MERCER

The time is now

Addressing diversity,
equity and inclusion
in the workplace

welcome to brighter

Employers are significant influencers of societal norms. They play a pivotal role in remaking our society into a more fair and equitable place where people can thrive.

We live in a world of extraordinary diversity. Culture, race, ethnicity, sexual orientation, gender identity, religion, disability, age and myriad forms of self-expression and individuality are part of our zeitgeist. Diversity is woven into the fabric of modern life and is one of our most significant resources. Yet historically, our communities and workplaces rarely celebrated or capitalized on this diversity. To realize the power of diversity requires a commitment to its two complements: equity and inclusion. As a society, and as business leaders, we must do and be better. Customers, shareholders, employees, suppliers and other stakeholders are looking to business leaders to take action, not just issue statements.

Challenging the status quo requires determination, bold decisions and structural transformation. It requires extraordinary effort, including cultural and behavioral changes, to make a difference in the short and long term. A diverse, equitable and inclusive environment feeds the success and advancement of all employees.

Why focus on diversity, equity and inclusion?

Traditionally, the focus of diversity, equity and inclusion (DEI) has revolved around fostering diversity by increasing the representation of historically underrepresented groups within an organization. However, focusing solely on promoting diversity is an incomplete strategy. Equity and inclusion are equally important, and the most impactful strategies achieve progress on all three variables. Equity fosters an environment where all individuals have equal access to opportunities, experiences, development and rewards. An inclusive organization is one where each person feels a sense of belonging to the organization. Equity and inclusion are complementary to diversity.

Though there is a needed focus on racial justice and equality in the current environment, it's essential to remember that DEI is more than race or ethnicity alone. A genuinely inclusive workforce welcomes and values the contributions of people from all different backgrounds and experiences. While it may seem like a steep challenge, the goal of achieving a truly inclusive workforce should not be lost.

Diversity
Balanced representation

Equity
Designing to ensure access

Inclusion
Fostering belonging

By taking a holistic view of DEI and recognizing that inclusion requires cultural and behavioral change, organizations can reap extensive rewards. A diverse, equitable and inclusive environment can bring to an organization[1]:

1. Engaged and energized **talent** — employees can be themselves and express their full potential

2. **Connection** with customers, the business ecosystem, supply chain and communities

3. **Innovation** that relies on different perspectives to solve problems, develop products and create solutions[2]

4. A **brand** that is better aligned with the future workforce and critical skills needed for business success

5. **Improved business performance and increased profits**

DEI drives results: Mercer analyzed its internal teams and found that when there was at least one woman on a sales team, the overall win rate increased by 28%.

Background experience, industry

Family status

Gender

Socio-economic status

Age/ generations/ life stages

Veteran status

Disability

Inclusive workforce

Thinking styles

LGBTQIA+

Language

Geography, business line

Ethnicity

Race

[1] Mercer. "Managing a Diverse and Inclusive Mobile Workforce." Available at https://mobilityexchange.mercer.com/Insights/article/Managing-a-Diverse-and-Inclusive-Mobile-Workforce.

[2] Reynolds, A and Lewis, D. "Teams Solve Problems Faster When They're More Cognitively Diverse," *Harvard Business Review,* March 30, 2017. Available at https://hbr.org/2017/03/teams-solve-problems-faster-when-theyre-more-cognitively-diverse.

Macro forces driving diversity, equity and inclusion to the top

Despite the proven benefits of having a diverse workforce, employers have been slow to develop a strategy. Now is the time for employers to take real action to rectify disparities in our society and the workplace. **Saying something while doing nothing is no longer an option.** There is no more patience for inaction, as shown by the following macro forces.

Discrimination is a matter of life and death

The COVID-19 pandemic has exposed, in the harshest possible light, disparities in health and health outcomes that have long existed. Discrimination takes a severe physical toll on the health of individuals in underrepresented groups, even among those of higher socioeconomic status. For example, when looking at the impacts of COVID-19 on the US population, we see that Black/African Americans, Hispanic/Latinos and American Indian/Alaska Natives experience higher death rates and higher prevalence rates of chronic conditions than white Americans.[3] This is partially attributable to the social determinants of health that exist within these underrepresented groups, including lack of access to quality care, health insurance, and reasonable time off to care for themselves and their families.

Social movements abound

Moved by the recent killings of George Floyd, Breonna Taylor, Rayshard Brooks, Ahmaud Arbery and countless more, many organizations are loudly reaffirming — Black Lives Matter — and they are verbally committing to making a change. Simultaneously, women across our globe have pushed their fears aside to stand up to tell their #MeToo stories and rightly hold perpetrators accountable. Social media has provided everyone the opportunity to unite in an outcry for equality and justice. This increased focus has many employers looking at disparities in their programs, including hiring, career advancement and benefits to make sure they're not discriminatory.

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[3] The COVID Tracking Project at *The Atlantic*. The COVID Racial Data Tracker — "COVID-19 Is Affecting Black, Indigenous, Latinx, and Other People of Color the Most." Available at https://covidtracking.com/race/.
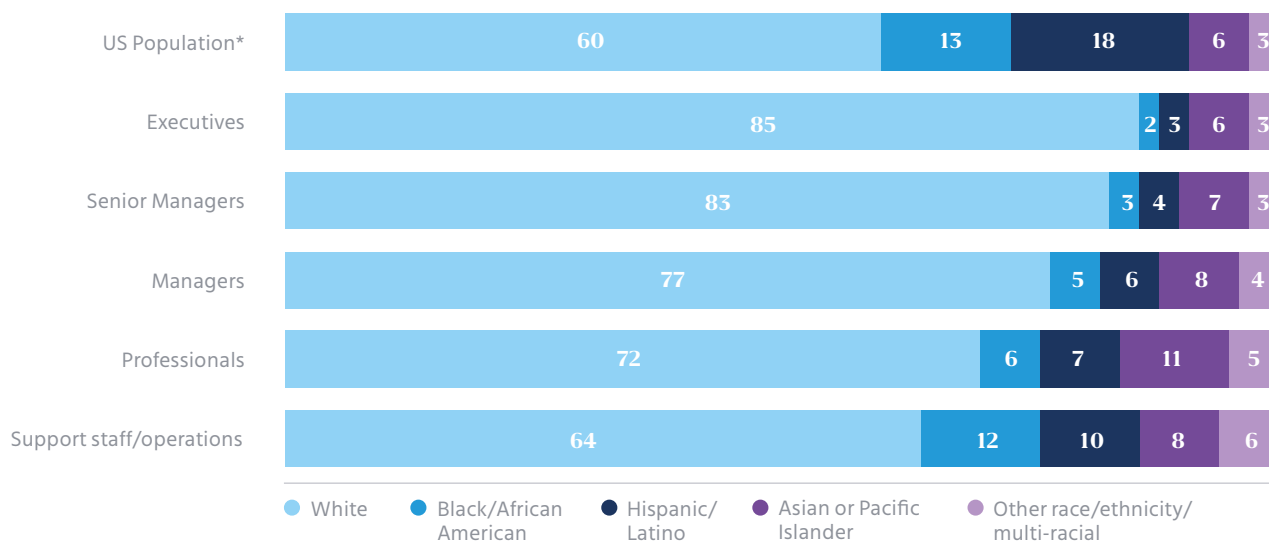
Employee expectations are shifting

Today's workforce benefits from more equality of opportunity and experience than any before. Employees expect equal opportunities for employment, promotion, pay and other rewards, and they are vocal about it. As the chart below illustrates, corporations do not reflect the US population's diversity, and this disparity becomes even more apparent as one moves higher up within an organization. Forty-four percent of millennials are people of color, and projections suggest that the US will be 54% non-white by 2065.[4,5] This emerging workforce will hold its leadership accountable for equity and equality, both internally and externally. Organizations must adapt to attract and retain a talented, diverse workforce and position themselves advantageously in their respective markets.

"Anytime, anywhere" operations

Existing paradigms for business operations and workplaces no longer apply, with much of the workforce moving out of offices. Employees have more career options available with this move to remote working, and they will look more broadly for companies that match their moral and ethical standards. This shift also means employers have the opportunity to recruit talent from previously inaccessible populations, as they may no longer be facing geographical constraints.

The move to remote working is an opportunity to drive diversity. Not only do companies have access to a broader geography of talent, but a virtual workplace is more conducive to the needs of working parents, caretakers, and individuals with physical disabilities and chronic illnesses who may not be able to travel to work.

Distribution of all employees by race/ethnicity and career level

Career level	White	Black/African American	Hispanic/Latino	Asian or Pacific Islander	Other race/ethnicity/multi-racial
US Population*	60	13	18	6	3
Executives	85	2	3	6	3
Senior Managers	83	3	4	7	3
Managers	77	5	6	8	4
Professionals	72	6	7	11	5
Support staff/operations	64	12	10	8	6

Source: Mercer. *Let's Get Real About Equality,* 2020 When Women Thrive report. Includes data collected from 100 US companies.
* US Census Bureau data, 2018

[4] Fiano, A and Anderson, C. "Millennials Are the Most Diverse Generation in U.S. History, Now 44 Percent Minority," Metropolitan Policy Program at Brookings, January 2018. Available at https://www.brookings.edu/wp-content/uploads/2018/01/20180124_metro_millennialreport_pressrelease.pdf.
[5] Pew Research Center. "The Changing Face of America, 1965–2065," January 2016. Available at https://www.pewresearch.org/ft_16-01-25_nextamerica_fig2_1_495px/.
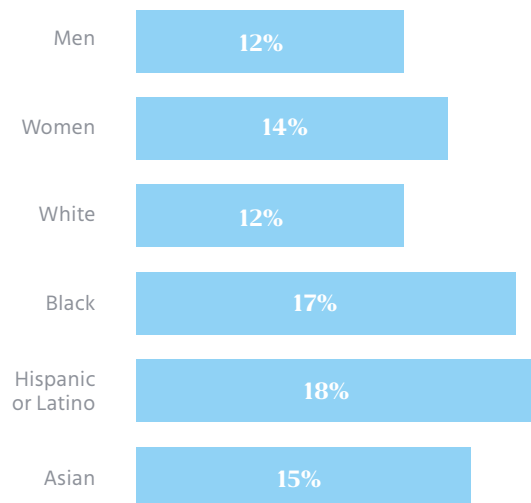
Economic distress

Unemployment tends to occur in disparate ways — which the 2020 pandemic shutdown has highlighted. Data from the US Bureau of Labor Statistics (at right) show the unemployment rates of various workforce groups.[6] Black Americans' unemployment rate jumped from 6% in December 2019 to 17% in May 2020.[7]

Pay equity mandates, shareholder and customer activism, and other external regulatory pressures

There is increasing external pressure on corporations from shareholders, customers, investors and regulatory bodies to drive positive social outcomes (and minimize negative ones).[8] Employers are becoming increasingly aware of (and sometimes forced to consider) DEI within their employee population and in their external branding.

May 2020 US unemployment rates

Group	Rate
Men	12%
Women	14%
White	12%
Black	17%
Hispanic or Latino	18%
Asian	15%

These macro trends highlight that the fundamental role of business is shifting. **Corporations must step up and keep up**, or they will lose valuable talent and their competitive edge.

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[6] US Bureau of Labor Statistics. "Employee Situation News Release," June 5, 2020. Available at https://www.bls.gov/news.release/archives/empsit_06052020.htm.

[7] US Bureau of Labor Statistics. "News Release: The Employment Situation — December 2019," January 10, 2020. Available at https://www.bls.gov/news.release/archives/empsit_01102020.pdf.

[8] Note that care should be taken if you are not acting on behalf of the organization, but instead are operating in a fiduciary capacity — for example, as an ERISA fiduciary to a 401(K) or pension plan. Legal counsel should be considered when considering DEI issues in the context of fiduciary decisions under ERISA, particularly in light of recent actions by the Department of Labor.

How to move forward

Communities are standing together to say **enough is enough**. It's time for employers to join in that stand and evaluate the necessary actions to take within their own walls.

Organizations can lead the way, as they have both the capability and the governance structures to make decisions and follow through with them. The key is that companies need to ensure they address what they stand for and how they will act to align with that stance.

To develop an actionable strategy, organizations must first **understand and acknowledge where they are in their DEI journey**.

Many companies set out with the best of intentions, yet tend to fall short. Often, this is because organizations are reactionary rather than proactive when it comes to their DEI strategy. Mercer's *Let's Get Real About Equality* 2020 research shows that while 81% of US employers say they are focused on improving DEI, only 38% of employers have a multi-year DEI strategy.[9]

Silent organizations	**Reactive** organizations	**Proactive** organizations	**Mature** organizations
We **haven't communicated anything** about the current unrest because we haven't done anything around DEI and are worried about the backlash.	We **sent out a communication** standing against racial injustice, but we **don't know what to do next**. We haven't really done anything around DEI in the past, but perhaps we need to focus on hiring more diverse employees, start an employee resource group, or do a company-wide training.	We **sent out a statement** from our CEO standing against racial injustice, have started communicating with our Black employees, and **committed to some immediate actions**. We have done some things around DEI, but we **don't have a comprehensive strategy** in place.	We have been actively working to improve DEI for quite some time. We have a **robust strategy in place**, but it **needs some fine-tuning**.

9 Mercer. *Let's Get Real About Equality*, 2020. Available at https://www.mercer.us/our-thinking/next-generation-global-research-when-women-thrive-2020.html.

What should employers consider when designing a best-practice DEI strategy?

For many employers, a critical starting point is understanding the impacts of discrimination on the various underrepresented groups within their walls. To do so, employers must purposefully measure and analyze their employees' experiences through multiple lenses. Employers can build a meaningful, actionable and impactful strategy to address diversity, equity and inclusion from such research. A strategic framework, such as the one captured below, should be the anchor for developing all DEI strategy components.

Change management and communication

Diagnose
Root your strategy in proof, data and analytics

Engage
Create aligned and committed leaders and workforce

Take action
Integrate DEI into policies, practices and programs

Accountability
Set goals, measure progress and share transparently

DEI enablers and governance (e.g., HR transformation, resource groups, DEI councils)

Diagnose

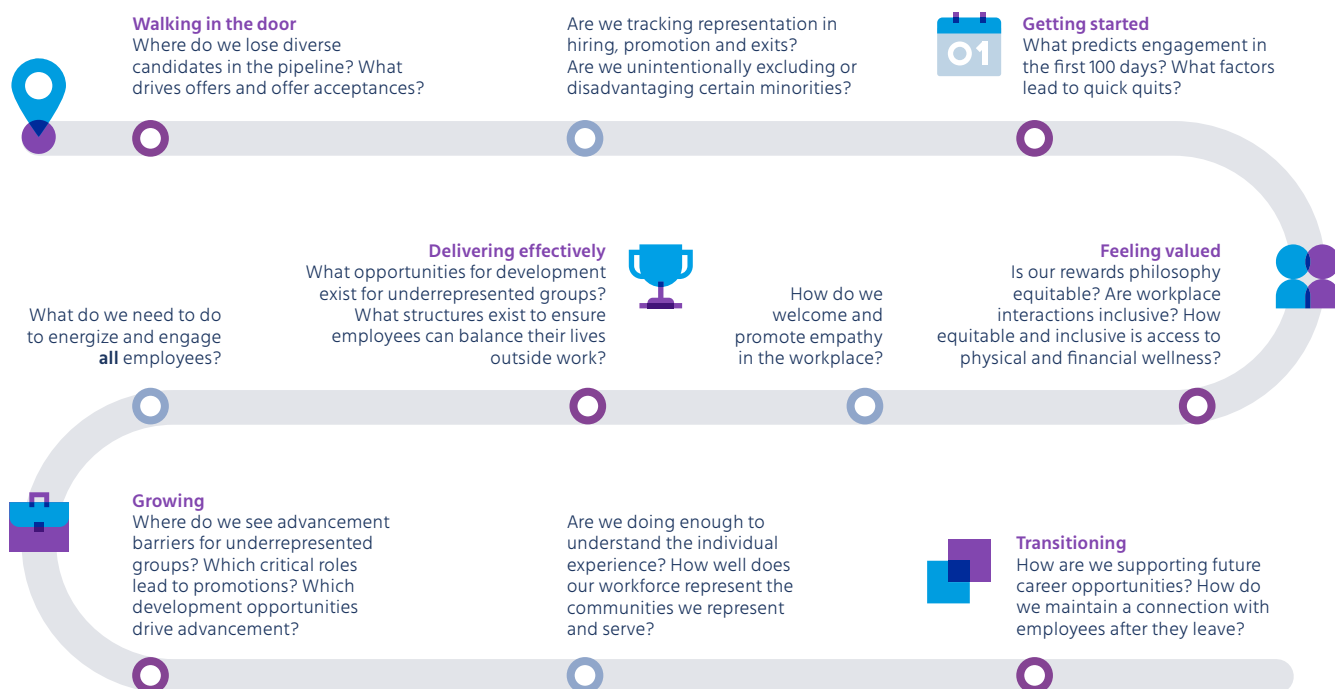### Triangulate your DEI strategy in proof

Employers should employ the power of data, employee listening and analytics to understand the current landscape at their organization, identify areas of priority and root their DEI strategies in evidence. For example, data on retirement plan participation shows some plan design provisions can negatively impact some underrepresented groups. The Employee Benefits Research Institute (EBRI) looked at the retirement plan participation of full-time, full-year wage and salary workers ages 21 to 64. Black employees participated 21% less than white employees, and Hispanic employees participated 40% less than white employees.[10] EBRI's analysis showed that while income differentials were a contributor (and a concurrent issue), a clear difference emerged between non-native-born Hispanic workers (whose participation was much lower) and native-born Hispanic workers. This type of analysis provides the knowledge to begin addressing inequities.

[10] Copeland, C. "Retirement Plan Participation and the Current Population Survey: The Impact of New Income Questions on These Estimates." *EBRI Issue Brief,* No. 499 (January 30, 2020): p. 14. Available at https://www.ebri.org/crawler/view/retirement-plan-participation-and-the-current-population-survey-the-impact-of-new-income-questions-on-these-estimates.

Consider the employee experience journey

DEI should be considered at every stage of the employee lifecycle to identify potential inequities and improve the overall experience. It's not just about hiring. Employers should speak to how they support all employees emotionally and professionally on day 1, day 10,000 and every day in between.

Walking in the door
Where do we lose diverse candidates in the pipeline? What drives offers and offer acceptances?

Are we tracking representation in hiring, promotion and exits? Are we unintentionally excluding or disadvantaging certain minorities?

Getting started
What predicts engagement in the first 100 days? What factors lead to quick quits?

What do we need to do to energize and engage **all** employees?

Delivering effectively
What opportunities for development exist for underrepresented groups? What structures exist to ensure employees can balance their lives outside work?

How do we welcome and promote empathy in the workplace?

Feeling valued
Is our rewards philosophy equitable? Are workplace interactions inclusive? How equitable and inclusive is access to physical and financial wellness?

Growing
Where do we see advancement barriers for underrepresented groups? Which critical roles lead to promotions? Which development opportunities drive advancement?

Are we doing enough to understand the individual experience? How well does our workforce represent the communities we represent and serve?

Transitioning
How are we supporting future career opportunities? How do we maintain a connection with employees after they leave?

Engage

Ensure that DEI is a business priority

Organizations often create a reporting structure that silos DEI into the HR function. Mercer's research shows that 33% of global organizations surveyed have a chief diversity or inclusion officer. Of those, the vast majority (63%) report to HR, with the remaining reporting to the CEO or a senior executive.[11] In many regions, DEI is driven by HR due to its role in attracting and retaining talent. However, DEI is not an HR-only issue, but rather a business issue with clear financial impacts.[12] Organizations must address DEI as they would any other core business initiative, with business leaders leading ownership, strategy and accountability.

Organizations should implement a DEI strategy that is infused throughout the organization and focuses on the supply chain, customer demographics,

[11] Copeland, C. "Retirement Plan Participation and the Current Population Survey: The Impact of New Income Questions on These Estimates." EBRI Issue Brief, No. 499 (January 30, 2020): p. 14. Available at https://www.ebri.org/crawler/view/retirement-plan-participation-and-the-current-population-survey-the-impact-of-new-income-questions-on-these-estimates.
[12] Rodriguez Vallardares, M. "Diversity Is Important for Businesses' Bottom Line and America's Competitiveness," Forbes, May 1, 2019. Available at https://www.forbes.com/sites/mayrarodriguezvalladares/2019/05/01/diversity-is-important-for-businesses-bottom-line-and-americas-competitiveness/#79cfcfa46306.

shareholder expectations and workforce needs. Employers need comprehensive workforce strategies that include initiatives supported by policies that aim to create a diverse and inclusive workplace in a sustainable way.

Stop relying on employee groups and volunteers to lead the DEI strategy

Individuals in internal groups (for example, diversity committees, diversity councils and diversity advisory boards) are often volunteers who see a need for change and join these groups to find community with others like them across the organization. Individuals may also join to prove themselves as leaders and are sometimes "volun-told" to participate because they are the only minority or underrepresented individual on their team. While these volunteers' participation is important, they may not necessarily have the expertise or the support to carry out a DEI strategy effectively. Placing the burden of DEI on these individuals is unfair and shortsighted — and potentially risky for an organization because it can perpetuate further inequalities and cause burnout and turnover. If DEI is truly an organizational priority, organizations should augment these groups to include business leaders and experienced and dedicated DEI resources.

Take action

Expand focus from attraction to onboarding, development and retention

When looking to increase diverse representation, organizations need to consider the whole picture. Diversifying incoming talent is a short-term solution if an organization does not have an inclusive culture and the appropriate structures to help underrepresented employees grow, develop and thrive. To retain diverse talent long term, a company must have a solid DEI-focused talent acquisition *and* career development strategy. Without both, they will end up

with a revolving door of diverse talent that joins the organization and leaves shortly after.

To identify potential inequities in pay, hiring, performance rating, promotion and/or turnover, organizations must assess their talent flows across all dimensions — most significantly, race, ethnicity and gender. Organizations must also hone in on the employee experience of underrepresented groups. But in practice, only 38% of organizations review engagement scores by race and/or ethnicity.[13] Based on these data-driven findings, organizations can refine their strategy to target the largest areas of opportunity. These might include investments in the growth and development of underrepresented groups within a particular team/level within the organization, or connecting rising professionals with the right sponsors, mentors or advocates. These initiatives expand beyond hiring diverse talent to focus instead on how to support their growth and help them stay.

Consider DEI when developing training strategies

While there can be benefits to unconscious bias training, organizations must recognize that one-and-done trainings are inadequate. Training sessions should not be about unconscious biases only, but should also address terminology, conscious inclusion, inclusive leadership and micro-aggressions. They must be recurring and should include individuals across all levels in the organization, particularly executive and business unit leadership, people managers, team leaders, recruiters, employee services, internal HR and benefits, and any external-facing roles such as marketing or receptionists. Training exercises must be tailored to specific roles and practices and should be delivered "just in time." For example, content for a leadership training session needs to be different than content for manager training programs, and training for talent reviews should be different than hiring interviews.

Training should be actionable and tailored to internal culture as organizations need to address inequities in talent acquisition and talent management unique to

[13] Mercer. *Let's Get Real About Equality,* 2020. Available at https://www.mercer.us/our-thinking/next-generation-global-research-when-women-thrive-2020.html.

the organization. Employers should leverage data to track the impact of training and to identify existing inequities across the organization to prioritize and focus their training efforts.

Provide inclusive benefits

Organizations need to ensure their benefit offerings are inclusive, meaning they should address the gaps and disparities in healthcare, wellbeing and financial protection for underrepresented groups. While many benefits may appear equal, there can be unintended inequality resulting from benefit strategy decisions.

It's no secret that employers are continually making a concerted effort to keep healthcare costs under control. For healthcare costs to decrease and quality to increase, patients play an essential role. They need to engage with their provider, comply with protocol and live a healthier lifestyle. This is a challenge for many to achieve if their basic social needs cannot be met. When faced with the decision to pay for the only meal of the day or transportation to the doctor, healthcare needs will always fall last. Employers must offer programs to meet these social needs and create a strategy focused on reducing healthcare disparities to address the situations and events employees face. When employees need support for these social needs, employers should set their standards to ensure the consistency and preparedness of their response.

Historically, employer-provided benefits have systematically excluded the needs of underrepresented groups or have only provided partial coverage. Data shows Latinos have the lowest rate of eligibility for the retirement plans offered by their employers. This could be because many have not worked for their employer for one year, work part-time or are under the age of 21 — making them ineligible to participate in a retirement plan.[14]

Inclusive benefits are integral to an organization's broader DEI strategy. Some examples of inclusive benefits are all gender care, mental health, LGBTQIA+,

inclusive family planning, all families care, parental leave, ethnic-focused care, social determinants of health and parental leave.

Accountability

Measure outcomes and analyze for unintended consequences

Developing the strategy and taking action is critical — but it's also essential to follow up by measuring progress and outcomes. As part of that measurement, you need to also analyze for unintended consequences.

It is insufficient to analyze an organization and/or its benefit programs by merely looking at average or aggregate numbers. Employers must look deeper and examine the diversity within those numbers to uncover the impact on underrepresented groups. Many design changes seem logical in aggregate, but an analysis of the impact on underrepresented groups can lead to a different conclusion. There will be challenges with a lack of data or data simply being unavailable, but these challenges need to be addressed rather than excused.

What are the outcomes of inaction or failure to create a diverse, equitable and inclusive working environment? Employers will experience a fragmented workforce that negatively affects organizational health through reputational risk, retention issues, employee productivity impacted by social determinants of health, and disparities in healthcare, benefits and financial wellbeing.

Robust analysis of the "diversity within" will help avoid the unintended consequences we often notice today. **The potential benefits of action are clear. How employers take action is up to them.**

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[14] Brown, J and Oakley, D. *Latinos' Retirement Insecurity in the United States,* National Institute on Retirement Security (NIRS) and UnidosUS, 2018. Available at https://www.nirsonline.org/reports/latinos-retirement-insecurity-in-the-united-states/.

Conclusion

Focusing on DEI is vital to a thriving business, internally and externally. The driving forces in our world now highlight the need for change is long overdue. Organizations often say they stand for equality, justice and respect, but fall short of meaningful action. **It's time to bridge the gap between what we say and what we do. It's time to make diversity, equity and inclusion an integral part of our workplaces.**

What's next?

You may be wondering, *so where do we go from here?* As is the nature of diversity, there is no one-size-fits-all solution for ensuring an effective DEI strategy for organizations.

Mercer's approach to DEI consulting brings together perspectives and expertise from across our company. We go beyond identifying the tactical, programmatic adaptations organizations must make. We take a holistic view, recognizing that inclusion often requires cultural and behavioral change. A long-term commitment to DEI requires developing a multipronged approach to address both individual and organizational accountability.

Contact us today to learn more.