



T-EDI
Standards

RETURN ON INVESTMENT IN SYSTEMIC DIVERSITY, EQUITY AND INCLUSION WORK

Model V0.1 September 2024

Table of Contents

Introduction	3
Key Challenges	3
Impact Summary	4
Organisational Context & Model Inputs	6
Benefits	7
Reduced Attrition	7
Return from Increased Productivity	8
Costs of Provision	8
Parental Leave	8
Administration	9
Literature Cited	9
Appendix 1 – Drivers in the Mechanistic Model of ROI	10

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Disclosure

This work illustrates the possible impact of implementing systemic Diversity Equity and Inclusion strategies using the secondary impacts of these strategies with Employee Engagement, Attrition and Recruitment costs, and the secondary impact on productivity.

Whilst the best efforts have been made to accurately capture the impacts of DEI policies, the magnitude of these impacts will differ across organisations and implementation approaches.

Document Version

Document Version	Date	Changes/Comments	Updated by
0.1	20240920	<p>Initial Draft – needing text description for some sections, specification of the calculations is considered complete</p> <p>Some Per Annum values in this report are out of date and not always consistent with the formulae specified and need to be updated from the calculator</p> <p><i>To Do: Verify - What do tech companies say is the cost of replacement as a fraction of fully-burdened salary?</i></p> <p><i>Find References for Productivity Improvement and other drivers</i></p>	BL

Introduction

Organisations benefit from Policies and Strategies supporting Diversity Equity and Inclusion, however the ways in which organisations benefit from policies, and the magnitude of impact is often opaque compared to the costs of implementation. TEDI Standards is engaged in ongoing collaboration to help articulate the ROI of DEI policies within different organisational contexts.

This work seeks to help leadership understand the evidence for how comprehensive DEI strategies can improve productivity and balance the magnitude of these improvements against costs of implementation. This report describes V0.1 of the methodology underlying the calculator, implemented at TEDIStandards.com.

Although costings of DEI strategies are relatively straightforward, calculation of benefits are more challenging, as there are many ways in which these strategies can both improve productivity and also reduce costs of operation. The first iteration of this model described here aggregates benefits to two streams: i) reduction in hiring costs, and ii) increased productivity.

Data points utilised are from a variety of Australian sources including WGEA, Forrester, Culture Amp and ABS. We have used average salary levels in digital tech's most problematic area for gender inequity and where the country's need is felt most acutely, software engineering.

Key Challenges

The spectrum of benefits from DEI policies being refined:

- Employee Retention
- Employee Engagement

Costs are directly incurred, being impact on leave and entitlements of existing workforce.

Five factors impact costs, revenue or both:

- Employee Engagement
- Team Skill and Diversity
- Employee Retention

- Talent attraction
- Innovation Mindset

The direct impacts on Personnel costs are direct and most easily calculated and accounted for in any assessment of the costs of supporting DEI policies.

The Mechanistic model describing the impact of DEI Policies on Expenditure and Revenue is captured in Figure 1. This model captures how DEI policies can impact organisations

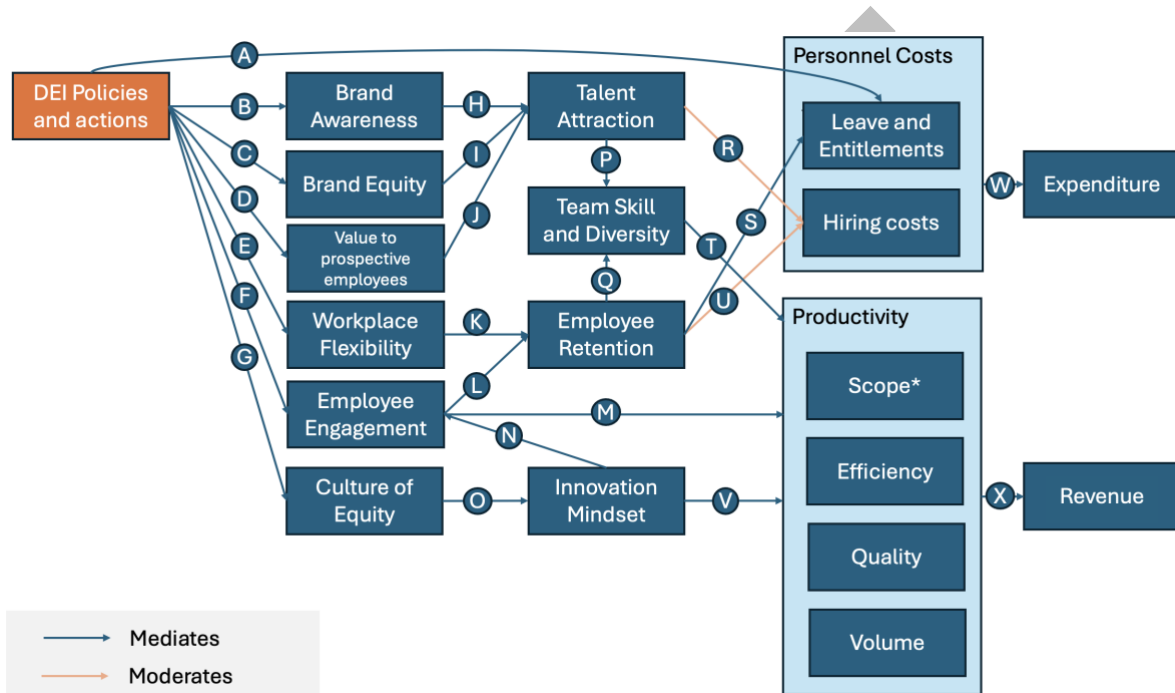


Figure 1: Mechanistic model V1 describing Diversity, Equity and Inclusion Policies on Expenditure and Revenue via ten factors that have direct and impact personnel costs and productivity.

Impact Summary

Metric	Label	Source	Per Annum
Costs	Total_costs	Provision_cost	-
Reduced attrition costs (Risk-adjusted)	Attrition_sav_RA		\$12,352,500
Increased Productivity (Risk-adjusted)	Productivity_RA		\$652,800
			\$16,320,000

Net Annual Return

Return

Total_costs - (Productivity_RA +
Attrition_sav_RA)

\$4,620,300

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Organisational Context & Model Inputs

The major organisational characteristics that drive the ROI calculations are listed below. The calculator adjusts to major aspects of individual organisations by allowing control of Total Employees, salary, and base rate of attrition.

Input	Label	Source	Reference Value	Adjustable?
Total Employees	Empl_N	User Input	3000	✓
Fully Burdened average annual salary of an employee	Salary	User Input (Default Seek Software Engineer + 15%)	136000	✓
Attrition Rate before DEI	Attrition1		20%	✓
Cost to replace employee as portion of their salary	Replace	[1]	20%	
Attrition reduction attributable to DEI	Attrition2	[1]	5%	
Productivity improvement	Productivity	50% of Productivity improvements from [1]	10%	
Productivity Recapture	Prod_recapture	[1]	50%	
Percent of employees taking DEI leave annually	DE_leave_perc	Section X.X	3%	
Average DEI weeks of leave per electing employee per year	DE_leave_weeks		12	
Average cost of provision per electing employee	Provision_cost	Salary / (Empl_N x DE_leave_perc)	\$1,500	
Risk adjustment	RiskAdj		20%	

Benefits

Reduced Attrition

With the estimated expenses of employee turnover ranging anywhere from 33% to 300% of the employee's salary [ref1]

This model uses the more conservative value of 20% from Forrester [ref2].

Systemic DEI strategies reduce attrition via greater accommodation and flexibility to the lives of their workforce, one of these major factors being increasing retention of workers with new children via progressive parental leave policies. The calculation was reduced using the 20% risk adjustment.

Organisations should consider the real cost of replacing employees which is possibly well above the 20% value used here, as technical knowledge and organisational context, high-costs of searching for talent in a competitive market are likely to push the replacement costs into the range provided by [ref1].

Absence of progressive DEI policies do not impact all employees equally. Workers who adopt a primary carer role are more likely to be women or other individuals whose presence within the organisation would commonly increase the diversity of that organisation, and thus improve metrics of innovation, complex problem solving and engagement that increase as in line with these diversity measures. This added value of DEI policy in promoting diversity is included in the aggregate measure of productivity, however the magnitude of this impact is yet to be precisely quantified – this is an opportunity for improvement in the next iteration of the ROI model.

Metric	Label	Source	Per Annum
Subtotal: Total Employee Attrition	Attrition_total	$[\text{Empl_N}] \times [\text{Attrition1}]$	600
Subtotal: Avoided Employee Attrition	Attrition_avoided	$[\text{Attrition2}] \times [\text{Attrition_total}]$	30
Reduction in costs from attrition	Attrition_saving	$[\text{Attrition_avoided}] \times [\text{Salary}] \times [\text{Replace}]$	163200
Reduction in costs from attrition (Risk-adjusted)	Attrition_sav_RA	$[\text{Attrition_sav_RA}] \times (1 - [\text{RiskAdj}])$	130560

Increased Productivity

Productivity is ultimately measured through either impact on cost reduction, or impact on output. For this initial costing, Revenue is taken to be the absolute minimum of a viable company

Metric	Label	Source	Per Annum
Company Revenue	Revenue	Cost_of_labour	
Increased Productivity	Prod_value	Revenue x Productivity x Prod_recapture	20400000
Increased Productivity (Risk-adjusted)	Productivity_RA	Prod_value x (1 - RiskAdj)	\$16,320,000

Costs of Provision

This model accounts for Cost of Provision of DEI policies via Parental leave and Administration of these policies.

Parental Leave

Average number of children per female is 1.6 [ABS]. With Equal parental leave provisions for all staff, this translates to 1.6 children per employee. Adjustments are not made for still birth or other circumstances which are infrequent but for which compassionate leave is often granted.

The proportion of staff who are eligible for parental leave is estimated using the approximate child-rearing years extending over a 20 year period (25 – 45, noting that staff members may take parental leave at any life stage). Technology companies are usually young, with some staff outside of this window of child-rearing. This is estimated to be 10% for this study.

These inputs lead to the following calculation of proportion of work-weeks taken as parental leave in any given year:

Assume all staff are in the primary years of child-rearing, (e.g. 25-45)

Years of work: 20 (1020 weeks)

Average number of children: 1.6

Number of work weeks taken (assuming 12 weeks taken per employee, per child): $(1.6 * 12) / 1020 = 19.2$

Proportion of work weeks = $19.2 / 1020 = 1.9\%$

When viewed through this lens, the costs of progressive parental leave policies are less than the growth in the Wage Price Index for Australia [ABS 2024].

Administration

Administration of this scheme is allocated to 1 FTE for companies of more than 500 staff, and 0.5 FTE for smaller companies.

Notably this figure will likely overestimate administration costs for small companies, for whom this administration may be low burden and/or outsourced.

Metric	Label	Source	Per Annum
Number of employees taking DEI leave (e.g. parental)	Employees_Leave		90
Workers in Child-rearing years	DEI_percent		90%
Weeks of Parental Leave	Leave_weeks		12
Cost of leave	Leave_cost	$\text{Empl_N} \times \text{DE_leave_perc} \times \text{DEI_perc} \times \text{leave_weeks} / 52 * \text{Salary}$	\$12,240,000
Cost of Administration	Admin_cost	1 FTE	112500
Total Cost	Provision_cost	$\text{Admin_cost} + \text{Leave_cost}$	\$12,352,500

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Appendix 1 – Drivers in the Mechanistic Model of ROI

Label	Driver	Drives	Description of Relationship	Citations
A	DEI Policies and actions	Leave and Entitlements	DEI policies that provide for additional leave and entitlements directly increase costs in these areas	NA
B	DEI Policies and actions	Brand Awareness	DEI policies improve inclusivity, which increases public perception and awareness of the brand's commitment to diversity, equity, and inclusion.	Baker Tilly emphasizes that DEI efforts enhance institutional awareness (Romano, 2023) (Baker Tilly).
C	DEI Policies and actions	Brand Equity	DEI policies enhance the perceived fairness and inclusiveness of a company, which positively impacts brand equity.	McKinsey outlines that DEI strategies strengthen brand equity by fostering inclusivity (McKinsey, 2021) (McKinsey & Company).

D	DEI Policies and actions	Value to prospective employees	DEI actions attract potential employees by improving the company's reputation as a fair and equitable workplace.	DEI's role in enhancing recruitment efforts is detailed by McKinsey (2021) (McKinsey & Company).
E	DEI Policies and actions	Workplace Flexibility	Diverse and inclusive policies tend to support flexible work arrangements, accommodating different employee needs.	
F	DEI Policies and actions	Employee Engagement	DEI policies foster a sense of belonging, which increases employee engagement by making all employees feel valued.	McKinsey finds that DEI directly improves employee engagement and productivity (2021) (McKinsey & Company).
G	DEI Policies and actions	Culture of Equity	DEI efforts cultivate an equitable workplace culture where opportunities and resources are distributed fairly across all employee groups.	Oxford Academic highlights that DEI fosters a culture of fairness and equity (2020) (Oxford Academic).
H	Brand Awareness	Talent Attraction	Positive brand awareness driven by DEI efforts increases the company's attractiveness to top talent.	McKinsey discusses the link between DEI-driven brand awareness and talent attraction (2021) (McKinsey & Company).
I	Brand Equity	Talent Attraction	A strong, inclusive brand equity attracts a more diverse pool of candidates seeking fair and equitable workplaces.	
J	Value to prospective employees	Talent Attraction	Employees are drawn to companies they perceive as valuing diversity and inclusion, increasing the	McKinsey details the importance of DEI in talent acquisition (2021) (McKinsey & Company).

			company's talent pool.	
K	Workplace Flexibility	Employee Retention	Flexible work options made possible by DEI policies improve employee satisfaction and retention, particularly among diverse groups.	
L	Employee Engagement	Employee Retention	Higher engagement, driven by inclusive DEI policies, leads to increased retention as employees feel more connected and satisfied.	Research confirms that engagement is a key factor in retention, especially in inclusive environments (Oxford Academic, 2020) (Oxford Academic).
M	Employee Engagement	Productivity		
N	Innovation Mindset	Employee Engagement	An equitable culture drives an innovation mindset and increases the diversity of thought.	
O	Culture of Equity	Innovation Mindset	An equitable culture drives an innovation mindset and increases the diversity of thought.	Wharton shows that DEI-driven inclusivity leads to innovation in the workplace (2021) (The Wharton School).
P	Talent Attraction	Team Skill and Diversity	Attracting top talent through DEI efforts leads to higher overall skill levels within the organization, and greater diversity of team members.	McKinsey outlines how DEI contributes to the quality of talent attracted (2021) (McKinsey & Company).
Q	Employee Retention	Team Skill and Diversity	Retaining experienced employees allows companies to maintain and grow a high level of skill and expertise within the workforce. More	

			diverse talent retained.	
R	Talent Attraction	Hiring Costs	Greater attractiveness to potential employees reduces friction in hiring, and yields a greater pool of potential candidates	
S	Employee Retention	Leave and Entitlements	Higher retention rates increases the leave and entitlement costs of these retained employees	-
T	Team Skill and Diversity	Productivity	Skilled employees deliver work more efficiently and /or with higher quality. Increased diversity uplifts the ability to solve problems	-
U	Employee Retention	Hiring costs	Retaining employees reduces turnover and subsequent hiring costs.	-
V	Innovation Mindset	Productivity	An innovation mindset can lead to higher productivity as employees find more efficient and effective ways of working, and also increase scope of delivery and/or product offering	Wharton Applied Insights suggests that innovative teams are more productive (2021) (The Wharton School).
W	Personnel Costs	Expenditure	Personnel Costs are one of the major areas of company expenditure	-
X	Productivity	Revenue	Increased productivity leads to higher revenues as the company can achieve more output with the same or fewer resources.	-