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Quantifying the ‘S’: Gender Equity Metrics in the Workplace

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ABOUT IMPACT DELTA

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“*What gets measured gets managed*”
- Peter Drucker

After two years of global pandemic, racial reckoning, and increased awareness about the climate crisis, the private sector is waking up to the importance of improving ESG outcomes. Several business leaders and countries have amplified demands at this moment, calling for increased transparency and accountability in the private sector. There have been commitments to reducing carbon output and improving racial and gender diversity, among other goals. But as corporations commit to increasing gender equity in the workplace, they must evaluate the current status quo, and identify an end-goal.

Gender equity in the workplace, and its measurement, is a critically important issue that has been further exposed by the COVID 19 pandemic. With many women performing a “double shift” of working full-time jobs and facilitating remote schooling, women have disproportionately left the workforce over the course of the pandemic. According to a 2020 McKinsey study, 25% of women are considering easing back on their professional goals or exiting the workforce. And these issues of gender representation have affected women of color to a greater extent, with women of color being the group most likely to be laid off or furloughed during the pandemic (McKinsey, 2020).

Even before the pandemic, women have been left behind in the professional environment. Women are losing out at all stages of the professional ladder, including recruitment, retention and progression (McKinsey, 2020). Negativity, bias, and lack of support leads to women dropping out of the labor force. This phenomenon has been observed in several industries, from academia (Griffith & Dasgupta, 2018) to STEM (Reilly, Awad, Kelly, & Rochlen, 2018).

Often this gender discrepancy in career progression is instilled at the outset. Lack of support or harassment inwomen’s early careers has lasting impacts on their personal aspirations and likelihood to advance to senior leadership (Azmat, Cunat & Henry, 2020). Beyond the detriment to their careers, negative results for women along the professional ladder lead to decreased sense of belonging, mental health, and job satisfaction for women, particularly women in male dominated industries (Rubin, Paolini, Subasic & Giocomini, 2019).

As for something as simple as safety, women are more likely to experience sexual harassment at work, with a minority of women particularly at risk (Berdahl & Moore, 2006). Several stakeholders and third parties have begun to analyze workplace gender equity by establishing metrics and frameworks to structure the discussion. Participants in this discussion include regulators, ratings providers, and accounting firms, all of whom are discussed in this article.

Women Losing out on Promotions

Women lose out on first promotion to manager. According to McKinsey's annual *Women in the Workplace* report, “For every 100 men promoted to manager, only 85 women were promoted—and this gap was even larger for some women: only 58 Black women and 71 Latinas were promoted. As a result, women remained significantly outnumbered in entry-level management at the beginning of 2020—they held just 38 percent of manager-level positions, while men held 62 percent.”

Lamentably, most efforts to date have centered on increasing female representation at the board and executive levels (Klein, Schwartz, & Hunt, 2018). While diversity on the board helps bring more diverse perspectives into corporate strategy, it does not affect women’s day-to-day lives (Hersh, 2016). While efforts by early movers thus far are admirable in their attempt to bring transparency and consistency to measurement, we believe that approaches still fail to capture a full picture of gender equity metrics. This article seeks to address the current state of workplace gender equity metrics, with a focus on middle market private equity-owned companies.

Addressing gender equity metrics through middle-market private equity firms

We believe that middle market private equity firms (defined in this case as holding $5-20b assets under management, or AUM) are an excellent place to focus efforts on quantifying gender equity because of the sheer number of people that they employ and companies that each firm owns. In other words, an effort towards quantifying gender equity metrics by a few middle market private equity firms would have an outsized effect on our understanding and treatment of women in the American workforce. Additionally, given that each PE firm owns several portfolio companies, a PE firm’s decision to better track gender-equity metrics would have a cascading effect on the number of companies that track gender-equity metrics. Nearly 200k firms comprise the US middle market, which generates close to $10 trillion in revenues. With over 50 million employees, middle market firms represent 26.8% of American revenue produced by American companies with more than 4 employees (Cian Investments, 2020). These firms employ roughly one third of the American labor force (O’Neill, 2021). A conservative estimate is that private equity firms own 3% of middle market firms, and employ ~1.5m Americans (Pitchbook, 2017). Further, considering the rapid pace of middle market PE acquisitions – current estimates show that PE owns 40% more middle market firms than in 2010 – a figure which is likely to grow (Pitchbook, 2017). An effort by few PE firms can effectively "set the pace" for the industry.

Given limited measurement in PE firms today, there is little published or disclosed on the topic. In comparison, disclosure in publicly traded firms is relatively more advanced. As such, this paper largely considers equity metrics in publicly-traded companies.

Literature review: Current stakeholders and their metrics

We undertook a literature review to better understand stakeholders’ involvement in establishing frameworks and metrics for evaluating gender equity in the workplace.

Increased Inequality for POC and the Trans Community

A critical layer of this conversation is intersectionality, or the ways in which race, class, gender, and other characteristics overlap or “intersect.” (Coaston, 2019)

Workplace inequities are even more pronounced when considering other groups - such as black and brown women and those with differing gender identities. An annual Lean In-McKinsey study found that black women are severely underrepresented in leadership positions, receive less mentorship and advancement opportunities than their white counterparts, and face more day-to-day discrimination, among other issues (Lean In, 2020). Trans and those with differing gender identities also face mistreatment at work. A large 2015 study found that 77% of trans employees took steps to conceal their gender identity and 67% reported negative outcomes such as not being hired, being denied a promotion, or being fired or forced to resign (Thoroughgood, Sawyer, & Webster, 2020). When considering gender equity metrics and programs, companies must also consider the ways in which intersectionality adds necessary complexity.

An Idealized State of Disclosure

A 2018 paper from Wharton’s Social Impact Initiative offers the most comprehensive review of metrics that paint a clear picture of an employer’s effect on its female employees.
The paper, Four for Women, took on a big task - not merely to propose metrics for ensuring that women are treated equitably, but to suggest metrics that analyze whether a company has a positive effect on its female workforce. They posit that neither nationally mandated disclosure laws on executive compensation nor policies and visible characteristics - such as mentoring programs, board-level diversity, lactation rooms, etc. - create a positive workplace environment for women. Instead, they focus on components of a job that affect women’s experiences on a day-to-day level. Four for Women presents the following statements, which again are related to a woman’s daily experience, which guide the framework. A company is a good employer of women if:

1. Representation: It employs a large percentage of women at every level and in every unit of the company;
2. Pay: It pays its employees at least enough to avoid poverty, pays equally for equal work, and has no gender pay gap;
3. Health: It supports and protects the health of the women it employs (and the men, too); and
4. Satisfaction: It provides satisfying working conditions for women (and for men, too).

A key component of Four For Women is its insistence on using highly-specific components and metrics to evaluate these four areas. We have listed below the components that make up each of the four tenets. We list the entire suite of metrics at the end of the paper.

Representation:

- Representation at all experience levels and business functions
- Pay

Sufficient pay for employees to avoid poverty:
- Equal pay for equal work
- No gender wage gap

Health:

- Health insurance
- Maternity leave
- Workplace fatalities and injuries
- Workplace stress
- Sexual harassment

Satisfaction:
- Job satisfaction (through employee surveys)

For several of the following stakeholders, we examined through the lens of the Four For Women Framework.

Regulation / Law

Representation

U.S. representation metrics are governed by the Equal Employment Opportunities Council, which collects data on companies with more than 100 employees[1]. The following metrics are collected:

- Sex and race/ethnicity of all employees
- Job categories of all employees
- Count of all full and part-time employees

1 In August of 2020, the US SEC adopted a rule requiring that public companies report on human capital management. The final SEC rule requires companies to provide “a description of the registrant’s human capital resources, including the number of persons employed by the registrant, and any human capital measures or objectives that the registrant focuses on in managing the business (such as, depending on the nature of the registrant's business and workforce, measures or objectives that address the development, attraction and retention of personnel)."

Pay

The United States is far behind other developed nations with regards to measuring workplace gender equity, including compensation. The United States requires limited disclosure requirements, as follows:

- Companies with 100 or more employees must file a form with the U.S. Equal Employment Opportunity Commission to disclose the gender composition and racial composition of employees in each major job category of the company.
- All companies must report the annual compensation of their CEO and the median pay of all employees (excluding CEO), and the ratio between these two figures. Additionally, public companies must report the compensation of top executives including CEO and CFO (Klein, Schwartz, & Hunt, 2018).

Notably, this information is not shared publicly but is merely retained by the government.

Meanwhile, other countries are making advances in both requirements on reporting and disclosure. Companies in the UK over 250 employees must annually report mean and median gender pay gap in hourly pay and bonus pay, and the proportion of employees earning bonuses by gender. Companies must also report the proportion of employees in each pay quartile by gender. Not only is this information required by the government, but companies must also report these statistics on their websites.

Health

The US requires little data and disclosure on company-level gender health metrics. The only required statistics are: workplace fatalities (to the Occupational Safety and Health Administration) and workplace injuries and illnesses (to the U.S. Bureau of Labor Statistics). Data is available publicly but in aggregate; company-level data is not made publicly available.

Satisfaction

There are no disclosure requirements for job satisfaction.

ESG ratings providers

ESG ratings providers are promoted as the private market antidote to lack of mandated disclosure requirements. Ratings providers such as Sustainalytics, MSCI, and Refinitiv assess, calculate, and report on a variety of ESG metrics. Investors looking to invest in public or private rated firms may find the ratings helpful when trying to deploy capital with sustainable businesses. They each treat gender diversity discordantly, with differing levels of emphasis. We have identified several crucial issues with relying on ratings providers for information.

- Opaque: ratings given by ratings companies are produced within a black box; there is little transparency into the inputs (data that is collected to be scored) (Kotsantonis & Serafeim, 2019), scope (which attributes are being evaluated) or the weights assigned to metrics (a subjective value that the ratings provider assigns to a data point).

- Not reproducible: due to the variety in data and scores, different ratings providers may and frequently rate companies with drastically different outcomes. A 2020 study examined the ratings two providers gave to Wells Fargo and Facebook. One provider gave Wells Fargo a score in the 77th percentile, while the other ranked it as 4th percentile. Facebook received one score placing it in the 90th percentile, and one placing it in the 39th.

Wells Fargo and Facebook are two of the biggest American companies and disclose much more information than an average middle market firm. Therefore, it’s conceivable that these discrepancies become starker as ratings providers examine smaller firms.

- Lack access to full data suite: ratings providers primarily rely on publicly available data including websites, annual reports, voluntary disclosures, and news stories. They may also use data that companies voluntarily provide to the ratings providers and/or information from employee surveys. Additionally, ESG ratings providers often contend with data gaps, wherein certain metrics, or metrics for a certain range of time are unavailable (Kotsantonis & Serafeim, 2019). As such, they are operating with a limited set of data points that may only provide a partial picture of the company at hand (MacMahon, 2020).

Accounting & disclosure frameworks

Frameworks such as the Sustainability Accounting Standards Board (SASB) and the Global Real Estate Sustainability Benchmark (GRESB) serve an important, but different role in the disclosure landscape. These serve as frameworks for companies to use when determining which metrics to account for. At present, reporting along these frameworks is a voluntary process, wherein companies or private equity firms may elect to go through the process of taking stock of their ESG profile

SASB

Unfortunately, SASB offers little guidance in the way of gender equity metrics. Under the heading of “Human Capital,” it offers three areas to evaluate: Labor Practices, Employee Health & Safety, and Employee Engagement, Diversity, & Inclusion. Notably, these areas do not apply to all sectors and sub-sectors. The implication is that measuring issues of human capital apply only to certain sectors. For example, the Employee Health & Safety Metrics includes “Number of reported cases of silicosis” which applies to Construction Materials. Under Employee Engagement, Diversity, & Inclusion Metrics, “Employee engagement as a percentage” applies to E-Commerce and Professional & Commercial Services, among others, but by no means all.

Despite the effort, there exist several issues in these metrics illustrated by these examples. In the case of the Health and Safety Metrics, there is no mention of health issues that affect genders differentially such as pregnancy care or maternity leave. There is only an effort to collect metrics at an aggregate and not gender level. As for employee engagement, there is merely a general theme of “employee engagement,” and no guidance as to more specified components of the metrics, such as what specific metric through which to analyze engagement, and how to collect it.

GRESB

GRESB, designed to specifically address real estate businesses, offers even less guidance in the way of gender equity metrics. It suggests collecting information on gender pay gap and gender ratio (percent of employees who identify as female versus male) at the firm and asset level. There is no mention of satisfaction or health.

Exchanges (NASDAQ, NYSE)

Stock exchanges are another group that is attempting to create gender equity standards and disclosure requirements. Exchanges’ rules and disclosure requirements focus more on representation at the board or executive level, and do not focus on the ways in which company practices and policies affect women daily. Though they govern public companies, and by nature not private equity owned middle market companies, we feel that their oversight is an important element to layer into this discussion.

New York Stock Exchange
NYSE recently set up an advisory council to help listed companies identify diverse board candidates. But this is not a mandate, and therefore is not enforced (Osipovich & Otani, 2020).

Conclusion

Despite a concerted effort by regulators, ratings providers, accounting boards, and exchanges, we feel that there remains a critical gap in appropriate metrics. The Four For Women authors note that their paper is “a starting point – not an ending point – for better measurement of the outcomes that make a company a good employer for women.” Yet it is a strong start, and much more comprehensive and powerful than anything else presently available.

With Impact Delta’s mission of promoting responsible capitalism, we aim to create a more sustainable economy that benefits all participants - regardless of gender, gender identity, race, ethnicity, or class. Keeping in mind Peter Drucker’s quote, “What gets measured gets managed,” we believe that measurement is a critical place to start when considering building a capitalism that works better for all.

In line with this push towards measurement, we have built Flores, a tool to help private asset managers manage the ESG components of their portfolio companies. Of course, gender equity is a key component. Inspired by the Four For Women framework, we are building out capabilities to measure many of their suggested metrics. With the sheer number of middle market firms, and growing private equity ownership of many middle market firms, we believe this tool can impact many American workers' lives.

Appendix

Full Suite of Metrics from Four For Women Representation

Note: Women make up 43% of the American full-time workforce. Therefore, 43% is an important figure to use when initially benchmarking a company’s gender representation

Representation

1. Gender diversity within the company as a whole
2. Gender diversity within units of the company, including:
    a. Gender diversity within each level of the company
    b. Gender diversity within each pay quartile and decile of the company
    c. Gender diversity within each major division of the company
    d. Gender diversity within each of the major occupations of the company
    e. Gender diversity within each major job category of the company

Pay

1. Poverty pay by gender
2. Minimum hourly pay by gender and part-time vs. full-time status
3. Mean and median hourly pay by gender
4. Mean and median bonus pay by gender
5. Mean and median hourly pay by gender and units of the company, including:
    a. Mean and median hourly pay by level and gender
    b. Mean and median hourly pay by division and gender
    c. Mean and median hourly pay by major occupation and gender
    d. Mean and median hourly pay by each major job category of the company and gender

Health

1. Workplace fatalities, by gender
2. Workplace injuries and illnesses, by gender
3. Employer-sponsored health insurance
4. Compliance with Affordable Care Act (ACA)
5. Health insurance eligibility for full-time employees, by gender
6. Health insurance eligibility for part-time employees, by gender
7. Health insurance eligibility for family members
8. Contraceptive coverage
9. Paid maternity leave – potential and actual
10. Workplace stress, by gender
11. Employee experiences of sexual harassment, by gender
12. Organizational climate for sexual harassment, by gender

Satisfaction

1. Job satisfaction, by gender

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