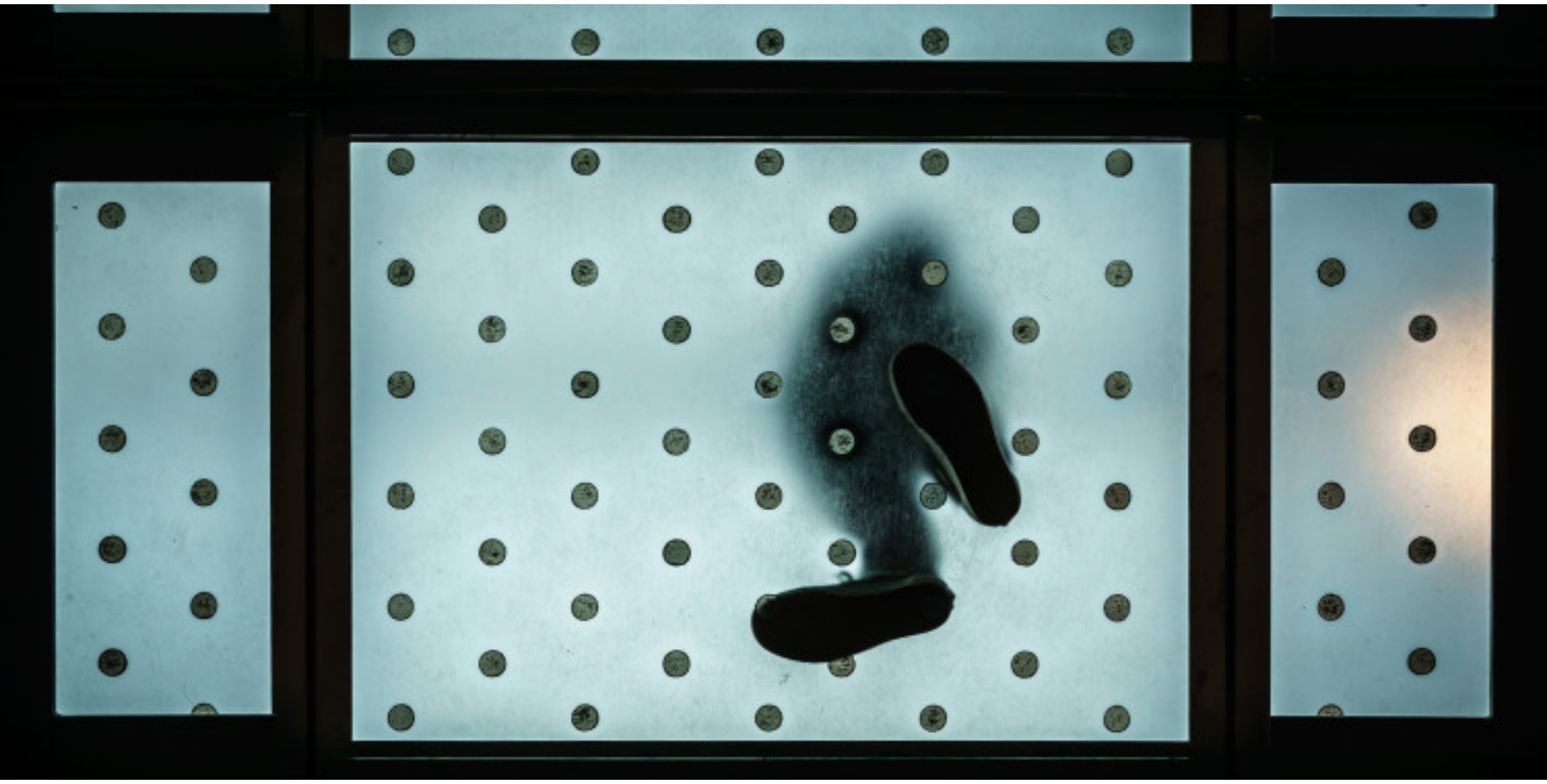

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Measuring What Matters in Gender Diversity

APRIL 3, 2018 By Katie Abouzahr, Frances Brooks Taplett, Matt Krentz, Lauren Van Der Kolk, and Nadjia Yousif

As the benefits of gender diversity become ever more apparent, companies are working to close the gender gap and reap the rewards of equal representation of men and women across their organizations. The challenge is that to close a gap, you need to know how big it is and what is causing it. Many companies don't have clear data on the diversity of their talent pipeline or their workforce over time. As a result, they aren't able to accurately identify problems or launch targeted interventions to solve them. Monitoring the pay gap between men and women provides a good baseline measure, but it is not enough.

On the basis of our proprietary research and our experience working with clients across all industries and geographic markets and addressing gender issues at BCG, we believe companies can succeed only if they approach diversity as they would any other business priority. Specifically, companies need to establish clear and appropriate metrics regarding the recruitment, retention, advancement, and representation of women among both business units and support functions—alongside equal pay. Across all five areas, they need to focus on the right interventions and measure their progress over time. Most important, the leadership team—starting with the CEO—needs to be accountable for results. Given the performance improvements that a balanced workforce can create, gender diversity is not simply an HR issue; it's a board-level issue.

PROVEN BENEFITS FROM DIVERSITY—BUT MORE PROGRESS NEEDED

BCG's research on the benefits of gender diversity found that companies with workforces and leadership teams that are balanced between men and women are more creative, innovative, and resilient, and the women at these companies have higher levels of engagement and ambition. (See *The Rewards of an Engaged Female Workforce,* BCG Focus, October 2016, and "How Diverse Leadership Teams Boost Innovation," BCG article, January 2018.)

Despite the clear case in favor of diversity, there is still a long way to go. According to the 2017 Fortune 500 list, women still make up only about 5% of CEOs—a share that has not meaningfully grown in the past decade. In 2017, the World Economic Forum estimated that the economic gender gap would not be closed for 217 years.

Many companies have sought to close the pay gap as a first step in addressing the diversity challenge. Governments are also enacting new laws to promote transparency. For example, in the UK, Denmark, and Sweden, companies are required to disclose information about their gender diversity and pay. Although transparency regarding pay is an important first step, it is not enough to give a complete picture of gender diversity within an organization. In a BCG survey of more than 17,500 employees at companies representing a range of industries in 21 countries, only 22% of employees said that measuring the pay gap is effective. (See *Getting the Most from Your Diversity Dollars*, BCG report, June 2017.)

MEASURING WHAT MATTERS

As noted above, there are five metrics that organizations need to look at when it comes to gender diversity: pay, recruitment, retention, advancement, and representation. (See Exhibit 1.) Each provides a quantitative snapshot of the company's current state, as well as softer data (such as employee perceptions) that can give an early indication of future problems. Both hard and soft data are critical.

Pay

First, companies need to assess pay levels in order to ensure that men and women in the same roles earn the same pay. This applies not only to base salaries and wages but also to discretionary pay, such as signing bonuses and annual bonuses. Companies should also look at whether the formulas behind performance bonuses include unintentional biases against women. Perceptions are critical; companies should survey employees to ensure they believe that pay levels are equitable for men and women in the same roles.

Recruitment

Next, companies need to make sure that they are recruiting a strong pipeline of women. The ratio of men to women should be tracked along the entire recruiting funnel—among people applying for positions, receiving interviews, advancing to final rounds, and being hired. In industries that have historically had trouble attracting women (such as industrial goods and the tech sector), looking at each stage of the funnel is key to preventing strong female candidates from being overlooked. Companies in these industries must implement all the best-practice interventions available to maximize their intake from a low-volume pool.

In most industries, however, women and men enter the workforce in roughly even numbers. Indeed, our research shows that women do not consider recruitment to be the main challenge—only 26% cited this as an obstacle. It's as seniority rises that the number of women declines steadily, and more women cited retention (36%) and advancement (45%) as the key issues. In other words, the challenge is not ensuring that women can get in the front door; it's ensuring that they can climb the organizational ladder.

Retention

Companies need to know the percentages of women and men at each level of seniority, and they need to track the attrition rate among women and men at each level in order to identify where in the organization the ladder is broken. Even a differential of one or two percentage points between men and women each year can have a huge effect over a 10- or 15-year period. Looking at the perceptions of employees at different levels can also give an advance warning of retention issues. (For example, many annual employee surveys include questions like "I can see myself at this company three years from now" and "My company makes an effort to retain women.")

Advancement

Retention ensures that women do not leave. Advancement ensures that they are promoted into leadership positions. In addition to monitoring the representation of women at the top, companies need to measure the percentage promoted each year as a share of the total cohort and compare that to the promotion rates of men. That will provide an indicator, in advance and for each level of seniority, of whether women who have stayed with the company are also advancing. Soft indicators of advancement include whether women believe they have a fair shot at senior roles and leadership positions.

The challenge of advancement has nothing to do with women's ambition. BCG research has shown definitively that women enter the workforce with as much ambition as men, and that having children does not make them less ambitious. Rather, the biggest impact on ambition comes from the corporate culture; at organizations that are not clearly committed to retaining and promoting women, ambition levels drop off dramatically. (See "Dispelling the Myths of the Gender 'Ambition Gap,'" BCG article, April 2017.)

Representation

Finally, companies should make sure that women who do make it up the ranks are not concentrated in administrative roles such as HR or marketing but are fairly represented in—and are proportionately leading—operational units. For example, according to a report by the accounting and advisory firm Grant Thornton, the largest proportion of women in leadership roles is in HR (23%), compared with just 9% in COO positions. At tech companies, according to a 2017 study by the market research firm TechEmergence, 60% of chief HR officers and 50% of chief marketing officers were women, compared with just 13% of CEOs and less than 10% of chief technology officers. Understanding this dynamic—and correcting for it—is a key part of the solution.

TRANSLATING METRICS INTO ACTION

For each of the metrics described above, companies should assess where the organization is today and where it needs to change, what it is doing in terms of evidence-based interventions to achieve its objectives (not the ones that are easiest to launch but those that bring the greatest payoff), and how its diversity performance is progressing over time.

Establish a Baseline and Identify Goals

By assessing each of the five metrics, companies can identify their biggest challenges and their highest-priority goals for gender diversity—whether it be retention or equity in promotion rates. Companies can also benchmark themselves against their peers (in terms of industry, or markets, for example) to determine where they are laggards or leaders and learn from the top performers.

Launch the Right Interventions

Companies should then identify the interventions that will be most effective in reaching their goals. Interventions should be tailored to the unique circumstances of the company, and some are more challenging to implement than others—yet also more effective. Exhibit 2 shows the interventions that our research found to be most effective in each of the five metrics categories.

Gauge Performance over Time

Change takes time, particularly with the kinds of initiatives that improve women's representation at higher levels. A program launched today for midcareer women may not pay its full dividends for a decade. As one representative from a major US bank told us, "We have started to measure trends and increase transparency by publishing quarterly reports for business lines and functions. We firmly believe that trends are more important than static figures, and that small increments are actually worth measuring."

Accordingly, companies should monitor their progress over time and determine whether they are making real and sustainable gains. Similarly, they need to be diligent to prevent issues from resurfacing. For example, BCG data reveals that flexible work programs are critical to retaining women during their key middle-management years—in other words, to fix the broken ladder. But it's not enough to merely offer a program. The company needs to roll it out carefully and ensure that it is actually being used—by both men and women. All too often, such programs are effectively limited to new mothers, and there is a stigma attached when people take advantage of them. Changing this perception requires changing the company's culture.

THE CEO LEADS THIS AGENDA

Accountability for changing a company's culture starts with the CEO. Gender diversity should not get walled off within HR or a diversity and inclusion function. The CEO needs to lead by example, signal the importance of gender diversity, monitor progress, and ultimately generate improvements. Among the executives we talked to, 73% identified CEO leadership as a top priority for getting results in diversity. (See *Proven Measures and Hidden Gems for Improving Gender Diversity*, BCG Focus, September 2017.) This is a business imperative that yields significant rewards. For something so important, accountability needs to sit with the CEO.

Gender diversity has been a consistent challenge for corporations worldwide. While many have made notable progress, we have yet to see material gains in momentum. Companies need to proactively own their diversity agenda and manage it like a true business priority. They need to relentlessly measure both hard and soft metrics and set clear and ambitious targets, design interventions to achieve those goals, and build on their successes to generate greater momentum.

The rewards of gender diversity are clear. It's time for companies to take decisive action to capture those rewards, just as they would for any other strategic imperative.

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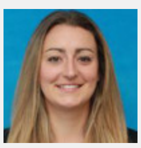

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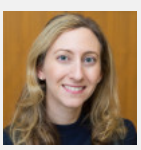

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