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Corporate diversity: If you don’t measure it, it won’t get done

Progress on workplace diversity has been slow and patchy. What will it take to really change the game?

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In this episode of the *Inside the Strategy Room* podcast, senior partners Celia Huber and Vivian Hunt discuss McKinsey's latest research on diversity in the workplace. This is an edited transcript. For more conversations on the strategy issues that matter, subscribe to the series on Apple Podcasts or Google Play.

Podcast transcript

Sean Brown: From McKinsey's Strategy and Corporate Finance Practice I'm Sean Brown. Welcome to *Inside the Strategy Room*. At our recent CFO forum in London, senior partners Celia Huber and Vivian Hunt led a discussion on corporate diversity, sharing insights from McKinsey's ongoing research, and answering questions from attendees. Vivian, based in London, is the managing partner for the United Kingdom and Ireland, and advises companies on a broad range of strategic topics. Celia, meanwhile, has spent more than two decades helping large healthcare and financial institutions develop successful strategies. She is based in our Silicon Valley office.

What follows is an edited recording of the session. Celia begins with an introduction of McKinsey's work with LeanIn.org and the *Wall Street Journal* surveying the state of diversity in the corporate world.

Celia Huber: Let me jump right in. Every year, we run a survey called Women in the Workplace. Let me share with you a few statistics. To help us with our research, 329 companies opened up their personnel pipelines and HR books, talked to us, and allowed us to survey their employees. Those companies represent roughly 13 million employees, and we surveyed or sampled 68,500 of them to try to understand the changing landscape in the work environment.

The first question we ask is, is diversity improving? The answer: diversity is not really improving. Over four years, you see only minor changes. For example, in both our 2015 and 2019 surveys, men and women are approximately evenly represented in entry-level roles, but the level of women in C-suite roles drops to around 20 percent (Exhibit 1).

So, clearly, we have a problem moving women up through the corporate pipeline. Now, there is some good news. The companies in our top two quintiles have made progress over this four-year period. However, the majority have not.

Part of the problem is the first-level promotion. For example, women are 20 percent less likely than men to get promoted from entry-level positions to first-level management. That degradation of promotions then continues throughout the whole pipeline. It's even worse for black women and some other minority groups. So, making sure we mentor and sponsor women—particularly diverse women—at that early stage to make it to those first-level management roles is really important.

The second broad question we ask in our survey is, what does it feel like to be a minority or diverse individual in corporate America? That question led us to the insight that it's really important to think about the "onlies." What do I mean by the "only?" For those who have ever been the only person like them in a room—in your office, in your university—it's probably an obvious point but let me give you some statistics. Twenty percent of women said that they were the only women in the room for most of their work lives. Forty-five percent of people of color said that they were the only, and 70 percent of lesbian women and gay men said that they were the only. You might not start out as the only but if you succeed, you often end up as the only.

Now, why should this matter to corporate leaders? We found that if you are the only person like you in the room, you are more likely to leave your job and find something else. The environment, the culture is less conducive to you feeling included (Exhibit 2). As managers, we spend a lot of money trying to recruit and sponsor and retain people of diverse backgrounds, and yet we can get to a point where we are creating an environment that makes these people feel more excluded, not less. Vivian, did you want to add anything from your broader experience?

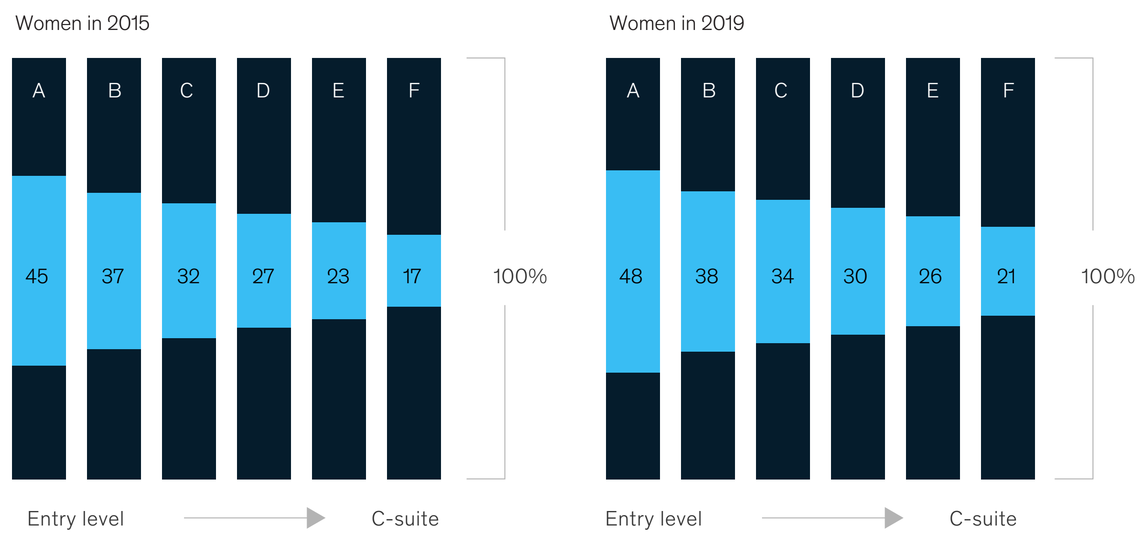
Vivian Hunt: I think what's important about the Women in the Workplace survey is that you can

Exhibit 1

Representation of women in senior leadership has increased, but women continue to be underrepresented at every level.

Representation of women by level, % of employees

A = Entry level   B = Manager   C = Senior manager/director   D = Vice president   E = Senior vice president   F = C-suite



Source: 2019 LeanIn.Org and McKinsey Women in the Workplace study

get down to firm-level insights. Let me give you the example of one company that has a lot of call-in service centers. One thing they observed in their talent pipeline as they did this granular survey—which covers not just McKinsey or market data but also their own HR data—is that in a roughly 30 percent Hispanic or Spanish-speaking call center in Texas or Arizona, not one first-line manager had ever been of Hispanic background. Call-center manager is quite a junior role, and this is a company that's been around close to 100 years. Now, I don't think they had any systemic bias, but the fact is, that first promotion from a call-center employee to a shift manager had not happened for someone of a culturally diverse profile.

It was a big "aha" moment for the management team. They realized, "We are not even getting people started!" Given that most people have two or three promotions in their careers, missing one early has a profound effect across the group, never mind the impact on motivation.

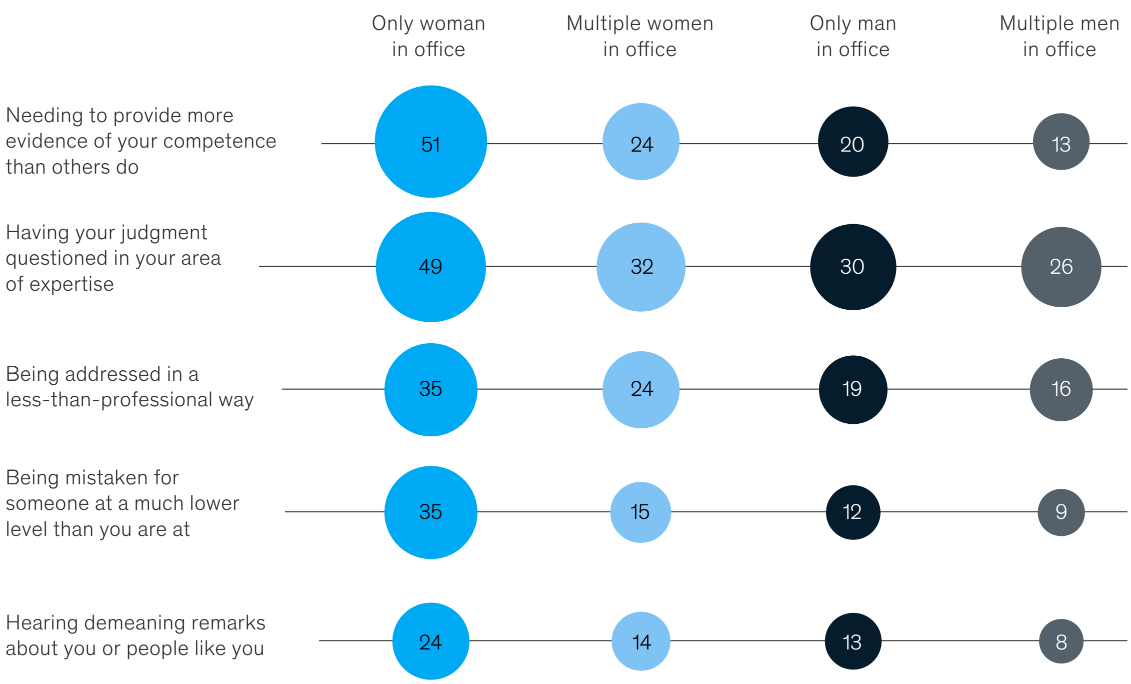
So, the first thing I would say is, a small group of companies has made most of the progress on diversity, and a major reason they have is that they have a *why*. That *why* can be specific. For example, some companies are focusing on their tech area and the tech enablement of their business and therefore that's where they have to win the talent game.

I think as a CFO, you need to be sure the business has a *why* for working toward improving diversity. We have found businesses that do a lot of work on affinity groups, such as women's networks, ethnic-minority networks, networks for people from outside the US. All of those are important for retention and visibility

Exhibit 2

Women who are the only female at their management level are having a significantly worse experience than women who work with more women.

Employees who have experienced microaggressions during the normal course of business, %



Source: 2018 LeanIn.Org and McKinsey Women in the Workplace study

and messaging, and they might make me feel more included and more confident, but they don't actually move the performance needle. You sometimes see companies over-index on affinity networks and work with groups that don't deliver impact of diversity and inclusion metrics.

The only thing that appears to matter on those scores is increasing participation and retention rates, so your hiring and promotion, and really getting best practices in place. Those practices are knowable and often shareable across industries. Think about the mining industry. They are doing an initiative around creating a pool of engineering-plus-one, so one degree away from traditional engineering talent to create a big pool. A lot of investment banks are creating pools quite early in their pipelines and sharing those. The point is you need to have the scaffolding and a playbook in place on recruiting and retention. That's no longer exceptional. All good companies, never mind the great ones, do that well.

The second point is about leadership appointments in more productive and technical roles. You need to look at the seniority as well as the technical content and value-add of different roles, and you can do a quick scatter plot to see where the women serve in your organization. This touches on first-line promotions and is a big factor in closing the gender pay gap. If you don't have senior women, if you don't have them in the fastest-growth, highest-value-added roles, you can't

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>
> — Vivian Hunt

close your gender pay gap. You have to understand your leadership roles and particularly technology-enabled roles, and whether you are becoming more or less diverse within those.

The last point I'll make is about an inclusive environment. Behavioral-economics science is bringing a lot more ideas around inclusive environments for all employees, because it's not just about having women or some historically underrepresented group feel included—it's about improving your performance. That requires that *everyone* feels included and motivated, and most behaviors that are not acceptable to a woman will not be acceptable to a man either. We will get to the point where, by increasing the diversity of skills and inclusion in the workplace, we will get this correlation with outcomes. We know there are multiple things great companies do well, but one thing that's true for high-performing companies is better diversity. We are not saying diversity drives good performance, but every high-performing company in every industry in every country tends to be more diverse than most of its peers. They have a skill set at managing diverse types of talent, and you know it matters in the end to performance.

Leadership culture is important here. What are the five or six behaviors I'm demonstrating as a leader? That's not just about you as a person; are you covering inclusive practices in your leadership and management training? And as CFOs, who are typically the first, second, or third most-trusted and influential voices in a company, you need to ask the right set of questions of your leadership development team.

Sean Brown: The conversation next turned to the issue of enforcing diversity targets and how companies should approach such decisions. Here's Vivian.

Vivian Hunt: There is this debate around quotas versus targets, and what we would say is being explicit, quantifiable, and setting stretch targets for yourself that are visible to anyone who is interested is often part of the formula. Whether that extends to a quota often depends on the legal environment. Brazil is a great example: the country recently mandated affirmative action within its educational and corporate contexts because 50 percent of the population self-identifies as Afro-Caribbean and Brazil simply will not grow unless it increases its workforce participation. I think whether you make the metrics as hard and nonnegotiable as quotas is a company choice, but remember that if it doesn't get measured, it doesn't get done. You know, one of my biggest professional regrets is that, when we helped found the 30% Club —the nonprofit started in the UK to increase women's economic participation and leadership in business—we didn't name it the 50% Club.

Celia Huber: In our survey, we found that about 15 percent of white men believe their career prospects are significantly diminished as diversity becomes a bigger priority. It's important to ensure that when we think about unconscious bias, we are also thinking about how to make everyone understand the business goal. Are there disaffected groups? And what's your messaging for those groups?

Vivian Hunt: This is why everything is easier when the business is growing, because when people feel the pie is growing for the company or the industry, they are more confident there is room enough for everyone. But you have to think through those messages, because you don't want to lose your high-performing colleagues, no matter what their profile.

Sean Brown: An audience member described being at a gathering of start-ups in Silicon Valley and being amazed at the level of diversity in the room. The comment surprised some people attending this session.

Celia Huber: Given that I live in Silicon Valley, I might take exception that it is a particularly diverse ecosystem. It is less representative of women and minorities, particularly black and other people of color who participate in these innovative areas, than it is of other regions. If I were to think about the start-up environment broadly and where much of the funding goes, historically it has not been diverse.

Vivian Hunt: It is much more diverse cognitively in terms of skill sets and solving problems in different ways. And if you are thinking about risk, for example, there may be ways in which you can build in better risk management and more diverse lenses on that. But there are some intrinsic profile aspects, such as gender and ethnicity, where tech is less diverse than other industries.

Sean Brown: Could diversity efforts borrow from the ways environmental, sustainability, and governmental (ESG) initiatives have gained traction in the business world? An executive in the forum audience pointed out that ESG and diversity both pertained to corporate sustainability.

Vivian Hunt: The environmental and sustainability side is a very good example of how a topic that 15 or 20 years ago was seen as, let's say, a corporate-social-responsibility elective is now quite mainstream and core in terms of what investors are looking for and therefore what managers are looking for. Now, it is a nonnegotiable. Normally, companies that are holistic in how they think about performance, focusing on inclusive growth versus just growth, have a strong plan on ESG, and I think it's important to realize that when you look at some characteristics of diversity, gender included, you can build them in or out as you work on the ESG initiatives. The notion of targets and measuring for sure is shared.

Celia Huber: I was at a conference for a large state pension fund that looked at ways to make consistent apples-to-apples diversity measurements mandatory. The problem right now is that you as a company could put out whatever measure of diversity you wish, and it may not be consistent with how others measure it. There is a real movement underway to standardize that.

Sean Brown: A question about the share of public versus private companies polled in the Women in the Workplace survey inspired a discussion of the role private equity can play in fostering diversity.

Vivian Hunt: I work with private-equity companies, some of which are real leaders on this topic. In terms of asset-management, investment, and technology professionals, there are proportionately fewer women, but it takes a long time to grow your own timber—to build a professional up through your own ranks. These companies' cultures in some cases need to change. But that is a long-term fix. So, some have decided to focus instead on their portfolios and make a difference there with diversity, inclusion, and ESG, and they are having a huge impact. It is very clear that the biggest lever they can pull is how they think about their operating teams and driving

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— Celia Huber

their portfolio companies. Sometimes, adjusting your investment decisions is a much bigger point of influence than initiatives within the firm or the investment team itself.

Sean Brown: The discussion then turned to how transparency is a good thing, but companies need to be careful that they are ready to deliver on the promises they make.

Vivian Hunt: We are in an era now of much higher transparency and rigor around this topic. I think that's great, but we see examples where companies stumble. We are fortunate to work with the World Economic Forum (WEF) on the content for the Davos meetings, and we had a company that wanted to be a global partner with the WEF on gender but could not even pull together its own numbers on diversity. It certainly cares about the topic, but it didn't even have its own basic data.

Another example: a CEO of a US company announced that the company wanted to have 30 percent to 40 percent of its employees be women within eight years. But they ended up having to pause that objective and come back with a more comprehensive plan, because the CEO said it and the company didn't actually have any of the scaffolding or the machinery in place to deliver on that promise. It's the same as if you said you will improve your productivity or grow in a certain way or take out a cost: if you don't have a plan against it, you are not going to let your CEO or business unit head announce it to investors and the public, right? So, I would be very careful about rushing to signposts. Be very clear about the things you announce, and particularly in today's much more transparent age. Lots of well-meaning advocates and supporters of your company, like your investors and your employees, are paying attention. But there are also groups that are looking to criticize you, so make sure that language around this is not just cynicism and talk. You have to be quite substantive and serious about it. And the more specific you are about what you want to accomplish, and back it up with metrics and progress, the easier it is. Still, transparency is a good sign, because it means the topic is moving from the nice-to-have, we're-good-people category to a business imperative.

Sean Brown: Some attendees wondered how representative the diversity levels at companies in the survey were of their countries and communities.

Celia Huber: When you ask, is it representative, I say, at what level? The entry level in most companies in most sectors was pretty representative of the population. Healthcare, for example, tracks more women, so there were 70 percent women in entry level. But gosh, very few C-suites are representative of the population broadly, although our top quintile, as I mentioned, has made a lot of progress. These leaders are likely to have close to even promotions from the entry level all the way up to the C-suite.

Sean Brown: Near the conclusion of the presentation, an audience member asked how he could conduct the survey within his own company.

Celia Huber: All the statistics and research that we have mentioned today is available on McKinsey.com. If your company wants to participate, we do the research on our own investment with LeanIn.org, so there is no cost to companies. We want to get a strong data set because it's hard to get apples-to-apples reporting on diversity.

Sean Brown: Vivian, do you have any comments you want add?

Vivian Hunt: Yes, I want to make clear that our objective is not to run around flogging diversity and inclusion studies. It may sound like a grandiose thing, but we really believe that, as the preeminent advisor to mostly private-sector companies, we can change the state of management practice and institutionalize this as a business driver. And even if we only get 30 percent of the way there, we will have changed the platform.

Sean Brown: Thank you, Celia and Vivian.

Sean Brown is the firm's global director of communications for strategy and corporate finance, based in the Boston office. **Celia Huber** is a senior partner in the Silicon Valley office, and **Vivian Hunt** is the managing partner for the United Kingdom and Ireland.

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