MERCER

Building an Evidence-Based Diversity and Inclusion Strategy

Prepared for:
The National Academies of Sciences, Engineering, and Medicine's Cybersecurity Workforce of the Federal Aviation Administration Committee

June 29, 2020

Gail Greenfield, PhD
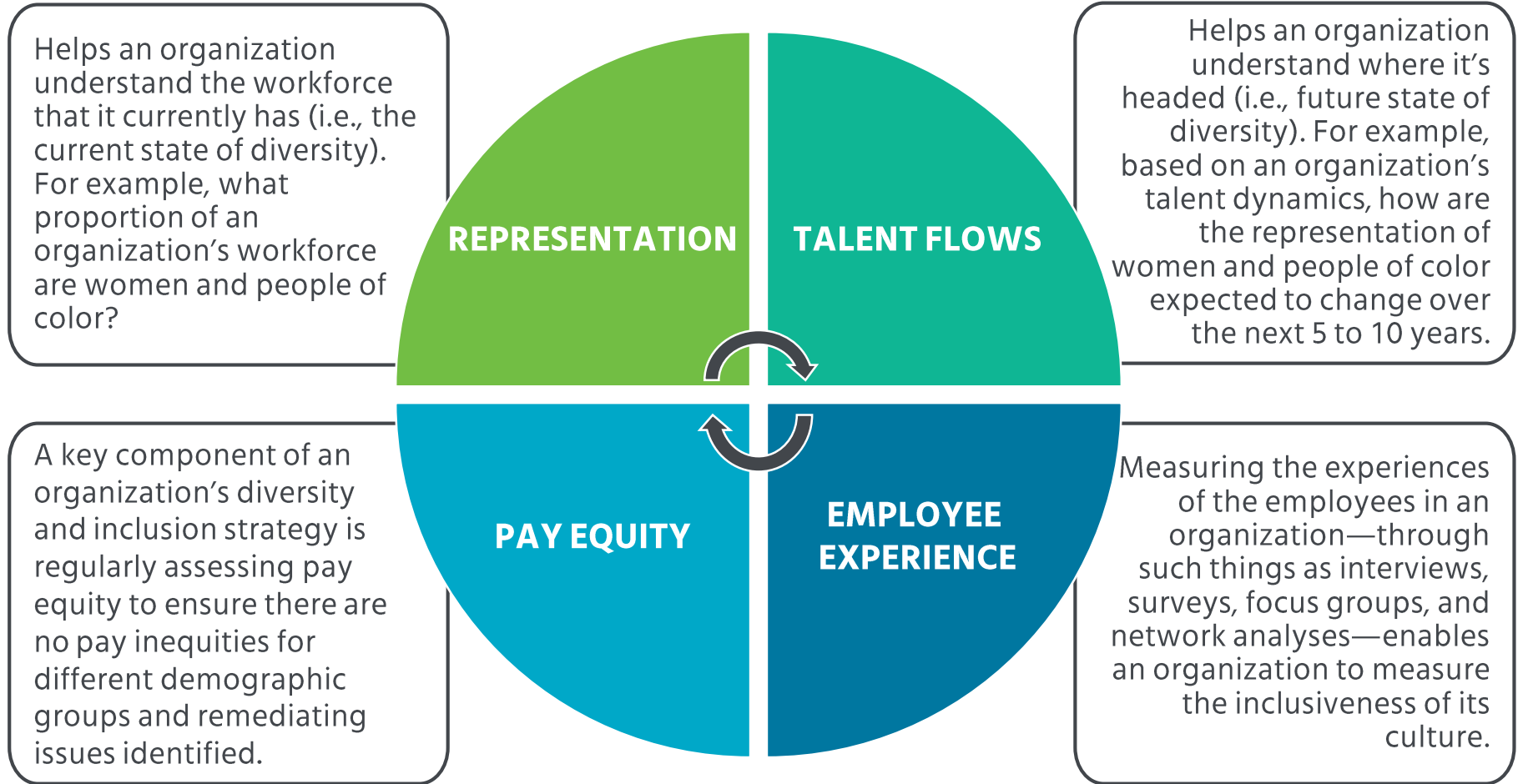Principal, Washington DC

welcome to brighter

Agenda

- Point of View

- Representation and Talent Flows

- Employee Experience

- Pay Equity

- Polices and Practices

- Common and Unique Challenges

- Closing Thoughts

Point of View

Workforce diversity is an outcome that organizations ought to actively manage. An organization's diversity strategy is more likely to be effective if it is evidence-based. The key is understanding what type of workforce an organization has created, where it's headed, where it wants to go, and focusing on interventions shown to be most effective in building a diverse workforce.

Diversity can only be sustained, however, if it is supported by an inclusive culture—as defined by an organization's values, norms, behaviors, leadership, and organizational practices—and works hand in glove with an organization's underlying talent strategy.

Framework for Developing an Effective D&I Strategy

Helps an organization understand the workforce that it currently has (i.e., the current state of diversity). For example, what proportion of an organization's workforce are women and people of color?

Helps an organization understand where it's headed (i.e., future state of diversity). For example, based on an organization's talent dynamics, how are the representation of women and people of color expected to change over the next 5 to 10 years.

REPRESENTATION

TALENT FLOWS

PAY EQUITY

EMPLOYEE EXPERIENCE

A key component of an organization's diversity and inclusion strategy is regularly assessing pay equity to ensure there are no pay inequities for different demographic groups and remediating issues identified.

Measuring the experiences of the employees in an organization—through such things as interviews, surveys, focus groups, and network analyses—enables an organization to measure the inclusiveness of its culture.

POLICIES AND PRACTICES
Policies and practices that provide the infrastructure for the development of a diverse and inclusive workforce and reflect an organization's commitment to diversity and inclusion.

Much of the Research Cited Today Comes From Two Mercer Studies...

2018 Study Conducted on Behalf of Financial Institutions

- ❖ Research includes more than 500,000 employees working in the financial services industry

- ❖ Study includes those working outside the US, although US-based employees constitute more than 75% of the employees covered by the research

- ❖ Average number of employees across participating organizations is roughly 20,000

- ❖ Research excluded employees in consumer, commercial and transaction banking

2017 Study Conducted for Financial Services Pipeline (FSP) Initiative

- ❖ Chicago-based financial institutions joined forces with The Chicago Community Trust to form the FSP Initiative in 2013

- ❖ Members represent more than 30,000 leaders and professionals in the Chicago-area financial services industry—close to 50% of the area's industry workforce

- ❖ Initiative's goals are to increase representation of Latinos and African-Americans, at all levels, and improve overall cultural competency within the Chicago-area financial services industry

MERCER

Representation and Talent Flows

Framework: Representation and Talent Flows

REPRESENTATION

TALENT FLOWS

PAY EQUITY

EMPLOYEE EXPERIENCE

POLICIES AND PRACTICES

MERCER
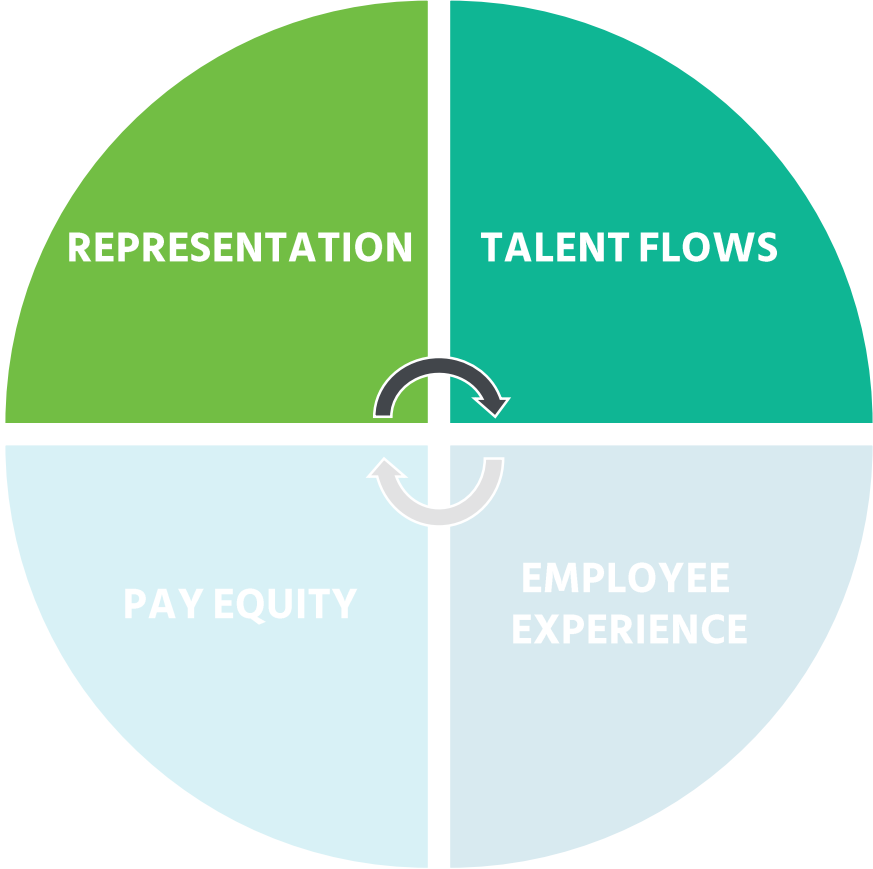
Concept of the Internal Labor Market (ILM)
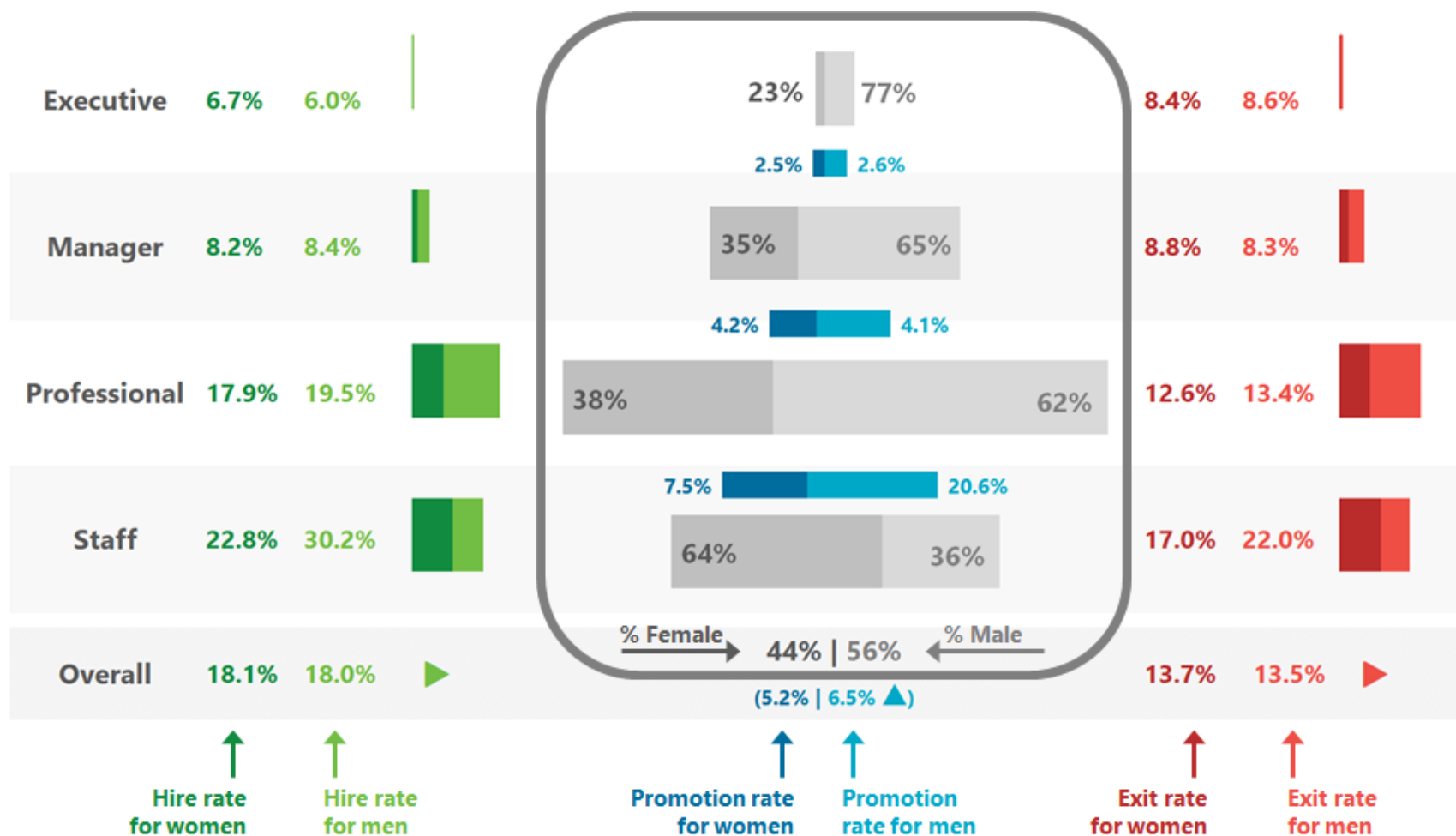
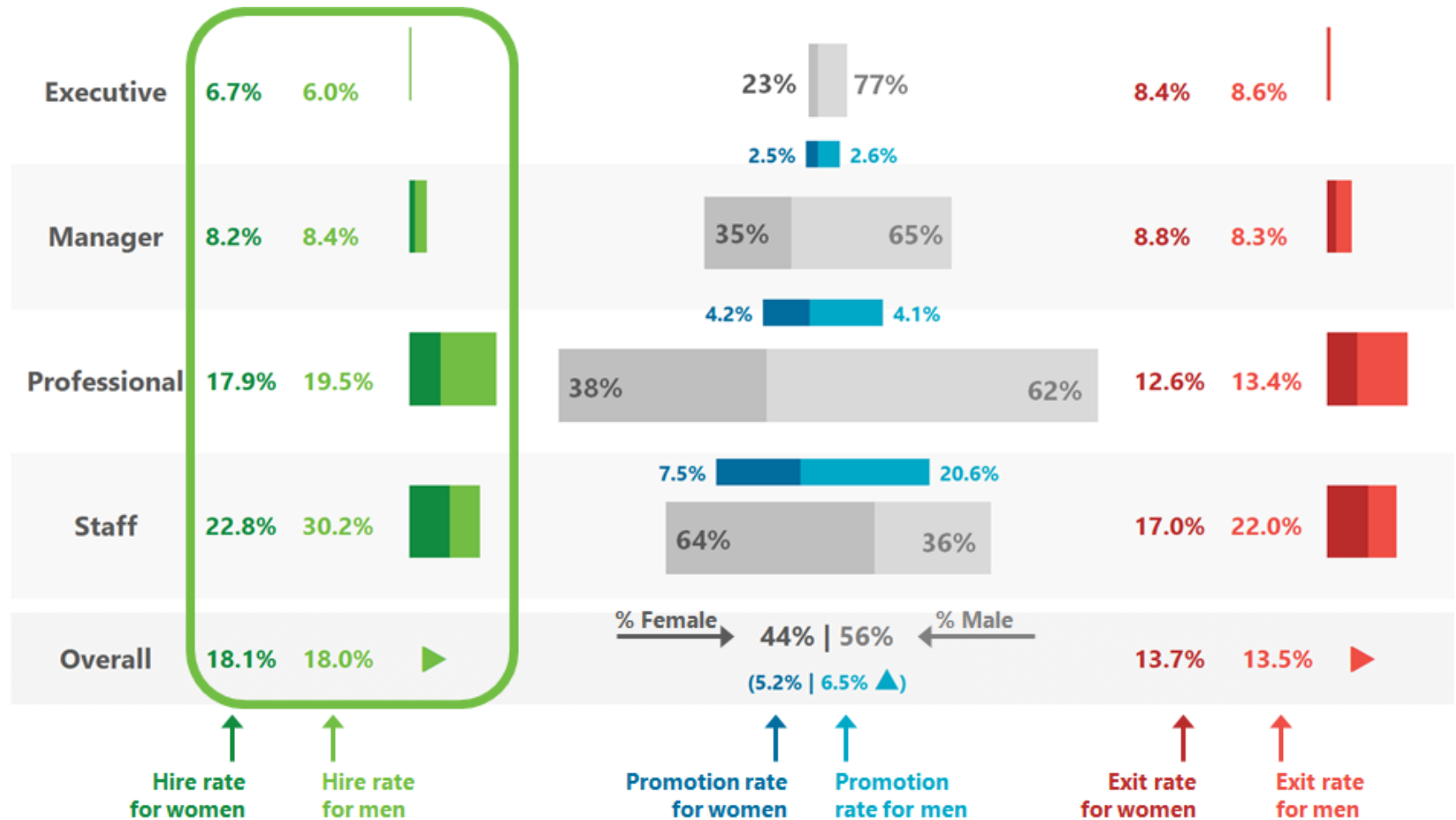| ILM Concept	ILM Map

❖ Every company has an internal labor market—either by design or default
 	
❖ People are selected in to the organization and they advance, perform, stay, or leave in response to an organization's unique mix of workforce management practices
 	
❖ Internal labor market dynamics constantly shape an organization's workforce
 	
❖ Unlike external labor markets, these dynamics are controllable
 	
❖ Organizations often have too little insight into important internal labor market dynamics
	❖ "System-at-a-glance" descriptive summary of key aspects of an organization's workforce dynamics
	
	❖ A typical ILM map depicts:
	   o Headcount by career level
	   o Entry into each career level from the outside (via hiring)
	   o Upward progression between career levels (via promotions)
	   o Departures at each career level (via exits)
	
	❖ ILM maps can be used to depict talent flows for different groups (e.g., women, people of color) throughout an organization or industry

MERCER

Gender Representation
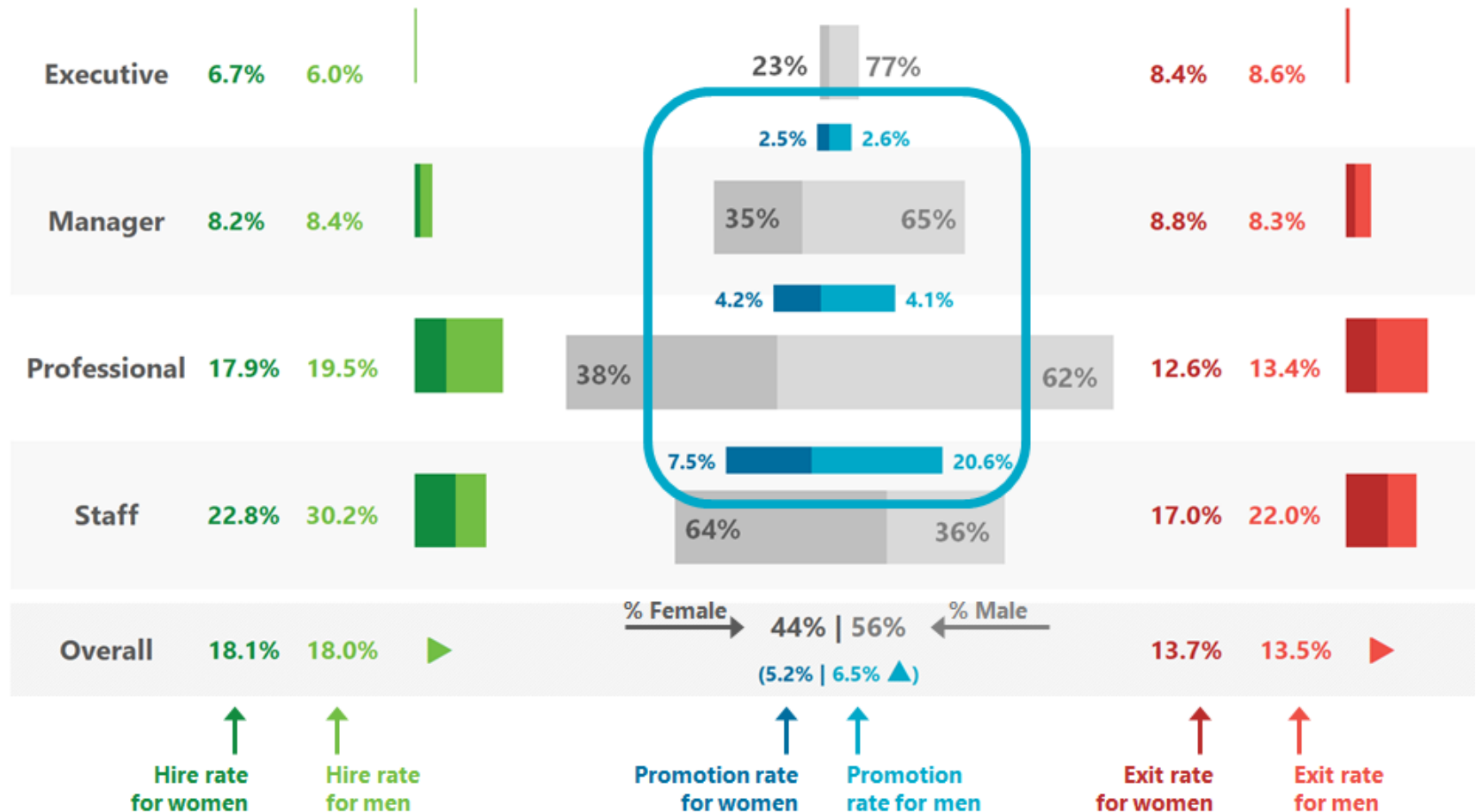## Current State of Gender Diversity in the Financial Services Industry

	Hire rate for women	Hire rate for men		% Female	% Male		Exit rate for women	Exit rate for men
Executive	6.7%	6.0%	23%		77%		8.4%	8.6%
			2.5%		2.6%			
Manager	8.2%	8.4%	35%		65%		8.8%	8.3%
			4.2%		4.1%			
Professional	17.9%	19.5%	38%		62%		12.6%	13.4%
			7.5%		20.6%			
Staff	22.8%	30.2%	64%		36%		17.0%	22.0%
Overall	18.1%	18.0%	% Female ➤ 44%	56% ← % Male (5.2% | 6.5% ▲)			13.7%	13.5%

Hire rate for women | Hire rate for men | Promotion rate for women | Promotion rate for men | Exit rate for women | Exit rate for men

MERCER

Gender Talent Flows: Hires

Future State of Gender Diversity in the Financial Services Industry

	Hire rate for women	Hire rate for men		Promotion rate for women	Promotion rate for men	% Female / % Male	Exit rate for women	Exit rate for men
Executive	6.7%	6.0%		2.5%	2.6%	23% / 77%	8.4%	8.6%
Manager	8.2%	8.4%		4.2%	4.1%	35% / 65%	8.8%	8.3%
Professional	17.9%	19.5%		7.5%	20.6%	38% / 62%	12.6%	13.4%
Staff	22.8%	30.2%				64% / 36%	17.0%	22.0%
Overall	18.1%	18.0%				44%	56% (5.2% | 6.5% ▲)	13.7%	13.5%

Hire rate for women | **Hire rate for men** | **Promotion rate for women** | **Promotion rate for men** | **Exit rate for women** | **Exit rate for men**

Gender Talent Flows: Promotions
Future State of Gender Diversity in the Financial Services Industry

	Hire rate for women	Hire rate for men		% Female → Promotion rate for women	Promotion rate for men ← % Male		Exit rate for women	Exit rate for men
Executive	6.7%	6.0%		23% | 77%			8.4%	8.6%
				2.5% | 2.6%				
Manager	8.2%	8.4%		35% | 65%			8.8%	8.3%
				4.2% | 4.1%				
Professional	17.9%	19.5%		38% | 62%			12.6%	13.4%
				7.5% | 20.6%				
Staff	22.8%	30.2%		64% | 36%			17.0%	22.0%
Overall	18.1%	18.0%		% Female → 44% | 56% ← % Male (5.2% | 6.5% ▲)			13.7%	13.5%

Hire rate for women   Hire rate for men   Promotion rate for women   Promotion rate for men   Exit rate for women   Exit rate for men

MERCER

Gender Talent Flows: Exits

Future State of Gender Diversity in the Financial Services Industry

	Hire rate for women	Hire rate for men		Promotion rate for women	Promotion rate for men	% Female | % Male	Exit rate for women	Exit rate for men
Executive	6.7%	6.0%		2.5% | 2.6%		23% | 77%	8.4%	8.6%
Manager	8.2%	8.4%		4.2% | 4.1%		35% | 65%	8.8%	8.3%
Professional	17.9%	19.5%		7.5% | 20.6%		38% | 62%	12.6%	13.4%
Staff	22.8%	30.2%				64% | 36%	17.0%	22.0%
Overall	18.1%	18.0%		(5.2% | 6.5% ▲)		44% | 56%	13.7%	13.5%

Hire rate for women **Hire rate for men** **Promotion rate for women** **Promotion rate for men** **Exit rate for women** **Exit rate for men**

MERCER

Gender Talent Flows: Projections

Future State of Gender Diversity in the Financial Services Industry

Percent Female at Manager+ Career Level

Source: Mercer, 2018

MERCER

Gender Talent Flows: Projections
Future State of Gender Diversity in the Financial Services Industry

Percent Female at Manager+ Career Level

Source: Mercer, 2018

Gender Talent Flows: Projections

Future State of Gender Diversity in the Financial Services Industry

Percent Female at Manager+ Career Level

Source: Mercer, 2018

Gender Talent Flows: Projections

Future State of Gender Diversity in the Financial Services Industry

Percent Female at Manager+ Career Level

Adjusted promotion
Adjusted hiring
Adjusted turnover
Baseline

Source: Mercer, 2018

Gender Talent Flows: Projections

Future State of Gender Diversity in the Financial Services Industry

Percent Female at Manager+ Career Level

All adjustments
Adjusted promotion
Adjusted hiring
Adjusted turnover
Baseline

Source: Mercer, 2018

MERCER

People of Color Representation
Current State of Racial/Ethnic Diversity in the Financial Services Industry

	Hire rate for people of color	Hire rate for whites		% People of Color / % White	Promotion rate for people of color	Promotion rate for whites	Exit rate for people of color	Exit rate for whites
Executive	6.0%	3.9%		14% | 86% — 1.9% | 3.1%			7.5%	8.7%
Manager	11.5%	7.0%		25% | 75% — 3.6% | 4.5%			8.9%	8.7%
Professional	20.8%	16.0%		33% | 67% — 7.4% | 10.6%			14.0%	12.7%
Staff	25.1%	22.5%		38% | 62%			18.5%	17.9%
Overall	20.5%	15.1%		32% | 68% (4.6% | 5.6% ▲)			14.6%	12.9%

Source: Mercer, 2018

MERCER

People of Color Talent Flows: Hires

Future State of Racial/Ethnic Diversity in the Financial Services Industry

	Hire rate for people of color	Hire rate for whites		Promotion rate for people of color	Promotion rate for whites		Exit rate for people of color	Exit rate for whites
Executive	6.0%	3.9%	14% / 86%	1.9%	3.1%	7.5%	8.7%
Manager	11.5%	7.0%	25% / 75%	3.6%	4.5%	8.9%	8.7%
Professional	20.8%	16.0%	33% / 67%	7.4%	10.6%	14.0%	12.7%
Staff	25.1%	22.5%	38% / 62%			18.5%	17.9%
Overall	20.5%	15.1%	% People of Color 32% | 68% % White (4.6% | 5.6% ▲)			14.6%	12.9%

People of Color Talent Flows: Promotions
Future State of Racial/Ethnic Diversity in the Financial Services Industry

	Hire rate for people of color	Hire rate for whites		% People of Color			% White	Exit rate for people of color	Exit rate for whites
Executive	6.0%	3.9%		14%	86%			7.5%	8.7%
				1.9%	3.1%				
Manager	11.5%	7.0%		25%	75%			8.9%	8.7%
				3.6%	4.5%				
Professional	20.8%	16.0%		33%	67%			14.0%	12.7%
				7.4%	10.6%				
Staff	25.1%	22.5%		38%	62%			18.5%	17.9%
Overall	20.5%	15.1%		32% | 68%	(4.6% | 5.6% ▲)			14.6%	12.9%

Hire rate for people of color
Hire rate for whites
Promotion rate for people of color
Promotion rate for whites
Exit rate for people of color
Exit rate for whites

People of Color Talent Flows: Exits

Future State of Racial/Ethnic Diversity in the Financial Services Industry

	Hire rate for people of color	Hire rate for whites		Promotion rate for people of color	Promotion rate for whites	% People of Color	% White	Exit rate for people of color	Exit rate for whites
Executive	6.0%	3.9%		1.9%	3.1%	14%	86%	7.5%	8.7%
Manager	11.5%	7.0%		3.6%	4.5%	25%	75%	8.9%	8.7%
Professional	20.8%	16.0%		7.4%	10.6%	33%	67%	14.0%	12.7%
Staff	25.1%	22.5%				38%	62%	18.5%	17.9%
Overall	20.5%	15.1%				32%	68% (4.6% | 5.6% ▲)		14.6%	12.9%

Hire rate for people of color — Hire rate for whites — Promotion rate for people of color — Promotion rate for whites — Exit rate for people of color — Exit rate for whites

People of Color Talent Flows: Projections

Future State of Racial/Ethnic Diversity in the Financial Services Industry

Percent People of Color at Manager+ Career Level

Source: Mercer, 2018

Summary of representation and talent flows in the financial services industry

	Women	People of Color (US only)
Current Representation (Manager+ level)	33%	23%
Projected Representation in 2028 (Manager+ level)	36%	34%
Hire rates	🟡	🟢
Promotion rates	🟡	🔴
Retention rates	🟢	🔴
Key lever (to increase representation at Manager+ level)	Promotion	Promotion

Key:

🟢 Rates tend to favor women/POC or are equitable

🟡 Mixed results, rates favor women/POC at some levels and men/whites at others

🔴 Rates tend to favor men/whites

Source: Mercer, 2018

MERCER

Employee Experience

Framework: Employee Experience

REPRESENTATION

TALENT FLOWS

PAY EQUITY

EMPLOYEE EXPERIENCE
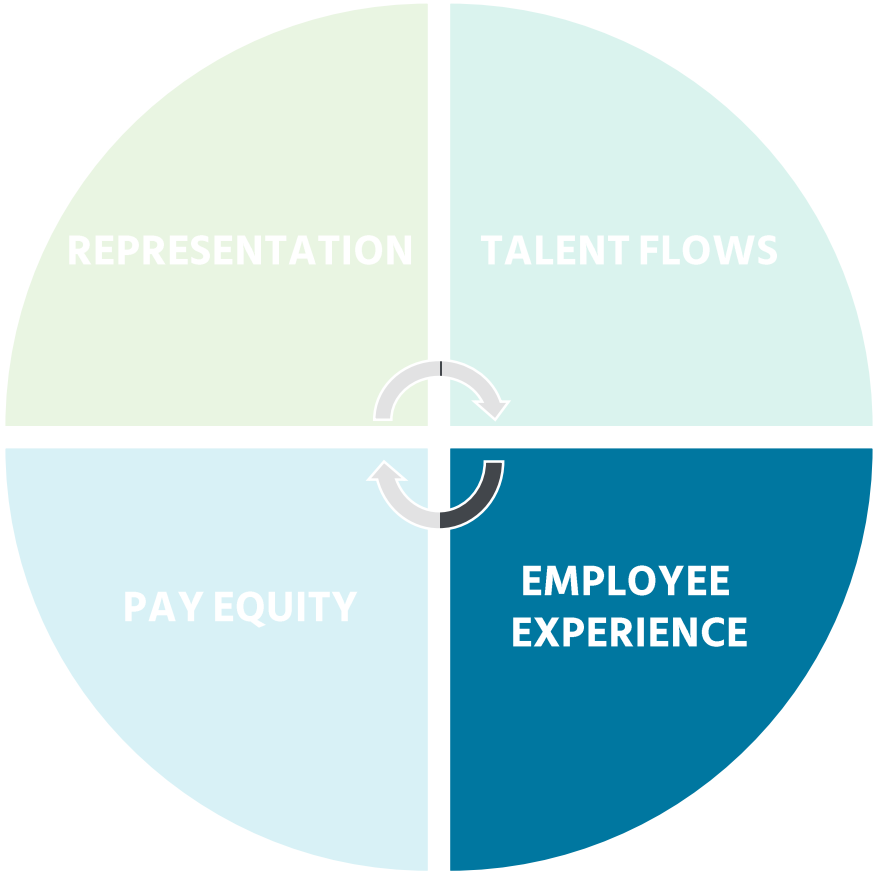
POLICIES AND PRACTICES

Ways To Measure Employee Experience

LEADERSHIP INTERVIEWS
Identify organization's business and talent strategies; future talent needs and existing talent gaps; how leaders view organization's culture, and role of diversity and inclusion.

EMPLOYEE SURVEYS
Questions tied to employee experiences directly related to diversity and inclusion and questions about the employee's background or experiences that may be relevant to perceptions of diversity and inclusion.

FOCUS GROUPS
Permit a deeper dive on the perceived barriers to advancement of diverse talent; the unspoken rules of success; and what the organization can do to increase the representation of diverse talent.

SOCIAL NETWORK ANALYSIS
Organization charts are about authority and reporting relationships. Networks are about how things get done, how information flows and collaboration happens.
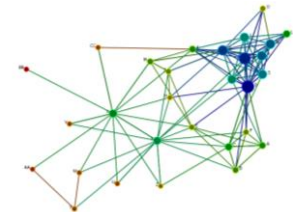
As Part of the FSP Initiative Research, Mercer Administered a Survey to Professionals & Above to Learn About Their Experiences in the FS Industry

15 of the 20 member firms participated in the survey

11,643 responded to the survey

1,188 African-Americans responded

824 Latinos responded

52% response rate

MERCER

Perceptions of Career Advancement for African Americans & Latinos in the FS Industry

Satisfaction with promotion opportunities

African American & Latino

White Male

Treated fairly with regard to opportunities

African American & Latino

White Male

Satisfaction with long-term career outlook

African American & Latino

White Male

■ PROFESSIONALS   ■ MID-LEVEL MANAGEMENT   ■ HIGH-LEVEL MANAGEMENT   ■ C-SUITE

MERCER

Factors Most Influencing *Likelihood of Remaining in the FS Industry* for Professionals+

Higher satisfaction with these factors is associated with *higher reported likelihood of remaining in the industry*	African-American	Latino	White
Opportunity to reach long-term career goals	✔ (red)	✔ (yellow)	✔ (yellow)
Quality of leadership	✔ (yellow)	✔ (yellow)	✔ (yellow)
Ethics and integrity of co-workers	✔ (red)	✔ (yellow)	
Satisfaction with promotion opportunities		✔ (yellow)	✔ (yellow)
Level of work stress	✔ (red)	✔ (yellow)	
Treated fairly in distribution of rewards	✔ (red)		
Relationship with co-workers			✔ (yellow)
Prestige and status of FS industry			✔ (yellow)

✔ (yellow) Driver of intent to remain in the industry ✔ (red) Driver that is rated less favorably by African American respondents (vs. whites)

MERCER

Pay Equity

Framework: Pay Equity

REPRESENTATION

TALENT FLOWS

PAY EQUITY

EMPLOYEE EXPERIENCE

POLICIES AND PRACTICES

MERCER
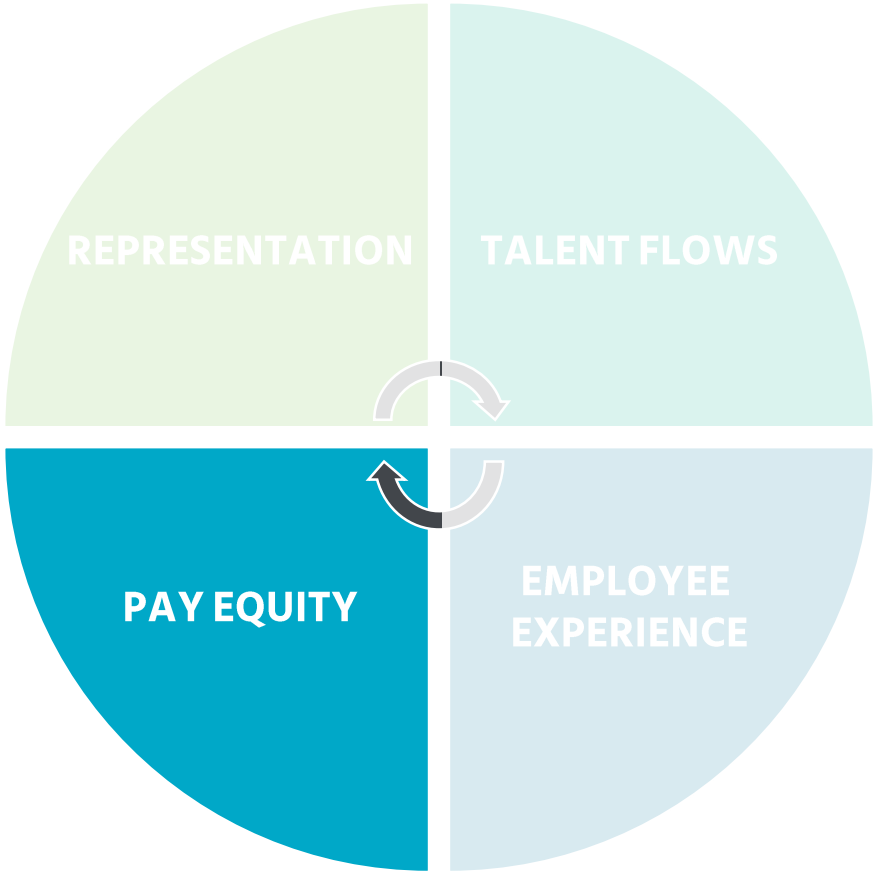
We Hear Regularly About the Pay Gap

Women earn 80 cents to each dollar men earn

TechCo says female employees make 99.7 cents for every dollar a man makes

Black women have to work seven months into the year to be paid the same as white men in the prior year

FinanceCo reports no gap in gender or racial pay

But What Do We Mean by Pay Equity?

"RAW" PAY GAP = **"EXPLAINED" PAY GAP** + **"UNEXPLAINED" PAY GAP**

How average or median pay differs between women and men (or between people of color and whites)

How pay differs because women and men (and people of color and whites) are in different occupations and roles and have different education and labor market experience

Residual pay gap between women and men (or people of color and whites) that cannot be explained by legitimate factors and may be due to pay inequities

"UNEXPLAINED PAY GAP" – The estimated difference in pay after accounting for differences in actual pay that are due to legitimate reasons … what we mean by "pay equity"

Gender Pay Gaps

Raw pay gap for women

21%
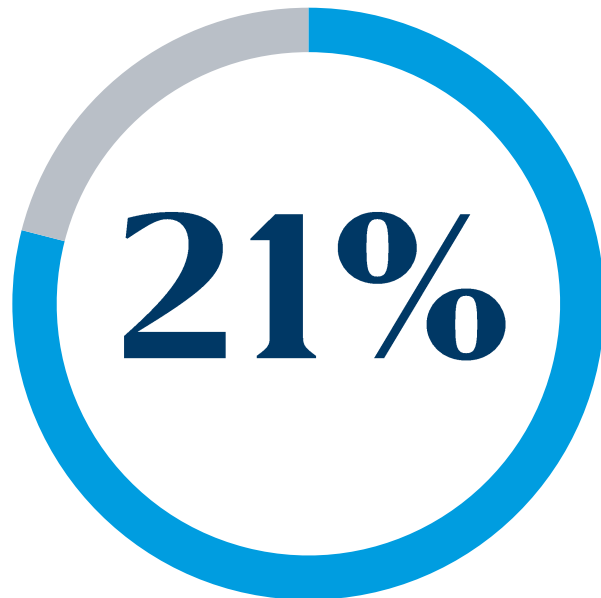
Median salary for women is 21% less than median salary for men (i.e., women earn 79¢ for every $1 earned by men)

Unexplained pay gap for women

2%
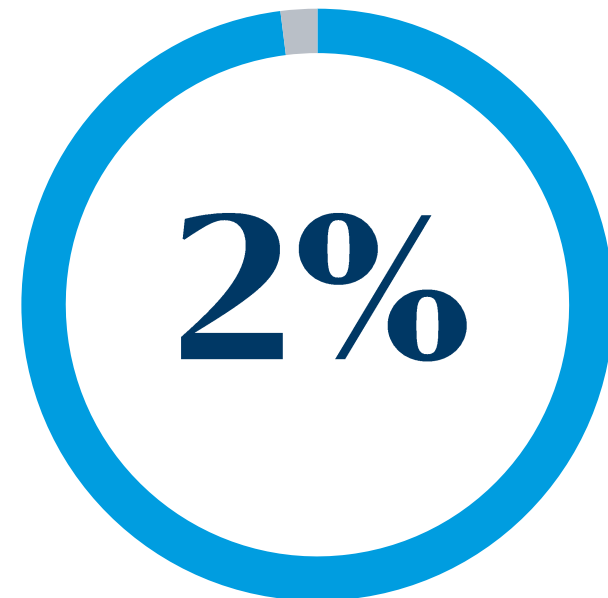
After accounting for job type, seniority, location, industry, years of experience and other "compensable" factors, the pay gap falls to 2% (i.e., women earn 98¢ for every $1 earned by men)

Gender Pay Gaps for Select Industries

	Raw pay gap for women	Unexplained pay gap for women
FINANCE & INSURANCE	26%	3%
ENGINEERING & SCIENCE	16%	1%
NON-PROFIT	14%	2%
TECHNOLOGY	13%	0%
EDUCATION	12%	1%
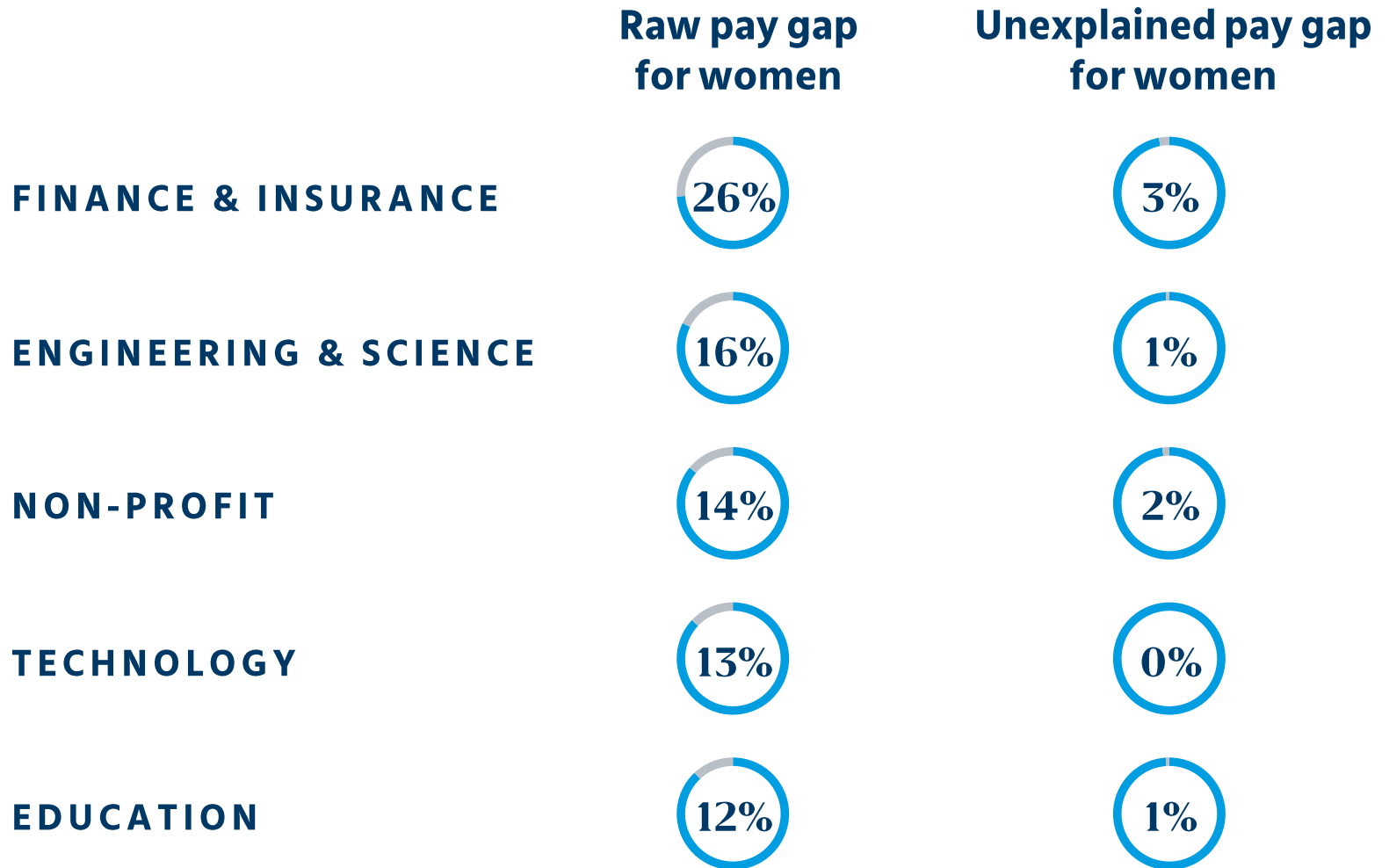
Addressing Pay Gaps

- Raw pay gaps are driven mainly by compensable factors, with a smaller portion driven by unexplained pay inequities.

- My experience suggests that the single most important factor determining an employee's pay is their career level or salary grade (that is, where they sit in an organization's career hierarchy).

- Thus, closing raw pay gaps will require organizations to ensure women and people of color gain access to more senior, higher paying roles.

- Do not be deceived, however, into thinking that a small unexplained pay gap does not deserve attention. A back-of-the-envelope calculation suggests that a 1¢ unexplained pay gap translates into lost wages for women in the US economy of roughly $500 million *each week*.

Pay Equity Best Practices

Use a robust statistical approach to assess pay equity (e.g., multiple regression)

Have a formalized remediation process to address identified pay equity risks

Have an assigned team responsible for conducting pay equity assessment

MERCER

Policies and Practices

Framework: Policies and Practices

REPRESENTATION | TALENT FLOWS

PAY EQUITY | EMPLOYEE EXPERIENCE
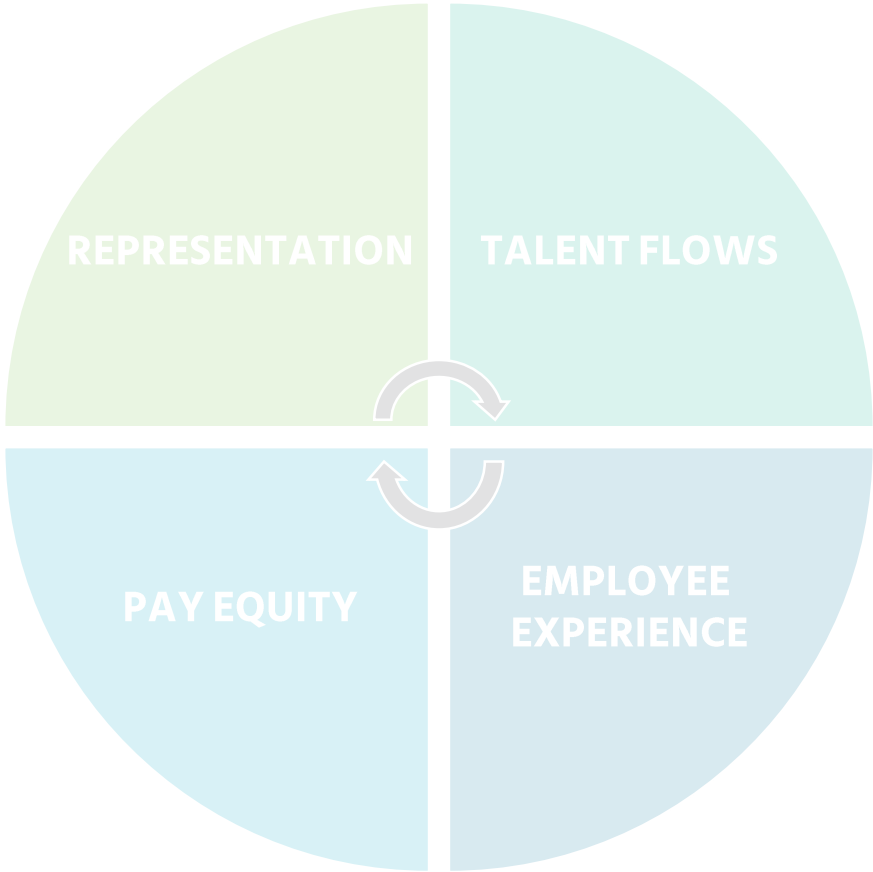
POLICIES AND PRACTICES

Key Policies and Practices

Talent Acquisition

- Track hire rates for different demographic groups by career level and address gaps.

- Scrub job descriptions of potentially biased language and limit descriptions to key qualifications.

- Actively recruit from schools with diverse student bodies.

- Revamp employee referral programs to yield more diverse referrals.

- "Blind" resumes before review.

- Require diverse hiring slates and interview panels.

- Create a consistent interview process for job candidates, including structured interviews, and avoid potentially biased criteria (e.g., culture fit).

Key Policies and Practices (continued)

Talent Development, Retention, & Employee Experience

- Track promotion and turnover rates for different demographic groups by career level and address gaps.

- Identify experiences associated with promotion and ensure people in different demographic groups are getting access to these experiences.

- Examine the employee experience of different demographic groups to assess cultural inclusiveness and create programs to address shortcomings.

- Assess bias in performance ratings and revamp performance management process to address deficiencies.

- Determine drivers of turnover, how they differ for different demographic groups, and identify interventions that will improve the retention of demographic groups that are leaving at higher rates.

MERCER

Key Policies and Practices (continued)

Pay Equity

- Conduct proactive pay equity assessment on a regular basis (e.g., annually) and remediate issues identified.

- Create a team responsible for conducting the assessment.

- Conduct the assessment using a robust statistical approach (e.g., multiple regression).

- Structure analysis to uncover issues, not present the organization in the most favorable light.

- Identify root causes of pay inequities (e.g., starting pay, merit pay changes, promotions, leaves of absence).

Common and Unique Challenges

Common Challenges

The **DATA** challenge

- Organizations often lack the evidence that reflects the reality of their organizations' internal labor market dynamics.

- Without evidence, organizations struggle to measure their progress, tackle the right issues, lobby for action, and galvanize business leaders to support the cause.

- Organizations need to look closely at their own data, understand the story their data is telling them, identify root-cause drivers of success and focus their leaders and their strategies on those drivers.

- "Cutting and pasting" does not work; what works for one organization will not generally work for others, even within the same industry.

Common Challenges (continued)

The **CULTURE** challenge

- An inclusive culture is essential for the retention of diverse talent.

- However, inclusiveness is not a "natural" outcome of greater diversity.

- Organizations often struggle to counteract the natural tendencies of their cultures towards assimilation, fragmentation, and/or divisiveness.

- Inclusiveness is created as the result of a new breed of "inclusive" leaders, who clearly comprehend and use their culture-shaping power.

- The challenge here is two-fold: developing such leaders takes time; and confronting and addressing non-inclusive behaviors takes courage.

Common Challenges (continued)

The **IMPLEMENTATION** challenge

- Diversity and inclusion initiatives are implemented successfully when the following key conditions are in place:

  - A company-specific business case.

  - Strong commitment from the top combined with clear accountability.

  - Well-defined measurable goals and outcomes.

  - Key stakeholder alignment and support.

  - An integration with HR and business processes and practices (including performance management, workforce planning, talent development, succession planning, etc.).

- When these conditions are not sufficiently met, implementation of diversity and inclusion initiatives often stagnates.

Unique Challenges to Federal Employers

- Low workforce "velocity" (i.e., hire and separation rates) in the Federal sector as compared to the private sector, which makes it more difficult to create a diverse workforce.

Industry/Sector	Hire Rate (2019)	Separation Rate (2019)
Total Private	51.1%	49.6%
Information	39.2%	38.4%
Financial Activities	30.3%	28.7%
Professional and Business Services	65.0%	63.3%
Federal Government	17.9%	16.4%

Source: Bureau of Labor Statistics, Job Openings and Labor Turnover Survey (JOLTS).

- Low employee engagement scores in the Federal sector as compared to the private sector. The 2019 federal government-wide *Best Places to Work* employee engagement score was 61.7 out of 100, as compared to 77.0 for the private sector.

(Source: http://bestplacestowork.org/analysis/)

Unique Challenges to Federal Employers (continued)

- Job requirements may make it more difficult for the Federal sector to increase diversity, such as...

  - US citizenship

  - Current security clearance or ability to obtain one

  - No relocation expenses

  - Prior government experience

  - Long hiring process

MERCER

Closing Thoughts

Closing Thoughts

If time and resources permit, I recommend that as part of this study the Committee:

- Collect data on the FAA's cyber workforce to understand the current state of diversity, the projected future state, and identify key levers the FAA can pull to increase the diversity of its cyber workforce.

- Identify schools with diverse student bodies from which the FAA can actively recruit those with cybersecurity-relevant degrees.

- Conduct a survey of current cyber employees to assess the inclusiveness of the FAA's work environment.

MERCER

welcome to brighter