Diversity Best Practices

Linking D&I to Compensation and Accountability

DBP Research Report

What some companies are doing

Sodexo's Diversity Scorecard

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Sodexo's CEO has committed to reach global representation of 40% women in senior leadership by 2025, and linked 10% of annual incentives for the executive population to help achieve this goal. Additionally, Sodexo has set a target that all employees work for gender-balanced management teams by 2025, up from today, where 59% of employees work within entities with gender-balanced management.

Internal data showed that the share of women in their workforce dropped sharply after entry level, which reduced the number of women in the company's leadership pipeline. To build accountability for increasing gender representation, Sodexo created a scorecard to measure progress and hold managers accountable.

Managers can earn up to 600 points for achieving numeric benchmarks for attaining hiring, promoting, and retaining women and underrepresented groups. The scorecard doesn't just measure numeric progress. An additional 400 points measure D&I actions that managers engage in that improve Sodexo's culture and demonstrate inclusive leadership. For instance, a manager can earn points for setting up bias and inclusion training for their team, by mentoring or sponsoring women or people of color, or by getting involved as a sponsor of the company's ERG for women.

Sodexo monitors outcomes closely, and refines the scorecard as needed. For example, the initial scorecard only awarded points for meeting quantitative representation benchmarks. However, feedback suggested that Sodexo would see more widespread buy-in and less resistance if managers were also rewarded for changing their behavior, changing their processes, and being more inclusive.

Based on the feedback, Sodexo established additional metrics to capture and reward inclusive actions taken by managers. Sodexo leadership believes this expanded focus has helped the company meet its numeric goals faster, as well as made the company's culture more inclusive.

The scorecard is driving real results. Over the past five years, women's representation has increased by 10% on average at entry and manager levels, more than 20% at the SVP level, and has doubled in the company's C-suite.

Metrics Other Companies are Using

To increase D&I accountability, **P&G** instituted a new compensation system:

- 10% of executive compensation is linked to diversity goals, which are evaluated as part of performance reviews. Performance criteria include being an executive sponsor of an employee resource group, being a cross-cultural mentor, and recruitment and promotions in the executive's area of responsibility.
- Stock option awards for the company's top officers are linked to diversity results. Executive compensation plans are directly tied to successful completion of staff and supplier diversity initiatives.

At **Walmar**t, approximately 75% of the company's named executive officer (NEO) is performance based. The NEO's cash incentive payment can be reduced by up to 15% if diversity objectives are not met. In addition, the CMDC may reduce or eliminate NEO annual cash incentive for failure to meet annual compliance objectives. Walmart Associates subject to the company's culture, diversity and inclusion goals program have 10% of their annual performance evaluation tied to diversity and inclusion and can have their annual cash incentive reduced by up to 30% if they violate our discrimination and harassment policies.

At Facebook, staff recruiters are given points for successfully recruiting diverse candidates. These points apply to Facebook's internal ratings system and lead to stronger performance reviews and potential bonuses. In 2019, Facebook added a new metric to its **employee bonus formula**: employees' ability to tackle problems like misinformation and hate speech on its service. As reported by ***Fortune***, this change came about after Facebook faced mounting pressure from consumers, advocacy groups and regulators to clamp down on illicit content and privacy breaches.

Microsoft Holds Leaders Accountable

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Microsoft links approximately 17% of annual bonuses to culture and organization leadership goals, which include promoting diversity. In addition, senior executives are evaluated in three qualitative performance categories, including culture and organizational leadership.

50% of our Named Executives' fiscal year 2017 annual cash incentives were determined based on subjective scoring of their **performance against financial, operational, and strategic indicators in three performance categories.** The performance indicators varied based on the Named Executive's responsibilities and the function or group he or she leads, and may have included (in alphabetical order in each category):

Product & strategy	Customers & stakeholders	Culture & organizational leadership
• Contribution margin	• Corporate citizenship	• Compliance and integrity
• Efficiency and productivity	• Customer acceptance	• Organizational diversity and inclusion
• Innovation	• Customer satisfaction	• Leadership effectiveness
• Product development and implementation strategic progress	• Developer community satisfaction	
• Quality		

These performance indicators were drawn from the scorecard we used to manage performance against Microsoft's annual business plan. Mr. Nadella's performance was assessed on all these performance indicators.

Danger of Lack of D&I Accountability

A proposal delivered by Google shareholders and backed by Google employees calls for the board of its parent company, Alphabet, to address issues related to gender and racial diversity, and tying these metrics to executive compensation.

The shareholder resolution states the lack of diversity in tech is a “crisis” that “threatens worker safety, talent retention, product development, and customer service.” The resolution also notes Google employees are not satisfied with the company’s response to a series of concerns raised in the past year, including ending forced arbitration and adding a worker representative to its board.

“We believe executives are out to lunch on several key social risks facing the company,” Pat Tomaino, Director of Socially Responsible Investing for Zevin Asset Management, a Google shareholder, told *Bloomberg*. Last year, Zevin and others introduced a similar shareholder proposal backed by Google employees that would tie diversity metrics to performance. Alphabet rejected the proposal.

The most recent resolution claims Alphabet “has not responded adequately to key demands” made by workers in a massive walkout in November, such as adding a worker representative to its board and ending forced arbitration for its entire workforce. It also asks the board’s compensation committee to look into including “sustainability metrics”—such as executive diversity— into its bonus system or stock vesting protocols.

Build Accountability in Recruitment and Hiring

Link D&I Goals to Hiring Practices

One of the simplest and most effective ways to increase diversity hiring is to require that **diverse candidate slates** that include a proportionate number of both women and diverse candidates are presented for interviewing. Diverse candidate slates can minimize discrimination and unconscious bias in hiring, promotion, and job assignments.

Typically, diverse slates indicate a mix of job candidates that align with established diversity targets. This doesn't mean the company has to disclose department-by-department diversity targets. It is sufficient to require broad diversity targets - i.e. 30% of candidates should be from minority populations or 40% of candidates should be women. These targets will move over time as the company realizes its diversity goals and should be assessed and adjusted accordingly.

Suggested strategies:

Spend time to explain your goals for a position to recruiters and hiring managers, and how those goals link to the organization's overall business objectives. This will help assure that all parties involved in the hiring process will consider the company's current demographic profile and diversity representation goals. Your point for improvement should always be visible in the candidate funnel.

Develop guidance and provide training to reinforce policies and practices, and hold recruiters and hiring managers accountable for adhering to those policies and practices. For example, a hiring target might be established around finding one qualified female candidate for every two qualified male candidates.

If the targets aren't met, require a suitable explanation why.

Embed D&I Goals in Recruitment

Here are a few metrics companies use to build D&I accountability in recruitment:

- Diversity of talent pools
- Number of prospects from partnerships (colleges, associations, etc.)
- Number of referrals or candidates as a result of diversity recruitment programs broken out by dimension of diversity
- Number of applicants from additional efforts including social media, job boards and recruitment events
- Percentage of diverse candidates at each recruiting stage
- Percentage of conversions by diverse demographic
- Recruitment firms' fulfillment of diverse candidate slates

Hiring managers and recruiters can be held accountable for meeting metrics, however, targets may vary based on their geographic location or local workforce demographics and diversity goals.

To monitor the success of the diversity recruitment process, companies will need to track new hires on an on-going basis: to what extent women and diverse applicants are represented in the applicant pool, how many make it through the interview process and get hired, and what type of positions they are hired into.

Metrics don't end there – companies should also track retention and promotion rates across workforce demographics to identify 'leaks' in the internal pipeline.

Building Accountability in Hiring

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Sample metrics to build hiring manager accountability:

- Information about candidate ratios, hiring and non-hire ratios
- Outcomes for gender, racial, age and other patterns and disparities
- Conversion rates for diverse groups compared to other candidate pools
- Data cut by lines of business to identify trends and patterns
- Attrition rates and retention rates of new hires and the timing of the attrition

Tip: Train recruiters and hiring managers in unconscious bias. Most individuals don’t think of themselves as biased. However, unconscious biases are hard-wired into human nature and overcoming them can be challenging. Provide recruiters and hiring personnel unconscious bias training to create self-awareness around any preconceived biases that they may be bringing to the process and help them strategize around how to mitigate them. Consider asking recruiters and hiring personnel to take an implicit association test to check for and raise awareness about hidden racial and gender biases.

Diverse Candidate Slates

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FAQ: What is the right ratio for diverse candidate slates?

Research by Harvard Business Review found that when the final candidate pool has only one minority candidate, he or she has virtually no chances of being hired. If there are at least two female candidates in the final candidate pool, the odds of hiring a female candidate are 79 times greater. If there are least two minority candidates in the final candidate pool, the odds of hiring a minority candidate are 194 times greater. This methodology is referred to as the “two in the pool effect.” The challenge is that there is no "one size fits all" on this. Definitions of diversity vary from organization to organization and person to person, but most often diverse interview slates refer to a pool of candidates that contains a certain number or percentage of women and/or minorities.

Here’s a few examples:

Goldman Sachs requires two diverse candidates be part of the slate for all open roles, and encourages leaders to consider progress against diversity goals when evaluating Senior Managers for pay and promotion. Diverse candidate slates will be key to achieving the bank’s diversity targets, which include achieving 50 percent women, 11% Black, and 14% Hispanic hires in its 2021 class of incoming Analysts and Associates, which comprise 70% of the company’s annual hiring.

Lincoln Financial introduced a balanced slate process which requires hiring managers to include at least one woman and one person of color on each officer-level candidate slate. A woman of color does not count for both.

The diversity scorecard at **Sodexo** holds recruiters and hiring managers accountable by reporting hiring performance compared to diversity targets each quarter in three diversity areas: hiring, promotion and retention. After a brief delay, in partnership with recruiters, Sodexo surveys top women and diverse applicants who drop out of the recruiting process and who reject offers in order to find out why.

At **GlaxoSmithKline**, VPs in R&D established a diversity hiring protocol to review all hiring decisions with hiring managers to ensure unconscious bias was not at play, particularly if diverse candidates were presented and not hired.

Link D&I to Retention

There are a number of metrics that can be established to assess diversity and inclusion in the workforce. These metrics should be sliced by as many dimensions of diversity that are available to best understand the experience of different employee groups.

Below are a few metrics companies use to understand diversity and inclusion shortfalls and areas for improvement:

- Attrition rates
- Promotion rates
- Internal mobility rates
- Stay Interview data
- Tenure rates/length of stay
- % of professionals development plans, completion rates of development plans, and velocity rates of completion (how long to fully execute plans)
- Employee referral rates/Employee Net Promoter scores (would they refer/advocate for the org)
- Turnover costs (ensure that the dollar impact of diversity turnover is credibly calculated, work with finance to help determine the best way to measure). Understanding turnover costs will help support a stronger business case to support retention efforts.

Performance of leaders and managers can be tied to performance against these metrics.

Avoid Common Pitfalls

Merely having data is not enough to deliver meaningful changes that create a more diverse and inclusive workplace. Here are the five common data mistakes CDOs must avoid.

- **Measuring diversity as a blanket number.** Comparing your organization with the industry by tracking Equal Employment Opportunity Commission (EEOC) and other data is a good place to start, but this doesn't always reveal the root causes of issues hampering progress. A better analysis, for example, would look at how the proportion of females changes across leadership levels so you can zone in on the biggest problems, such as hiring or retention issues.
- **Prioritizing reports over insights.** Compliance reports filled with general quota numbers aren't useful for decision-making. To start, these reports are generally only seen by the person generating them and the agency they're being reported to. When data can be accessed in a way that facilitates exploration (without the need for a data science degree!), it can help organizations understand where to focus their talent efforts to achieve broader goals.
- **Forgetting to look at post-hire data.** How new hires from specific groups fare in the long term reveals important insights about recruitment practices. When all pre-hire and post-hire data systems are connected into one analytics platform, an organization can quickly—and regularly—analyze the performance of diverse employees and keep an eye on promotions they received (as well as when in their tenure they achieved these). These insights can help businesses identify high-quality employees who come from a variety of backgrounds.
- **Not delving into the "why" of turnover problems.** Retaining diverse talent is just as critical as hiring diverse talent. It's important to not just measure turnover in certain groups but also uncover the *why* of the turnover problem. People from certain backgrounds may choose to leave the organization if they don't feel welcome, but it also could just be a matter of job descriptions not meeting reality.

Remember, it is important to not only measure new hire retention and long-term retention of diverse employees but also dive into the data to understand why these people are leaving.

Source: HRDailyAdvisor

Infuse D&I in Succession Planning

Diverse teams are built through a well-formulated and actionable succession planning process that continually identifies high potential talent, and then sets them on a deliberate course toward leadership roles.

- Start by assessing your organization's demographic and age profile to identify when employees in mission critical positions will retire, and better understand what knowledge and skills will be lost.
- Establish baselines and set targets for increasing diversity in those roles. Set goals. To achieve diversity, even at the highest levels, there must be reasonable but aggressive goals on changing workforce demographics, e.g. at least 30 percent of succession slates are diverse.
- Identify high-performing professionals early in their careers and start them on the leadership path as soon as possible. Many companies will consider the top 10% of talent when developing a succession plan. To cast your net wider, consider the top 10% of diverse candidates as well.
- Create diverse talent development plans. Identify what experiences and development opportunities will be needed to advance high potential talent to middle and senior management roles. Monitor and measure progress, outcomes, and the time it takes to execute plans to ensure parity.
- Dedicate roles and responsibilities. Hold someone responsible for achieving succession planning goals.
- Make sure your succession plan includes specific metrics and timelines to track progress and ensure goals are met.

What is your company doing to prepare diverse talent and succession pipelines? Do you have succession plans targeted to diverse populations? Or set percentage goals? If not, how will you move the needle, and what will determine success?