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Darden Restaurants: Diversity and Sustainability Boost the Company Bottom Line

Andrew Madsen sipped his cup of coffee and reviewed Darden Restaurants' report on diversity and inclusion and its 2012 Sustainability Report. In April of 2013, and the president and chief operating officer of Darden Restaurants was getting ready to report to Darden's board on the company's initiatives in these areas. He knew that the company's diversity and sustainability programs just made good business sense. Darden's commitments to diversity and sustainability were integral parts of the company's corporate strategy; company leaders felt that progress in these areas was critical to the company's growth.

Diversity and inclusion were always a part of the way Darden did business. Darden Restaurants' founder Bill Darden welcomed everyone to his tables at the Green Frog in Waycross, Georgia, at a time of deep racial segregation and discrimination. In addition to opening his doors to all, Darden ensured his labor pool mirrored the cultural fabric of the local community. Like Madsen, Darden not only believed that employing a diverse makeup of workers was the right thing to do, it was good for business.¹

By 2013, Darden Restaurants Inc. had put into effect a number of diversity outreach, supplier diversity, and workforce diversity programs.² In just its supply base, some 10% of Darden's suppliers were women- and minority-owned businesses. In addition, Darden had been named in the "Top 25 Companies for Supplier Diversity" by *Hispanic Business Magazine*, the "Top 60 Companies for Hispanics," also by *Hispanic Business*, the "Top 50 Employers in the United States for Hispanic Women" by *Latina Style*, the "40 Best Companies for Diversity" by *Black Enterprise*, and the "Top 50 Companies for Diversity" by *DiversityInc*.³

In an increasingly global environment, Darden's operations were influenced by a number of macro-environmental factors that impacted the company's bottom line, from rising energy costs and water scarcity to climate change and declining fish stocks.⁴ These issues impacted the availability, cost, and safety of the food supply and other resources the company relied on as well as the company's financials. A single company could not change the world, but as an \$8.6-billion enterprise and the largest full-service restaurant corporation in the world, Darden could make more than a dent. Company leaders ensured Darden was using its scale and scope to transform the landscape within its supply chain to include sustainable practices.⁵



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This case was developed under the supervision of Lynn Wooten, Associate Dean for Undergraduate Programs, at the University of Michigan's Ross School of Business by Research Associate Mary Lowe of the William Davidson Institute. This case was created to be a basis for class discussion rather than to illustrate either the effective or ineffective handling of a situation. The information for this case was drawn from secondary sources.

In 2009, Darden set out to reduce its per-restaurant energy and water usage by 15% by 2015. By 2011, it had surpassed the water goal, decreasing its per-restaurant water use by 17%. The reduction remarkably came at a time when the company opened more than 200 new restaurants. The company was also making strides toward decreasing its per-restaurant energy use, with a reduction of approximately 8%.⁶

Madsen took another sip of coffee and wondered what Darden could do to further diversify its workforce, supply base, and customer base in the spirit of the company's founder. He wondered what types of initiatives would allow Darden to continue to not only reduce its costs, energy, and water use, but also decrease in its waste footprint. He pondered over the implications of the company's environmental, social, and supply chain footprints, and how the company could use its economies of scale and scope to have a positive influence on the world. He would meet with both the company's diversity and inclusion and sustainability teams this week, and would have to set the direction of the company in these areas for the next fiscal year.

Diversity and Inclusion at Darden Restaurants

Recognizing that diversity and inclusion were business imperatives, all Darden managers received training at the company's diversity learning lab to enable them to understand, be sensitive to, manage, and lead a diverse team. Employees' annual performance evaluations included meeting diversity and inclusion objectives.

Approximately 43% of Darden's employees were minorities and 52% were women. Of the restaurant managers, 27% were minorities and 39% were women; both percentages were above the industry average.⁷

When *Fortune* ranked the company among its "100 Best Companies to Work For" in 2012, it cited the company's commitment to diversity and inclusion among the reasons.

Just Means, a leading news and content provider on corporate social responsibility and sustainability issues, said: "Diversity has remained at the core of Darden's corporate culture and ethics. Various diversity initiatives undertaken by the company reflect its guiding principles to nurture a workforce that serves the needs of its diverse customer base, facilitate opportunities for diverse vendors, and contribute to the well-being of communities."⁸

Like Bill Darden, company leaders aimed to make not only Darden's workforce, but also its suppliers, represent its customer and employee base. They did this through Darden's Supplier Diversity initiative as well as in collaboration with the National Minority Supplier Development Council, the Women's Business Enterprise National Council, and the National Gay and Lesbian Chamber of Commerce.

Darden was one of the world's largest seafood purchasers, and company leaders wanted to steer Darden toward setting the industry standard—over 25% of Darden's seafood was purchased from diverse suppliers in 2010. Seafood procurement through minority- and women-owned suppliers increased by \$30 million from 2009, representing \$370 million of Darden's procurement spending.

Darden's leaders believed that the company's diverse employee base empowered the company to better serve its customers by drawing upon a diversified set of viewpoints. Darden's six employee networks were in place to assist the company in meeting its diversity objectives. The company vision was to maintain strong, committed networks that provided members the opportunity to learn, grow, and network, while strengthening their leadership competencies.

Darden put into place an executive advisory committee comprised of two cross-cultural executives to oversee each network. The networks were vehicles through which emerging leaders learned and demonstrated skills through informal mentoring and structured events.⁹

Darden's Six Networks

- *African-American Network*—Served as a resource for the personal and professional development of African-American employees, providing a supportive environment for new employees, and enlightening the Darden community about African-American culture.
- *Asian-American Network*—Promoted awareness and mutual understanding of Asian cultures at Darden that led to a better working environment and advancement of the professional development of Asian-American employees.
- *Family Network*—Enhanced the balance between family life and work life for parents at Darden.
- *Hispanic Network*—Created an environment where the network members felt welcomed, and had an opportunity to develop and grow both personally and professionally, as well as be a resource for diverse customer insights.
- *Pride Alliance Network*—Leveraged the contributions of the LGBT community in a welcoming and inclusive environment to enhance Darden's culture.
- *Women's Network*—Recognized, encouraged, strengthened, and celebrated the perspectives, intelligence, and leadership skills women brought to the workplace.¹⁰

Despite Darden's many programs and awards for diversity and inclusion, not everyone was happy. Capital Grille workers in New York, Chicago, and the Washington, D.C., area filed a federal suit against the company in 2011 alleging discrimination and wage theft.¹¹ By 2013, more than 50 employees across Darden's brands had joined the lawsuit, alleging similar claims.¹²

In the initial complaint against The Capital Grille, a chain that Darden had acquired in 2007, the plaintiffs alleged that many of the "back-of-the-house" positions (dishwashers, food prep, etc.) were given to workers of color, while "front-of-the-house" positions that paid more (servers, bartenders, etc.) went to white workers.¹³

"While many Americans have worked at a restaurant at some point in their lives, they don't realize that there are millions of people who make restaurant jobs their career," Saru Jayaraman, co-director of Restaurant Opportunities Center United, said in a statement. "All too often, these workers face poverty wages, no sick leave, and no opportunities for advancement."¹⁴

Darden was, however, one of the few US companies with an African American at the helm. Clarence Otis Jr. had served as chairman since 2005 and chief executive of Darden Restaurants Inc. since 2004.¹⁵ He was one of six African Americans serving as CEO of a Fortune 500 company, a group that accounts for 1.2% of all Fortune 500 CEOs.

Sustainability at Darden

Darden's brands relied on available, affordable, high-quality natural resources, so the company integrated sustainability into everything it did. To that end, it participated in sustainability-related activities, developed

a sustainability strategy, and established an Office of Sustainability and internal Sustainability Leadership Council.¹⁶ The company's sustainability approach was focused on three areas: People, Planet, and Plate.

People

Each time Darden opened a restaurant, the company made a 30-year investment in a community. Each new restaurant cost \$3.5 million in capital investment and created approximately 200 construction jobs. Once a new restaurant was up and running, it generated on average 100 permanent jobs. The company opened about 100 new restaurants in fiscal year 2012, and expected to add 500 more by fiscal year 2016, placing it on course to hire more than 50,000 new employees (net of turnover).

Darden paid property and sales taxes on fixed assets to local governments totaling \$97 million in fiscal year 2010 and \$107 million in fiscal year 2011. The company spent more than \$3 billion on products from 2,000 suppliers in 35 countries, and, through the Darden Restaurants Foundation, contributed approximately \$6 million a year to non-profit organizations in the communities in which it operated.

Employees at Darden received competitive wages and a clear career path. The average hourly wage for a server was double the national minimum wage of \$7.25, while the average wage for a busser was \$4 more than the national minimum wage.

In 2012 Darden did, however, test limiting its workers' hours to circumvent the Affordable Care Act mandate that employers with more than 50 workers offer coverage to full-time employees. The experiment did not go well—the company saw backlash. Darden ultimately announced it would not move forward with the model.

"We have always had a significant number of full-time employees and they are integral to our success," Darden CEO Clarence Otis said in a statement. "The data we have collected during our test around guest satisfaction and employee engagement has only reinforced this."¹⁷

Darden's FY2012 "One Voice" employee engagement survey found that 81% of employees said Darden was a great place to work and 79% said they would strongly recommend the company to family and friends. The company's employee turnover rate was 20% to 25%, lower than that of its competitors. More than half of its restaurant managers were internally promoted from hourly positions and close to 100% of its general managers and managing partners were promoted from restaurant manager.

The culture of the organization impacted everything Darden did, and could be summed up in four simple statements that the company shared with its employees:

What you do matters.

Who you are matters.

What you learn matters.

*Who you're with matters.*¹⁸

Planet

Darden integrated sustainability strategy into its core operations. Everything the company did was done with sustainability in mind, from how the company designed new restaurants to setting thermostats to selecting appliances. Green building principles, recycled materials, sustainably harvested wood, low flow valves, and light-emitting diode lighting were just some of the sustainable practices included in Darden's

operations. The efforts went a long way toward assisting the company in achieving its “15x15 over Zero” goals of reducing energy and water use by 15% by 2015, and of one day sending zero waste to landfill.¹⁹

In 2012, Darden’s Restaurant Support Center (RSC) began to generate 15% to 20% of its annual power usage from solar panels. The following year, the company was building new restaurants with Leadership in Energy and Environmental Design (LEED) certification across its Olive Garden, Red Lobster, LongHorn Steakhouse, and Bahama Breeze brands. In addition, Darden remodeling efforts at existing Olive Garden, Red Lobster, and LongHorn Steakhouse restaurants employed 100% recycled carpeting, sustainably harvested wood, more energy-efficient lighting, smarter energy management systems, low-flow water nozzles and faucets, and less water-intensive landscaping.

The *Orlando Sentinel* reported: “Some companies talk about sustainability. Others practice it. Like Darden. The company sank a reported \$5.6 million into a vast solar array that’s thought to be the private sector’s largest in Florida. The rooftop panels are expected to generate about 20% of the electricity that’s required to power the company’s massive headquarters building in south Orange County. Darden expects it’ll take about a decade for the multimillion-dollar project to pay for itself, a notable investment in an age when many companies don’t seem to look beyond the current quarter’s profits.”²⁰

Since 2008, Darden had decreased its restaurant energy use by 7.9% and decreased average greenhouse gas emissions from 608 metric tons equivalent carbon dioxide (CO₂) emissions per restaurant to 568 MT CO₂. It also converted kitchens from incandescent lighting to compact florescent bulbs, generating energy savings of approximately 3,000 KWh per year per restaurant.²¹

In 2011, Darden diverted over 140,000 cubic yards of waste from landfills to recycling. In 2012, the company saved approximately 930,000 trees, 275,000 cubic yards of landfill space, 500 million gallons of water and over 300 million kilowatt-hours of electricity. The efforts contributed to avoiding 240,000 metric tons of greenhouse gas.²²

Also in 2012, twelve restaurants in Darden’s three largest brands (Olive Garden, Red Lobster, LongHorn Steakhouse) had either received or were on their way toward receiving LEED “Silver” certification. The company had surpassed the American Society of Heating, Refrigerating and Air Conditioning Engineers 16% energy efficiency improvement requirement as well as the LEED certification requirement.²³

In addition, in 2012, the company conducted waste audits at its three largest brands, ultimately terminating the use of all polystyrene take-out containers. Take-out containers were switched to paper or biodegradable plastic. The company also implemented a 100% recycling policy for discarded fry oil. Some 20 million gallons of the oil was used for biodiesel, animal food, and soaps.²⁴

Plate

Darden protected its food supply by going directly to the source as well as multiple points across its supply chain. The goal was to have traceability from “pond to plate” and from “farm to fork.”²⁵

In 2011, Darden announced a three-year commitment to rebuild troubled fisheries through its targeted Fishery Improvement Projects (FIPs) as part of Darden’s membership in the Clinton Global Initiative. The first FIP was launched in the Gulf of Mexico, in collaboration with Publix Super Markets and the Sustainable

Fisheries Partnership (SFP). The effort would combat illegal fishing, enhance productivity, and reduce negative ecological impacts.

“As one of the largest buyers of seafood in the world, Darden is an industry leader in supporting healthy ecosystems for future generations. Through this commitment, Darden is taking action to create change within the seafood supply chain by building alliances with governments, conservation advocates, and communities to develop and implement fishery improvement. We hope others will look at what Darden has achieved and committed to, and, as a result, take action,” said Jim Cannon, CEO of SFP, in an article about the effort on the organization’s website.²⁶

In 2009, Darden helped launch the Atlantic Lobster Sustainability Foundation, a non-profit organization that worked with fishermen, processors, buyers, government agencies, and other stakeholders to preserve and enhance a viable, strong, and sustainable lobster industry. Darden provided \$200,000 in seed money, and continued to play an active role in the organization. For more than a decade, Darden had partnered with the New England Aquarium to develop and provide regularly updated environmental, conservation, and scientific data regarding wild-capture fish and aquaculture species for its Seafood Sustainability Dashboard. The dashboard was used by Darden buyers to inform their purchasing decisions.²⁷

Fiscal 2012 would see complete implementation of Darden Direct, a more efficient food distribution system. Because of its increased efficiency, Darden Direct saved more than 38 million miles of driving, and the accompanying gas and emissions, during fiscal year 2012. In 2011, approximately 75% of the aquaculture tilapia Darden bought was certified to the Global Aquaculture Alliance “best aquaculture practices” tilapia standard. Darden had already achieved 100% supplier certification for aquaculture shrimp.

Darden took a significant step toward the development of the world’s first fully integrated lobster aquaculture park when it announced plans to build a facility in Malaysia in 2012. After several years of research and investment in hatchery technology, it selected Malaysia as the site, as it intended to grow a species of spiny lobster known as *panulirus ornatus* indigenous to the region. It would be several years (2017) before the site would be operational and even longer (2029) before production was expected to reach scale.²⁸

Darden’s industry-leading food safety and total quality program continued to ensure that all 400 million meals served annually met stringent food safety and quality standards. The company had participated with industry regulators in developing a harmonized Third Party Food Safety audit process for locally-sourced fresh produce, and it expanded menu items, particularly at Darden’s Seasons 52 and The Capital Grille restaurants.²⁹

The company also was offering customers healthier food options. In 2010, Darden, working with the Partnership for a Healthier America, committed to reducing the overall calorie and sodium footprint of its core menu by 10% by 2016, and 20% by 2021. Darden improved the nutrition of its children’s menus, and nutritional information became available upon request in all of its restaurants. In addition, the company provided nutritional information online in a mobile-enabled format and supported national menu labeling legislation.

In 2010, Darden joined healthydiningfinder.com, an online resource center that provided consumers with “dietitian-approved” menu options. In 2012, Darden’s LongHorn Steakhouse restaurants launched “Flavorful under 500” menu items, which offered steakhouse meals at fewer than 500 calories, in addition to “Garden Fare” menu items at Olive Garden and “Lighthouse” items at Red Lobster.³⁰

Under the company's Harvest program, staff members at each Darden location prepared, packaged, froze, and stored unused food for pickup by local food bank partners. The program was showcased by Chelsea Clinton on NBC's "Rock Center."³¹ It had distributed more than 56 million pounds of high-quality food to hunger-relief organizations since it began in 2004.³²

Moving Forward

Andrew Madsen looked at the diversity and inclusion and sustainability reports, and thought that the company had accomplished much in these areas. Diversity and sustainability were woven into the cultural fabric of the company and were increasingly seen as business imperatives. While the company reported solid numbers in both of these areas, he knew there was room for improvement. Those improvements would directly impact the company's financials. He asked himself: How could the company enhance its diversity and inclusion in its employee, customer, and supplier bases? How could the company continue to reduce its water and energy use? How could it get to its goal of zero waste to landfill? How could it continue to ensure the availability and sustainability of its food supply? Overall, how could the company make a bigger impact on the world in the areas of diversity and inclusion and sustainability?

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