



# Put Your Money Where Your Mouth Is: Tying Executives' Bonuses To Diversity Initiatives

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# **Put Your Money Where Your Mouth Is: Tying Executives' Bonuses To Diversity Initiatives**

*Written by Eric Bachman – 6/12/18*

The financial industry continues to be plagued by a lack of diversity and complaints about harassment and discrimination. For example, according to a 2017 U.S. Government Accountability Office (GAO) report, only 21% of all management positions in the financial sector were held by racial minorities. And this figure dropped to 12% at the senior management level. Although about 45% of all management positions were occupied by women, this number tumbled to 29% in senior management jobs. An increasingly popular step that employers are taking to deal with these issues is to link executive bonuses to how well these senior leaders advance and champion the company's diversity and anti-discrimination initiatives. And doing so makes sense because if an objective is important, then the company should ensure (1) its employees know about it and (2) that their performance in meeting this goal will be measured along with the company's other core values and targets.

Fostering greater diversity and preventing harassment and discrimination is more than simply the right thing to do on a broader societal level. Indeed, a business case exists for these initiatives. According to research by McKinsey & Company, achieving these goals correlates with concrete financial improvement:

Our latest research finds that companies in the top quartile for gender or racial and ethnic diversity are more likely to have financial returns above their national industry medians.

. . . there is a linear relationship between racial and ethnic diversity and better financial performance: for every 10 percent increase in racial and ethnic diversity on the senior-executive team, earnings before interest and taxes (EBIT) rise 0.8 percent.

This concept of coupling bonuses with anti-discrimination objectives is taking root in pacesetting companies, including Microsoft, Intel, and Facebook. Perhaps the most recent, high profile example is Uber. Former U.S. Attorney General Eric Holder's report regarding his investigation of Uber's sexual harassment problems endorsed the "bonus as carrot" approach. Under this tactic, Uber would incorporate "ethical business practices, diversity and inclusion, and other values from Uber's Business Code of Conduct into its executive compensation program."

Some have expressed concerns that linking bonuses to diversity and anti-discrimination efforts may cultivate hiring and promotion quotas. This concern, however, is misplaced. As to hiring, many diversity policies focus on expanding traditional recruitment practices to reach a more diverse pool of applicants, rather than some fixed number of hires by race or gender (which would likely be illegal). And for promotions, company policies and practices on diversity often aim to create robust and effective mentoring programs for all employees.

Of course, tying bonuses to diversity and anti-discrimination initiatives is but one step in what should be a comprehensive effort to give all employees (and applicants) an equal shot to succeed. Key among

these steps is “tone at the top.” That is, how the words and actions of senior leaders in the organization make clear that equal opportunity is a core value/goal of the company that all employees should work towards.

Many of these bonus programs are in the initial stages so it is too early to draw any definitive conclusions on their effectiveness. But these developments bear close attention and it will be very interesting to see the results, as well as other initiatives that may flow from these ideas.

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