3	Sempra Energy	7,887	48.0
4	Union Bank of California	2,400	55.6
5	Denny’s	941	47.4
6	U.S. Postal Service	68,529	36.4
7	PepsiCo	26,971	27.3
8	Southern California Edison	12,156	44.9
9	Freddie Mae	46,258	33.5
10	PNM Resources	1,456	48.5
11	PG&E Corp.	10,400	34.5
12	SBC Communications	40,843	38.0
13	Hilton Hotels	3,853	58.4
14	Verizon Communications	67,752	32.0
15	Yum! Brands	8,380	54.0
16	Colgate-Palmolive	9,903	26.8
17	Xerox	15,701	29.7
18	Hyatt	3,300	59.2
19	Washington Mutual	18,629	39.5
20	TIAA-CREF	26,016	47.4
21	Applied Materials	4,477	39.4
22	Consolidated Edison	9,827	37.8
23	United Parcel Service	33,485	35.6
24	DTE Energy	7,062	28.5
25	BellSouth	22,635	32.2
26	Coca-Cola	21,044	31.1
27	Nordstrom	6,492	39.8
28	Avon Products	6,876	33.4
29	Abbott Laboratories	19,681	29.3
30	Knight-Ridder	2,946	29.7
31	Golden Theyst Financial	3,842	39.9
32	Starwood Hotels & Rsrts.	4,600	62.6
33	Darden Restaurants	4,655	36.8
34	Safeway	35,553	36.0
35	Wyndham International	1,507	61.0
36	Levi Strauss	4,091	47.9
37	Pepco Holdings	7,271	31.9
38	Citigroup	94,713	31.9
39	Prudential Financial	27,907	23.7
40	Schering-Plough	8,334	26.4
41	American Express	25,866	27.2
42	MGM Mirage	4,140	52.1
43	J.P. Morgan Chase & Co.	44,363	41.5
44	Pitney Bowes	4,577	40.7
45	Procter & Gamble	43,377	17.8
46	General Motors	195,645	23.2
47	Eastman Kodak	13,317	20.4
48	Merck	22,486	21.2
49	AT&T	34,529	29.7
50	Bank of America Corp.	48,065	44.3



## Appendix B - Developing a Business Case for Diversity

Below is a list of suggested questions developed by the Society for Human Resource Management designed to help a team begin to develop a business case for diversity. A strong business case is the first step toward creating a diversity program.<sup>1</sup>

- ◆ What are the demographics of your customer/client base? (e.g. age, income, gender, education, ethnicity, etc.)
- ◆ How many languages are spoken by your customers/clients?
- ◆ In how many countries does your organization operate?
- ◆ How much does employee turnover cost your company?
- ◆ How much does your company spend annually on recruitment?
- ◆ How much have discrimination/harassment suits cost your organization in the past year (in both legal fees and settlements)?
- ◆ How frequently does intergroup conflict arise?
- ◆ Is there a high level of turnover among certain employee groups?
- ◆ Are your policies and benefits attractive to potential diverse recruits?
- ◆ Is your organization losing top talent because people do not feel valued, included or heard?
- ◆ Do all employees feel that their talents and skills are well rewarded?
- ◆ Is there some career advancement possibility for employees and a focus on developing people internally?
- ◆ Is diversity reflected in your procurement policies and among your suppliers?

### Affinity Groups

Below is a list of affinity groups that may be helpful resources for implementing diversity efforts.

- ◆ The Black Women's Leadership Council [www.bwlc.com](http://www.bwlc.com)
- ◆ The Hispanic Association for Professional Development [www.hapa.org](http://www.hapa.org)
- ◆ The Women's Alliance [www.thewomensalliance.org](http://www.thewomensalliance.org)
- ◆ African American Real Estate Professionals (AAREP) [www.aarep.org](http://www.aarep.org)
- ◆ National Black MBA Association [www.nbmbaa.org](http://www.nbmbaa.org)
- ◆ National Society of Hispanic MBAs [www.nshmba.org](http://www.nshmba.org)
- ◆ Hispanic Alliance for Career Enhancement [www.hace-usa.org](http://www.hace-usa.org)
- ◆ National Association of Female Executives (NAFE) [www.nafe.com](http://www.nafe.com)
- ◆ National Black Accountants Association (NABA) [www.nabainc.org](http://www.nabainc.org)
- ◆ Association of the Latino Professionals in Finance and Accounting (ALPFA) [www.alpfa.org](http://www.alpfa.org)
- ◆ INROADS - Developing and placing talented minority youth [www.inroads.org](http://www.inroads.org)

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<sup>1</sup> Society for Human Resource Management, SHRM online, <http://www.shrm.org/diversity/businesscase.asp> (28 October, 2004).



### Metrics & Questions for Measuring Diversity Efforts

Below is a list of data that can be collected to assess an organization’s current state as it relates to diversity efforts. These metrics and questions are useful for strategic follow-up initiatives. Measurement should be taken before and after diversity efforts are implemented to conduct a gap analysis. <sup>2</sup>

Metric Tool	Information Goal
Exit Interview	Why are people leaving? What are they saying? Who is leaving and who is not?
Attitude Surveys	Have you conducted any attitude surveys in the last year or in the last several years? What did these surveys tell you? What are people saying?
Customer Surveys	What do your customers say about you (recently and over time)? What do they say about your marketing, sales, and customer retention efforts?
Hiring	Who are you hiring and who are you not hiring? Do you conduct structured group interviews? If you are hiring through one-on-one interviews, are you getting more people who look just like you or "remind me of me?" What is your definition of the "best" candidate?
Attrition rate	What are the attrition rates of women and minorities as compared to other groups? At what rate are different groups of people entering your workforce (attrition vs. recruitment rate)? How does it compare across men, women, race, etc.? Look at data over time. Is it improving?
Cost of Turnover & Lost Training Dollars	Total training budget divided by number of employees is average training per employee + recruitment costs divided by new hires is recruitment costs per new hire = total cost of turnover (then break down by EEO-1 category)
Demographics	What does your organization look like today versus five and ten years ago (EEO-1 reports, compare data and look for trends)? What are your projections for the future?

<sup>2</sup> Mauricio Velásquez, "A Starting Point...Making a Business Case for Diversity." The Diversity Training Group, <http://www.diversitydtg.com/articles/buscase.html> (20 December 2004).



Metric Tool	Information Goal
Customer Demographics	Does your customer look different today versus five and ten years ago? Compare demographic data of your customer and your internal labor demographic data. Do you resemble the community you serve? Do you resemble your customers? Do gaps exist?
Talent Pool, High Potentials	Who are the future managers and leaders in your organization? Who aren't they? Do you have a fully-inclusive formal mentoring program? Or, like most organizations, is your mentoring conducted informally and typically excludes certain groups of individuals?





## Appendix C - How to Implement Diversity

Developing strategic and comprehensive plans is required when implementing diversity efforts at an organization. As originally stated, a strong business case must be developed and articulated to support diversity efforts. Without a solid business case, diversity initiatives will likely fade over time, or succumb to short-term financial pressure.

### DIVERSITY MODEL

The model below was proposed by the Conference Board, a non-profit organization which creates and disseminates knowledge about management and the marketplace. It describes four stages of organizational readiness when pursuing diversity: exclusion, symbolic power, critical mass, and inclusion.

#### Organizational Readiness for Diversity

Stage	Exclusion	Symbolic Pioneer	Critical Mass	Inclusion
<i>Attitude Reasons</i>	Intolerance "We're Fine"	Tolerance "It's the Right Thing to Do"	Acceptance "It's Working"	Integration "It's Making Us Rich!"
<i>Level of Diversity</i>	Minimal/ In Compliance	Tokenism	Low/ Middle Management	Leadership
<i>Customer Focus</i>	None	None	Conscious/Emerging	Strategic
<i>Measurement</i>	None	Headcount	Headcount/ Promotion/ Retention	Financial Results
<i>Overall Performance</i>	Weak/ At Risk	Unchanged	Improving	Strong

It cannot and should not be assumed that all organizations will strive for the final stage of "Inclusion." However, the end goal must always be clearly articulated so that a diversity change management process can be properly designed.

### SIX KEY COMPONENTS

In addition, we have identified six components required for a successful diversity initiative: leadership, communication, education, changes in culture and management systems, research measurement and follow-up. Of these six components, five were identified in a study entitled "Managing Cultural Diversity: Implications for Organizational Effectiveness" (T. Cox and S. Blake, 1991)<sup>1</sup>. Our study identified a critical sixth component, Communication. We have modified the model originally presented by

<sup>1</sup> Adapted from Cox, T. and Blake, S (1991) "Managing Cultural Diversity: Implications for Organizational Effectiveness".



Cox and Blake and described each component below. These components must be considered and planned when creating a strategy for diversity management, regardless of where the organization falls with regard to readiness for diversity.<sup>2</sup> Once a strong business case is developed and the diversity goals are identified, a change management process should be created. The process components include:<sup>3</sup>

- ◆ Leadership
- ◆ Communication
- ◆ Education
- ◆ Changes in Culture and Management Systems
- ◆ Research Measurement
- ◆ Follow-up

### LEADERSHIP

Commitment from the leadership of an organization is essential for any change-management process to succeed. This includes commitment of resources, willingness to modify human resources management practices, financial support and the development of a strategy and a value system that places diversity at the core. The most senior members of the organization need to further commit to diversity management by initiating diversity programs, genuinely supporting inclusion of all races and being visible at the promotion of such efforts. The leader must create and express a vision for diversity within the company and encourage feedback from employees.

As an organization moves through the stages from “Exclusion” to “Inclusion,” the goal is to move diversity management from a priority of one or a few leaders to an institutional emphasis, with broad support. The change must begin with Board members and then with senior leaders. Minority leaders should take responsibility and mentor individuals below them. In large companies, it is especially important to organize this effort. Many CEOs appoint a Diversity Council. A Diversity Council should report to the CEO and have a greater breadth of contact in the organization. This council should include division leaders and pooled resources from all areas of the company. Rather than a single program managed by the Human Resource department, diversity management should ultimately permeate each division and department throughout an organization.<sup>4</sup>

### COMMUNICATION

Communicating a plan for diversity management, internally and externally, is critical. This often gives a company a point of differentiation in a competitive market. When a diversity plan is communicated clearly and consistently common obstacles are avoided.

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<sup>2</sup> Michael Wheeler L., “The Diversity Executive: Tasks, Competencies, and Strategies for Effective Leadership,” October 2001. The Conference Board - R-1300-01-CR.

<sup>3</sup> Adapted from Cox, T. and Blake, S (1991) *Managing Cultural Diversity: Implications for Organizational Effectiveness*.



Furthermore, diversity programs must develop and encourage open communications among employees throughout the organization.

Articulating the business case for diversity management is a critical aspect of communication. It is best to appeal to the pragmatic side of the audience, and communicate that diversity is a serious issue. In essence, management must articulate to the employee population the benefits diversity has for them. Diversity can have both tangible and intangible benefits for each worker. It is important that these efforts build on the values, history and culture of the organization. In addition, it is critical that organizations communicate the process to the entire workforce. This allows the employees to visualize taking the action steps required and will provide an understanding of everyone's role in the process.<sup>5</sup>

## EDUCATION

Organizations should kick off diversity efforts by establishing expectations and guidelines for all employees regarding the company's diversity policies. This will likely include information on Equal Opportunity Laws and company policies regarding sexual harassment. Organizations at the "Exclusion" stage often begin with training programs that emphasize interpersonal relationships which seek to break down stereotypes and help employees discover common ground. There are many models that increase awareness and understanding of biases such as race, gender, marital status, geography, psychology and education as well as their effect on perceptions of fellow co-workers in the work environment.<sup>6</sup> This training can further target behavioral and attitude change through role-playing and analyzing organizational development and goals.

Training should emphasize how diversity affects interactions and productivity in the workplace. For example, it is recommended that managers study how cultural biases influence hiring and promotion. Understanding the link between diversity and organizational operations and effectiveness is critical for sustainable diversity management. As a company progresses, its training should become more systematic.

The goal is business efficiency, and managers should be involved in the following four areas of education:

- ◆ Sensitivity Training (increasing awareness and understanding of diversity)
- ◆ Effectiveness Training (developing employee skills to manage workplace diversity)
- ◆ Mentoring
- ◆ Leadership Development

It is advisable and often necessary to retain external consultants to execute training programs. Opinion surveys, training programs and other such exercises are unfamiliar

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<sup>6</sup> Interview: Olivet Benbow & Kara Burrell of The Felicity Group, Chicago, IL, May 18, 2004.



ground for most firms. Large companies, however, may decide to execute programs themselves, and can benefit from “train the trainer” programs. Furthermore, the requirements of education programs vary, and often evolve, at each stage of the process. An organization’s educational program needs to be continually modified as an organization moves from “Exclusion” to “Symbolic Pioneer” to “Critical Mass” and finally, to the “Inclusion” stage.<sup>7</sup>

#### CHANGES IN CULTURE AND MANAGEMENT SYSTEMS

The organization must address structural issues and/or organizational culture issues that might obstruct the change management process. For instance, in the “Exclusion” stage a firm may not know where the often-subtle biases exist in organizational practices and procedures. An internal audit can uncover barriers and identify ways to address the needs of a diverse workforce.

Internal policies, procedures and systems often require change in an effort to align an organization with its diversity goals. For instance, Pitney Bowes Inc., an organization that made *FORTUNE*’s “List of Best Companies for Minorities,” changed their compensation structure to support their diversity goals. Their CEO, Michael Critelli, currently signs off on executive compensation tied to diversity (bonuses, raises and stock options). Other corporations that leverage their compensation structure to support diversity goals include SBC Communications, Kraft and Abbott Laboratories.

Recruitment is another procedure often altered to support diversity initiatives. While recruiting techniques can increase the diversity of a company, these efforts will not be successful in the absence of an inclusive environment. Without inclusion, improved hiring of a diverse employee pool will likely only increase turnover. Although, today, strong candidates will often recognize a lack of inclusion during the interview stage and as a result pursue a different opportunity.

Some recruiting techniques, as part of a larger diversity program, may include posting positions in publications focused on diversity, such as *DiversityInc.*, requiring recruiters to include more minorities in candidate pools, and penetrating colleges and universities beyond the confines of an annual campus career fair. In addition, a company can go directly to academic organizations or fraternities and sororities with general presentations on career paths. Moreover, companies can get involved with a group that finds internships for high school and college-age students, such as the aforementioned INROADS.

Companies can also create affinity groups, or employee resource groups. These groups are an assembly of employees that have common interests, backgrounds or characteristics. These groups come together to articulate their unique needs to their company or to network. They typically differ from Diversity Councils in that they tend to encompass a wider group of employees. Members volunteer their time to band together with other employees of similar backgrounds that may have like issues,



concerns, or successes. The level of involvement with the organizations' business goals varies. While some affinity groups simply host a panel discussion over a brown bag lunch session to educate peers on their backgrounds and experiences, others receive funding from the company and are relied upon by the management.

## RESEARCH AND MEASUREMENT

For a company to track its own level of success, it must first define what these factors are and outline their current state. For example, if minority and women representation on the Board of Directors is critical, then the present make-up of the Board must be noted so that benchmarking can be accurately documented.

For an annual measurement, many organizations utilize employee satisfaction surveys. However, for the quarterly report, a company may want to examine statistics regarding retention and promotion instead. External indicators, such as customer feedback or employee exit interviews, are also recommended. As a company finds success with diversity management, it will likely continue to enhance its goals. As motivation to reach higher objectives grows, and thus moves into the next stage of diversity management, a company will likely tie a portion of a manager's bonus to accomplishing these objectives. SBC Communications, Inc., also included on *FORTUNE's* list of diverse companies, measures all aspects of its diversity programs. In fact, in 2003, the SBC Workforce Diversity team introduced a formal measurement tool, titled SMG Index. This initiative allows managers to compare the performance of organizational groups with their affirmative-action goals or to other groups within the firm.<sup>8</sup>

Many of the diversity lessons included in this report are from corporate America, which tend to be large, results-oriented companies. These organizations often devote significant resources to measuring change in retention levels, hiring, promotion and market-share that come from diversity initiatives. Many document this on a quarterly basis, and some tie a portion of annual management incentives to changes in the aforementioned measurements. For companies just beginning to address diversity, there are resources to monitor progress. For instance, companies can leverage forms required for the government, such as the EEO-1 Form, to evaluate diversity. Other companies form focus groups or launch annual employee satisfaction surveys.<sup>9</sup>

## FOLLOW-UP

While the measurement of diversity progress stresses the gathering of relevant data, the follow-up process focuses on analysis. Organizations need to determine what is working and what is not. They need to understand which events had the biggest impact on employees and business performance. Finally, they should realize what may be holding back progress. This information will aid in the evolution of the diversity initiative. If goals are met regularly, management may consider expanding the mandate to include other aspects of the organization.

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<sup>8</sup> Barbara Frankel.