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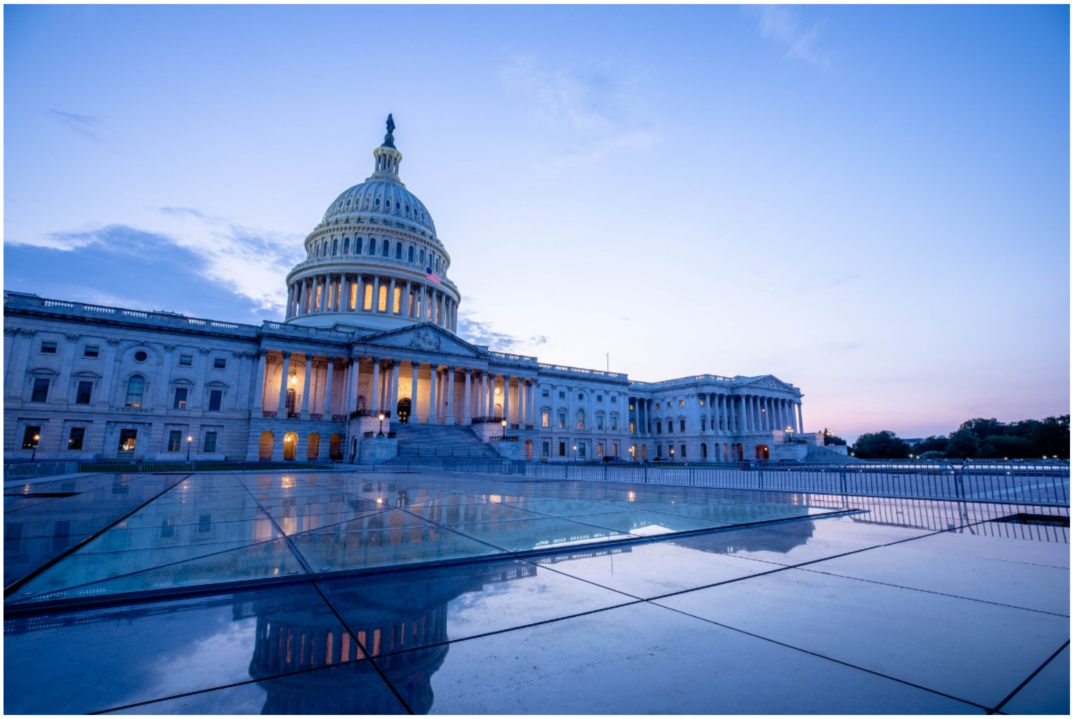

Environment Social and Governance
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Committing to DEI Helps Organizations and Employees and

Could Help the Government

Howard Risher

In June President Biden issued, Executive Order (EO) on Diversity, Equity, Inclusion, and Accessibility in the Federal Workforce, to: ". . . strengthen [government's] ability to recruit, hire, develop, promote, and retain our Nation's talent and remove barriers to equal opportunity. It must also provide resources and opportunities to strengthen and advance diversity, equity, inclusion, and accessibility across the Federal Government. The Federal Government should have a workforce that reflects the diversity of the American people."

It could be a model for state and local government. Last August the National Governors Association surveyed states on DEI "activities, goals and challenges." Only twenty-three states responded. In four, the DEI lead was a cabinet-level position or reported to the Governor. Four others are on the Governor's staff or report to someone within the Governor's staff. The White House commitment still has to be fleshed out but on paper only a handful of states have made a similar promise.

DEI HAS BECOME A BUSINESS CONCERN

Here the business world is ahead of government. Prominent companies were on this bandwagon several years ago. Today companies like Microsoft and Johnson & Johnson link achieving diversity goals to year-end executive bonuses. They recognize that discriminatory hiring shuts out more than half of the potential applicants.

Recruiting to add essential talent has become a global concern. A paper posted on the World Economic Forum website highlights six ways the COVID-19 pandemic could change our approach to human capital."

- **"Fair Pay**". ". . .conversations about racial injustices and fair treatment of all cohorts . . . are raising questions of whether pay programs have biases, beyond gender. . . . concern with "fair pay", as "pay issues can be symptomatic of broader talent diversity issues."

- **Well Being".** "Now . . . workforce health, resilience and well-being are even more critical to sustaining operations."

- "**Inclusion and Diversity**". "A robust I&D strategy will . . . enhance levels of innovation . . . as more people from different backgrounds share their insights."

- "**Future of Work: Fast-Tracked".** "The 'future of work' was well underway before the pandemic, but COVID-19 hastened its arrival. The pandemic necessitates actions to realign, repurpose and (re)skill talent . . ."

- "**Leadership: promoting a culture that encourages well-being**." "Boards are relying on leaders "to espouse a culture that promotes physical and psychological safety, all while delivering business results."

- "**Culture: values and purpose move to the forefront**". High-performing companies "should work to create a culture where purpose and values help employees understand what to do support the overall strategy."

The Business Roundtable has released a strongly supportive statement "[p]romoting diversity, equity, and inclusion." Universities recognize their continued success rides on their reputation for an experience that welcomes all applicants. In healthcare, Health Professionals for Diversity (HPD) is a coalition dedicated to improving the health of all U.S. residents. Support is growing in all sectors.

UNDERSTANDING DEI

DEI advocates have argued "diversity" is too narrow. In keeping with traditional thinking, the term carries connotations of quotas and focuses on compliance. Diversity is too often summarized in metrics that are useful only to document change over time. "Equity" in HR parlance suggests fairness and surfaces only to state a need for corrective actions. "Inclusion" is broader and implies individuals feel accepted and their capabilities integrated in day-to-day operations.

However, promoting diversity does not insure a culture of inclusion. A McKinsey survey found 52% held a positive sentiment on diversity but only 29% were positive on Inclusion. Two barriers appear to stand in the way of sustained change in company culture and individual mindsets and behavior.

The first barrier is a lack of purposeful follow-through on diversity pledges. Many companies have publicly committed but have not adopted a systemic, business-like approach.

A second barrier relates specifically to inclusion and failing to address misconceptions about fairness and meritocracy. The "everything should be the same for everyone" argument fails to consider the reduced, sometimes absent, support, and mentorship for women and minorities.

Simply adding women and minorities can be seen as a token unless they believe they are treated equitably and gain acceptance. Acceptance as valued contributors is the key.

THE ARGUMENT FOR DEI

Of course, there is an argument that DEI is "the right thing to do." However, there is extensive evidence that a DEI commitment will benefit organizations.

Perhaps the strongest argument for DEI was in a speech last September by Allison Herren Lee, an SEC Commissioner. From her speech,

- "How can one justify – in economic terms – the systematic exclusion of a major portion of the talent base from the corporate pool." (Women and minorities account for more than half of the workforce.)

- "A recent study by McKinsey . . . found that companies with the greatest ethnic diversity on executive teams outperformed those with the least by 36% in profitability."

- "Fortune 500 firms with the highest proportion of women on their boards outperform those with the lowest."

- "There is growing recognition that a lack of diversity represents a significant reputational risk for companies and may hamper their ability to recruit and retain top talent."

The evidence suggests once the DEI promise is engrained in the culture, it contributes to improved morale and that raises performance levels. That is important in every organization including public agencies.

Although not from the speech, last year the SEC amended its rules to require companies to "disclose a description of their human capital resources" and "any human capital measures or objectives that the company focuses on in managing the business" beginning in 2021. The information disclosed will not necessarily allow comparative analyses but it will be publicly available.

As the Biden EO argues, the reasons are even more compelling for government. A simple step would be to require agencies to report DEI metrics annually. Allowing discriminatory practices to continue undermines the promise of government for all.

CONFIRMING HUMAN CAPITAL PRACTICES ARE FAIR

Employee salaries are a composite of decisions made throughout their careers. That, to illustrate, is the reason many pay equity laws now preclude asking applicants to disclose their pay with a current employer. Adjusting salaries to comply with "equal pay for equal work" suggests an organization is static and says nothing about fair career opportunities going forward.

Recognizing that bias and discrimination can affect careers at any point, the Biden EO stated:

"Agencies are to develop strategies to support DEI and eliminate barriers to equity at each stage in employee careers — recruitment; hiring; background investigation; promotion; retention; performance evaluations and awards; professional development programs; mentoring programs or sponsorship initiatives; internship, fellowship, and apprenticeship programs; etc."

It's not stated but implicit that agencies should plan to assess the fairness of their practices at each stage. Toward that end, the EO requires agencies to adopt an "evidence-based and data-driven approach." Where career decisions are made primarily by managers, as opposed to a centralized HR office, bias or discrimination can be a local problem, which makes the assessment more extensive. Many governmental human capital practices have never been subject to a rigorous evaluation in the past.

How employers approach audits will depend on the size of the covered workforce and the available database. Missing or unverified data is a common limitation. Data elements like prior experience are not always verified. Plus, the information governing hiring and promotions are often not documented. Analyses of promotions, for example, should include everyone considered.

A system built for yesterday's homogeneous workforce cannot successfully serve a new and diverse generation.

Most of the practices on the Biden EO list can be assessed with simple descriptive statistics and documentation – counts, means, summaries of skills, etc.

Pay equity is more complicated. They require a more complex, multivariate analysis for two reasons. First, that's expected. It's been the standard practice since the 1980s. Second, in contrast to the practices largely controlled by HR, individual salaries are a composite of decisions by managers over careers.

Men and women have been paid differently for decades; that's been confirmed by countless studies – or more correctly stated, the statistical analyses only confirm that men and women have been paid differently. It is not correct to argue a pay gap is evidence of discrimination although it could be. In this context statistical analyses summarize the mathematical relationships between pay and the "independent" variables – in concept, that is skill, effort responsibility, and working conditions.

A caution — Early in the push for comparable worth, the advocates began relying on statistical models that include age and education, specified in years and degree level. Education is a proxy for skill; age is a proxy for experience. It's certainly not a surprise that older workers earn more than younger workers. Better educated workers also get paid better. The analyses commonly result in pay gaps but it's important to recognize that no employer by policy ties pay to age or years of education. Using those variables is contrary to a widely shared pay policy.

Although it's not always acknowledged, pay equity analyses narrowly focused on occupations would generate a new equation each time. That is to say, the statistical results based, for example, on accounting jobs would not be the same as one based on engineering jobs.

Regression analyses simply summarize the relationships between data points; they do not "explain" the statistics.

Employers should plan similar analyses to understand the differences in pay increases, bonus/incentive awards, stock grants, promotions, and performance ratings. It should also include the use of market data and the reclassification of jobs. It's those decisions that govern compensation levels. There is another phrase, "fair pay," that follows from the staffing strategy and should be the ongoing goal.

Despite careful planning, it's highly likely that the analyses will produce statistical evidence that suggests bias or discrimination – but the differences could be fully justified. Decisions will be difficult.

A suggestion is to create Employee Resource Groups (ERGs) or Affinity Groups to assess current practices and develop plans for the future. They often play a similar role in high ed and healthcare. The idea is highlighted on the website, Great Places to Work.

A recent study by the consulting firm, McKinsey, found that the "diversity winners" show that "a systemic, business-led approach and bold concerted action on inclusion are needed to make progress."

ACTIONS TO SUPPORT DEI

The following recommendations were edited from a statement written by "a group of employees diverse in race, gender, and political leaning from across the think tank community." It provides recommendations and tools for leaders to actively integrate people of color and women at all levels, and in all organizations.

<u>Action Area One: Transparency</u>

- Publicly publish an institutional annual report on workforce and board makeup by race and gender.
- Use data to identify gaps. Statistics on workforce makeup allow institutions to identify where they can do better, set benchmarks to do so, and evaluate progress year-on-year.
- Disaggregate workforce data by job function and leadership level. Increasing diversity is largely ineffective if people of color are not better represented in positions with decision-making capacity.
- Publish data publicly. Transparency not only helps to hold us accountable but allows women and people of color to factor inclusivity into their employment decisions.

<u>Action Area Two: Access</u>

- Establish paid internships. Pay interns a living wage or above. Candidates who do not come from wealthy backgrounds cannot access internship opportunities without a source of income.

- Offer virtual internships. Virtual internships can increase access for students who would otherwise be unable to travel to and live in another city.
- Create early and heightened visibility within communities of color.
- Organizations should offer opportunities for high school students.
- Partner with existing mentor-mentee programs and surrounding institutions of higher education.

Action Area Three: Recruitment and Retention

- Adopt a rule similar to the Rooney Rule in the NFL and the Mansfield Rule in law firms to broaden the pool of candidates considered for open positions.
- Require at least three applicants of color be considered and interviewed for every open staff position. This increases the organization's exposure to talent.
- Ensure this standard is applied equally at all levels. At least three people of color should be interviewed for senior level positions as well.
- Expand current recruitment networks, including recruiting at Historically Black Colleges and Universities (HBCUs), and widely publicize internship and employment opportunities.
- Ensure that every job position, even at the most senior levels, is advertised publicly.
- Assess possible bias in the recruitment process to insure equitable consideration of applicants.
- Mandate name-blind recruitment by removing names when reviewing resumes and cover letters.
- Hire an HR specialist specifically dedicated to increasing diversity and inclusion.
- Offer fully competitive salaries to attract graduates who need to pay off student debt. Below market salaries disproportionately eliminate economically advantaged applicants.
- Raise starting salaries for junior staff across the board. Lack of mobility, low pay, and unclear paths to advancement create incentives to leave and take higher-paying positions in other sectors.
- Institutionalize transparent paths to promotion. Opportunities for advancement must have transparent prerequisites to ensure staff are considered fairly and equally for new positions.

- Include tuition reimbursement as a benefit for all staff. Nonprofit institutions can legally offer up to $5,250 per employee, tax free, for tuition reimbursement.

- Correct the possible effects of implicit bias on compensation and titles of current employees.

- Review current titles and salary levels to ensure fairness. Upon discovering any discrepancies or inequities, adjust compensation and titles accordingly.

Action Area Four: Individual Accountability & Action

- Do not assume that training will help dismantle racism within systems. Research shows that training to eliminate bias can be detrimental to the advancement of people of color and women.

- If training to eliminate discrimination and bias is provided, keep track of training type and analyze potential impacts in terms of hiring and other institutional and behavioral changes.

- Establish an employee-led group (Employee Resource Group, or ERG) on diversity and inclusion. ERGs are volunteer, employee-led programs to provide a forum for employees to discuss issues.

- Solicit feedback on diversity initiatives through an ERG. Employees must have a defined avenue through which to address concerns and give feedback.

- Ensure every diversity ERG has an executive sponsor. Executive sponsors must be senior members of the organization who support the goals of the group, and act as a channel to leaders.

- Ensure every diversity ERG is funded. Resources, training, speakers, events, and other efforts require funding. To be successful, organizations should invest in diversity and inclusion initiatives.

- Develop a more open culture better equipped to encourage constructive criticism and feedback on diversity initiatives.

- Evaluate managers on what they have done to promote diversity and inclusion with their staff.

- Institutionalize actionable commitments to diversity and inclusion as part of performance reviews and promotions. Managers should have demonstrated commitments to inclusion.

- Ensure that women and people of color are represented on panels, at events, and in publications.

- Strongly encourage that committees and panels include women, people of color, and younger professionals as presenters. All events should include a diverse group of participants.

- Although not listed in the statement, a new practice in industry is linking executive incentive awards in part to the achievement of DEI performance goals.

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ORGANIZING TO SUPPORT THE ACHIEVEMENT OF DEI GOALS

DEI requires a serious organizational commitment that starts at the highest levels. As the evidence confirms, with success, the organization can expect to perform at higher levels.

A recent study by the consulting firm, McKinsey, found that the "diversity winners" show that "a systemic, business-led approach and bold concerted action on inclusion are needed to make progress." That makes it important to go beyond increasing the number of women and minorities.

Executives and managers need to be held accountable for achieving goals within their units. Those incentive awards in business reinforce the importance of the goals.

It starts with naming a Chief Diversity Officer. His or her staff follows from the mandate and the size of the organization. A number of sample job descriptions are on the Internet.

State and local public employers are complex; agencies have different missions, somewhat different civil service laws, different cultures, and are staffed with employees in diverse occupations. In some states unions are influential. Politics always plays a role. HR offices may not be staffed to assess practices. Continuing COVID restrictions are a factor. Budgets are tight. This is both the best time and the worst to initiate change but that is how DEI needs to be managed.

With the end of the pandemic in sight, employers have a once-in-a lifetime opportunity to reinvent the workplace and become more resilient than ever.

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