Linking D&I to Compensation and Bonus
According to Calvert Investments’ 2013 A Survey of Corporate Diversity Practices of the S&P 100, 42 percent of companies in Standard & Poor’s 100 Index tied executive compensation to diversity goals.

A 2014 report on corporate diversity in the Fortune 100 found that 55 percent of companies tied performance on meeting diversity goals to a portion of executive compensation; 75 percent of companies with diversity plans had incentives or accountability mechanisms in place to evaluate, meet, and exceed diversity goals, and 83 percent tracked progress on diversity goals within every department, including human resources and procurement.

In the DBP Inclusion Index, although 82 percent of companies reported they hold managers accountable for D&I related issues as part of their performance review, only 46 percent tie D&I results to compensation.

Deloitte’s 2017 Global Human Capital Trends research shows that 78 percent of respondents believe diversity and inclusion is a competitive advantage; 39 percent say it is a ‘significant’ competitive advantage. Yet, despite this increased level of interest, only six percent of companies in the 2017 Deloitte study actually tie compensation to diversity outcomes.

Source: OpenMIC 2017 Report
Deloitte research shows that the behaviors of leaders (be they senior executives or managers) can drive up to 70 percentage points of difference between the proportion of employees who feel highly included and the proportion of those who do not. This effect is even stronger for minority group members.

An increase in individuals’ feelings of inclusion translates into an increase in perceived team performance (+17 percent), decision-making quality (+20 percent), and collaboration (+29 percent).

Source: 2017 Deloitte Study
Sodexo has established diversity metrics and a Diversity Index and Balanced Scorecard linked to bonus compensation. The scorecard, which accounts for 15 percent of the executive team’s bonus and between 10 and 15 percent of manager bonuses, rates company leaders’ diversity efforts on a series of metrics such as the number of diverse employees hired and how active executives and managers are in the mentorship and sponsorship of women and minorities.

Accountability for internal programs consists of complementary qualitative and quantitative components that ensure the progress of culture change within the organization. Sixty percent of the diversity scorecard is focused on hard numbers: how many women and minorities were hired, promoted and retained. The other 40 percent is focused on promoting inclusive behaviors.

Performance in this area is considered important enough that the diversity related portion of the bonus is paid regardless of the financial performance of the company as a whole. That means that 16,000 managers are held accountable for diversity.

First implemented in 2003, this link between compensation and inclusion goals has been the driving force behind improving diversity at the company.
To increase accountability at all levels, P&G instituted a new compensation system that reinforces its commitment to diversity and inclusion.

Under the new system:

• Ten percent of executive compensation is linked to diversity goals, which are evaluated as part of performance reviews.

• Performance criteria include being an executive sponsor of an employee resource group, being a cross-cultural mentor, and recruitment and promotions in the executive’s area of responsibility.

• Additionally, the stock option awards for the company’s top officers are linked to diversity results.

• P&G also has an executive compensation plan that is tied to successful completion of staff and supplier diversity initiatives.

Source: 2017 Deloitte Study
In 2015, Intel initiated a bonus offer of $4,000 for employees who refer a woman, minority or veteran job candidate who is ultimately hired — double the standard referral bonus.

The bonus fee is viewed by the company as a way to increase chances of having women and minorities receive more representation in a job applicant pool that has disproportionately consisted of white men.

Intel says the bonus helped nearly double its diversity hires over 2014, exceeding its goal of 40 percent diversity hires by three percent in just one year.
Annual performance review and compensation is based on a weighted average of three corporate performance components: an absolute financial component (25% weighting), a relative financial component (25% weighting), and an operational performance component (50% weighting).

**Operational Performance Component.** The operational performance component represents 50% of the annual incentive cash payout formula and is based on specific operational goals that the Compensation Committee approves for each business unit within 90 days of the beginning of each year. This component rewards executive officers for achieving meaningful measures of performance based on performance in key areas, including financial performance, product development and launch roadmaps, manufacturing, cost and productivity improvements, and corporate responsibility and environmental sustainability. The operational goals established by the committee are also used in the broad-based employee annual incentive cash plan and are prepared each year as part of the annual planning process for the company. To drive focus and accountability at the business unit level, the committee approved the use of three to five specific operational performance goals for each of Intel’s 10 business units used in the formula. Employees in corporate level and administrative groups are paid based on the average of 10 business units’ scores, subject to adjustment for performance against a corporate-level goal.

**For 2017, the corporate-level goals were focused on hiring and retaining of diverse talent,** which was not achieved, resulting in no increase in corporate-level annual incentive cash payouts.
Microsoft has about 17 percent of annual bonuses linked to culture and organization leadership goals, which include promoting diversity. In addition, senior executives are evaluated in three qualitative performance categories, including culture and organizational leadership.

50% of our Named Executives' fiscal year 2017 annual cash incentives were determined based on subjective scoring of their performance against financial, operational, and strategic indicators in three performance categories. The performance indicators varied based on the Named Executive's responsibilities and the function or group he or she leads, and may have included (in alphabetical order in each category):

### Product & strategy
- Contribution margin
- Efficiency and productivity
- Innovation
- Product development and implementation strategic progress
- Quality

### Customers & stakeholders
- Corporate citizenship
- Customer acceptance
- Customer satisfaction
- Developer community satisfaction

### Culture & organizational leadership
- Compliance and integrity
- Organizational diversity and inclusion
- Leadership effectiveness

These performance indicators were drawn from the scorecard we used to manage performance against Microsoft's annual business plan. Mr. Nadella's performance was assessed on all these performance indicators.
Walmart’s Compensation and Management Development Committee (CMDC) annually reviews executive compensation to focus on a strong link between pay and performance.

Approximately 75 percent of the company’s named executive officer (NEO) is performance based. The NEO’s cash incentive payment can be reduced by up to 15 percent if diversity objectives are not met. In addition, the CMDC may reduce or eliminate NEO annual cash incentive for failure to meet annual compliance objectives.

Walmart Associates subject to the company’s culture, diversity and inclusion goals program have 10 percent of their annual performance evaluation tied to diversity and inclusion and can have their annual cash incentive reduced by up to 30 percent if they violate our discrimination and harassment policies.

Source: Walmart 2018 Annual Report
In 2014, Facebook began giving its staff recruiters more points for diversity hires, potentially leading to higher bonuses in its point-based incentive system. In that same year, women made up 31 percent of its global workforce. By 2016 that number had gone up a modest two percent. The company said, however, that only four percent of its US employees were Hispanic and only two percent were black, showing no improvement over the preceding two years.

At LinkedIn, some managers’ salaries and bonuses are linked to the achievement of diversity goals, by as much as 20 percent in one instance.  

IBM holds monthly diversity councils led by senior leadership and also ties executive compensation to goals set by these councils.
D&I goals are only realized when key decision-makers are accountable. The value and ROI of D&I must be clearly and consistently role-modeled by leadership, emphasized in strategic business decisions, and all business leaders must be held accountable.

By taking accountability for goals, leaders signal the importance of diversity and inclusion as a business priority and help focus people’s attention.
Accountability is Key

In a 2014 Harvard Business Review article, “Great Leaders Who Make the Mix Work,” 24 CEOs agreed that inclusivity was a business imperative because their companies needed it to stay competitive, and a moral imperative because of their personal experiences and values.

However, in its 2016 benchmarking report, Diversity Best Practices found a disconcerting gap between CEO commitment and accountability.

- While 88% of CEOs have a thoughtful and convincing D&I mission/vision, can articulate how their business case, and have action plans in place, only 39% require their direct leadership team to report on D&I metrics.
- D&I progress has been minimal and slow growing. Only 24% of these CEOs have organization-wide performance objectives tied to D&I.
- Less than 30% tie D&I performance to compensation.

Today’s health leaders need to make D&I a C-suite priority — without this alignment, initiatives will lack the support and endorsement needed to advance and achieve maximum impact.

Source: DBP Health Series Report – Part II.
Organizations reinforce the importance of talent management efforts when they reward managers, executives, and/or business units for successes. Likewise, accountability requires that a lack of progress be acknowledged and penalties implemented.

In general, talent is managed more effectively when managers and executives are invested in the professional development of their employees. Catalyst research has identified this as a powerful practice for mitigating advancement barriers and increasing employee engagement.

Questions to consider when getting started:

• Who is held responsible for talent management: 1) CEO, 2) senior executives, 3) people managers, 4) employees, or 5) don’t know?

• What indicators are used to measure whether individuals have met talent management objectives?

• Are managers equipped to identify and develop diverse talent, especially women?

Source: Catalyst
D&I efforts should be measured with the same scrutiny that other business objectives receive, and include a mix of quantitative and qualitative measures to help track progress and inform improvements.

**Quantitative measures** might include statistical data related to recruitment tactics, candidate applications, hiring decisions, retention outcomes, provision of training, and advancement opportunities provided to women, minorities, and other underrepresented groups.

In terms of **qualitative measures**, employee ‘pulse’ surveys and focus groups can provide important feedback on perceptions of inclusion, equity, and bias, and be utilized to measure progress against a baseline over time.
1. What percentage of diverse talent is needed in the pipeline to create a difference in the next three to five years?

2. What talent pools are available by business region?

3. What is the company actively doing to prepare its diverse talent and succession pipelines?

4. How often does the company review diverse top talent? What employees are getting visibility, new job experiences, and stretch assignments? Who has access to opportunities for mentorship and sponsorship?

5. Are individualized employee development plans in place to put diverse employees on the path to advancement? How are plans measured in terms of progress, timeliness, mobility and advancement?

6. Does the company have meaningful and measurable D&I performance objectives? How are they tracked? Do they include performance criteria designed to reduce bias? How are they tracked?

7. Are company leaders held accountable for performance and talent management? Does the company audit for bias?

8. Do leaders know what roles yield the highest promotable successors?

9. Do you have succession plans targeted to diverse populations? Or set % goals? If not, how will you move the needle and what will determine success?

Source: DBP Health Series Report - Part II
The Equal Employment Opportunity Commission has warned companies to be cautious about setting targets, which could be seen as barriers to non-minorities. To prevent financial incentives from turning into a counterproductive strategy, diversity metrics linked to compensation need to be just one part of a much larger and established diversity initiative.

“Executives should be measured and rewarded on diversity, yes, but not on the basis of how many minority candidates they promote—that just makes people suspect them of fulfilling a quota. The metric should be more subtle and more valuable: How many minority candidates have they positioned for success? That means leading initiatives that recruit, identify, coach, and mentor minority talent.”

George Borst, President and CEO of Toyota Financial Services

“A policy of requiring a certain number of promotions from a given group risks undermining the belief that career success is based on performance. People who aren’t members of minority groups may think their own upward mobility is being constrained so that others can be favored. That has serious effects on morale, retention, and performance.”

John Veihmeyer, Chairman and CEO of KPMG