

THE NEW RULES OF GENDER DIVERSITY

In 2017, new activists changed what it means to support gender diversity and created business consequences for organizations that don't adapt. Employers caught unaware now face a real possibility of shareholder threats, legal penalties, brand damage and protests – all combined with the continuing pressures of a tightening labor market.

Here's an overview of key developments.

New Demands for Change

For years, companies could champion gender diversity by acknowledging the business case and establishing HR programs to help. Today, investors, legislators, competitors and even diversity dissenters are demanding different approaches.

- **Investors.** Two of the world's largest asset managers, BlackRock Inc. and State Street Global Advisors (SSGA), featured gender diversity in their guidance and urged board diversity in 2017.¹ SSGA went so far as to install a bronze "Fearless Girl" statue opposite Wall Street's famous charging bull to call attention to the issue of gender diversity, and the firm subsequently voted against the reelection of directors at 400 companies that failed to take steps to add women to their boards.² Other investors have also demanded action. Activist investors pushed Wall Street banks to tackle the gender pay gap;³ the \$330.2 billion California Public Employees' Retirement System (calPERS) asked 504 companies without female board members to develop and disclose corporate board diversity policies;⁴ and New York City's Comptroller pushed 151 companies held by the New York City Pension Funds to increase gender and racial diversity.⁵ And, in a first-of-its-kind shareholder proposal, Zevin Asset Management asked Starbucks to prepare a report on its new paid-leave policy.⁶
- **Legislators.** New pay equity laws are sweeping the nation as a way to reduce gender-based wage disparities. Massachusetts, Oregon, Delaware and New York State have adopted laws to ban employers from asking candidates about salary history, and similar proposed legislation has made its way to more than two dozen other states; other U.S. jurisdictions with new laws include San Francisco, Philadelphia, New Orleans, New York City and Puerto Rico.⁷ Consequences for noncompliance are severe,⁸ and many organizations may need to reconfigure hiring practices.
- **Competitors.** Companies across industries have made dramatic new commitments that raise the bar for acceptable gender diversity efforts. Intel, IBM and Pfizer pledged to spend a combined \$300 million on women-led businesses.⁹ Salesforce spent \$3 million to eliminate statistically significant pay differences between men and women,¹⁰ and companies including eBay have released gender pay statistics.¹¹ Among the many organizations acting to address pay equity, two-thirds of members of the Organization for Economic Cooperation and Development (OECD) have introduced policies to close the gender pay gap, including a requirement that companies make their pay gaps public.¹² GE, AOL and Accenture rank among more than 70 companies that have announced gender diversity targets.¹³



These high-level efforts reflect a trend toward increasing CEO engagement. Between December 2016 and October 2017:

- Catalyst’s CEO Champions for Change initiative launched and brought together more than 50 CEOs and top industry leaders who are visibly driving diversity in their organizations.¹⁴
 - The Paradigm for Parity coalition launched and generated commitments to achieving gender parity from more than 50 CEOs.¹⁵
 - The CEO Action for Diversity & Inclusion launched and garnered commitments to advance diversity from more than 270 CEOs.¹⁶
- **Dissenters.** In a sharply divided country, U.S. companies now also face a backlash from opponents of widely implemented diversity measures. In 2017 the backlash hit Google when an employee critiqued the company’s approach to gender diversity in a memo that generated a social media firestorm. After Google fired the memo’s author, a New York Times op-ed called for the CEO’s resignation;¹⁷ supporters of the fired employee scheduled protests at Google offices in nine cities;¹⁸ and safety concerns forced Google to cancel a gender-diversity town hall.¹⁹ Other warnings of backlash have appeared across the country. The Fearless Girl statue on Wall Street was soon, if briefly, joined by small sculpture of a dog urinating at her feet;²⁰ research shows that American men are increasingly likely to say that they face discrimination;²¹ and a 2017 survey from Ernst & Young and ORC International finds that many people in the workplace think inclusion hurts white men.²² As diversity training receives increased scrutiny,²³ companies need to recognize both the likelihood of fissures within their own culture and the certainty of deep divides among external stakeholders as they seek better ways to advance gender diversity.

Stalled Progress and Tight Labor Market

Frustrations caused by stalled progress and a tightening labor market have made the issue of gender diversity even more combustible.

For women, the statistics remain dismal. Women hold just 20.2 percent of Fortune 500 board seats²⁴ and at their current pace won’t reach parity for nearly 40 years.²⁵ The Pew Research Center predicts that women may never make up half the U.S. labor force,²⁶ and over five decades, the Fortune 500 has had a grand total of 64 female CEOs.²⁷ Globally, 40 percent of the workforce is female, yet just 5 percent of CEO positions are held by women.²⁸ The U.S. wage gap has worsened for millennial women,²⁹ and leadership role models became even scarcer in the summer of 2017 when Yahoo, Avon and Mondelez International all announced the departures of high-profile female CEOs. The many studies making the business case for gender diversity seem to have had little impact in the workplace.

These numbers raise doubts about the effectiveness of much current gender diversity programming. A 2017 report from Boston Consulting Group found that, while more than 90 percent of companies have some sort of gender-diversity program in place, only one in four women feels that she has personally benefited from such programs.³⁰ Other research shows that men feel it’s “not their place” to engage in gender diversity initiatives³¹ – a likely death knell for the prospect of real change. And research published in the Harvard Business Review in 2016 more bluntly made the case that most diversity programs aren’t increasing diversity.³²



A tightening labor market makes achieving gender parity both more complicated and more important. As 10,000 baby boomers reach retirement age each day³³ in a post-recessionary economy, employers no longer enjoy the luxury of an abundant talent pool. The number of U.S. job openings hit a record high in 2017,³⁴ and nearly four out of 10 executives at mid-market firms say a lack of talent constrains their companies' ability to grow.³⁵ Employers globally reported the highest talent shortage since 2007,³⁶ and the world faces an acute misuse of talent by not acting faster to tackle gender inequality, according to the World Economic Forum.³⁷ As the available talent pool shrinks to a puddle, employers facing a long-term talent shortage can ill afford to alienate women and their supporters.

New Minimum Standards

To compete in the changing gender diversity landscape, employers need to move toward new minimum standards in three areas.

1. **Board Representation.** Board representation dominated the gender diversity conversation in 2017, and research by Deloitte finds that a grassroots movement is underway to increase the percentage of women on boards.³⁸ Companies without a female board member find themselves in a shrinking minority as the number of boards with at least one woman continues to increase quickly.³⁹ But research shows that one female board member does not suffice: boards need at least three women to reap the benefits of diversity.⁴⁰ To compete with industry leaders, companies generally should move toward 33 percent representation: McKinsey finds that women occupy at least 33 percent of board seats among the top 50 S&P 500 companies.⁴¹
2. **Compensation.** Pay equity has emerged as a hot button issue that may soon overshadow board representation as the focus of gender diversity efforts. Employees increasingly expect companies to say that they pay men and women equally,⁴² and, as more employers take steps to close the pay gap, calls for transparency will increase as well. In this environment, becoming a leader in gender diversity means becoming a leader in corporate transparency. At the same time, employers with operations in jurisdictions that ban salary history queries may need either to review their hiring practices or face the threat of lawsuits and accusations of gender bias. At minimum, the gender diversity champions of 2018 will need to show that they prioritize equal pay.
3. **CEO Engagement.** Employers can no longer get by simply by maintaining HR-driven gender diversity programming based on soft objectives. Today, organizations are increasingly expected to make the kind of substantial and quantifiable commitments that require CEO engagement, whether that means deep financial investments in moving toward parity, measurable targets for gender-balanced leadership, or new kinds of leadership-backed programming to close the gender gap. Cultures of diversity start at the top, and only senior-level engagement will persuade employees throughout an organization to work together to advance gender diversity.

While gender inequality has no one-size fits-all solution, employers can avoid embarrassing missteps by recognizing and adapting to the fast-changing environment. Those that succeed will position themselves as employers of choice. Those that choose the status quo will face consequences they may never have imagined.



Endnotes

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