Mercer

welcome to brighter

Stepping up for equity

How employers can close the career, health and wealth gaps faced by Black American workers

When people thrive, societies thrive

Foreword

We all want to live healthy lives, pursue fulfilling careers and build secure futures for ourselves and those we care about. But not everyone has equal access to these opportunities. Gaps in pay and career progression, health and wealth adversely affect people of color in the US — particularly Black Americans.

It can be complex and challenging to identify and correct the root causes of workforce inequities. It's a significant task, and the challenge is often where to start. The good news is that companies have the tools to uncover the extent and sources of the gaps and then remedy them. Employers can be a significant part of the solution to help close society's gaps.

We undertook our *Stepping Up for Equity* study to help employers craft a clear, comprehensive and impactful roadmap for closing the career, health and wealth gaps in the US workforce for Black employees. The study follows the general methodology of Mercer's *When Women Thrive* global research, which we've conducted since 2014, combining a comprehensive survey of organizations' practices and outcomes bearing on these gaps with learnings from our extensive work with clients in these areas. In *Stepping Up for Equity,* we also explore new avenues given that the landscape of programs and practices in the diversity space are rapidly evolving. We aim to understand not only what actions companies are taking to close gaps but which ones are having the most impact. Our sincere thanks and gratitude to the organizations that took the time and effort to contribute to this study.

Mercer's research has shown that diverse organizations are healthier, more productive and better able to solve problems, creating more thoughtful and innovative solutions that serve a wider base of customers. That creates a positive flywheel — better business outcomes, customers' needs are being met in a better way, all the while creating individual and societal benefits. If enough companies address this together, we will begin to see real progress.

Change is possible if we work together. And that change is up to all of us.

The time for action is now.

Warm regards,

Martine Ferland, President and Chief Executive Officer, Mercer
Sandra Pemberton, Senior Client Manager, Mercer

Channeling energy into action

The recent heightened focus on social justice in the US has illuminated an array of longstanding disparities facing the Black community in the workplace. Traditionally, the focus on racial equity in work has largely homed in on unemployment rates and representation in higher-level positions. The real disparities, however, run deeper and broader and are often underpinned by unseen connections.

While representation of Black employees in the US workforce is critical to closing the career, health and wealth gaps, in this report, we ask a different set of questions: "What happens to Black employees after they are hired?" and equally important, "What role can employers play in closing the gap for Black Americans?"

We ask these questions to challenge the inequities rooted in the workplace and because these gaps make it imperative for responsible employers to act. Employers recognize this as well, as evidenced by the intense commitment many US companies have made over the past two years to improve racial equity within their own walls. There is no question that employers have taken actions to address the gaps facing Black employees. Our question here is: Which of those actions have actually made a difference? We firmly believe that US companies can help close persistent career, health and wealth gaps that adversely affect Black employees by targeting actions on factors under their control as employers.

Accelerating meaningful and sustainable change demands an impact- and data-driven approach. As a result, employers have a unique opportunity to step up their efforts to deliver the career equity, physical and financial health, and belonging that Black employees in the US workforce need to thrive.

About this report

The report comprises workforce data and survey responses from 52 companies across the US — representing **more than half a million employees in total.**

The survey was conducted from September 8 to November 5, 2021.

Survey participants represent a broad range of publicly traded companies and industries.

Identifying root causes

Progress on racial equity has been frustratingly slow, which is reflected in these findings. Our study points to major career, health and wealth gaps for Black employees in the US and indicates that low uptake continues in some of the programs that could help mitigate these gaps. However, our study shows some of these efforts are already underway or in their early stages. Others are quicker wins that could easily be set in motion.

We note that the long journey toward gender equity progressed at a similarly glacial pace. Our work has shown that those outcomes accelerated significantly once employers understood the value of women in their workforces and prioritized efforts to drive career, health and wealth equity for women. Although it would be naive to assume that the journey to workforce gender equality provides an exact blueprint for achieving racial equality, we are confident that some lessons learned along the way can still apply if similar levels of employer commitment and action are brought to bear.

Our findings provide guidance for employers on how to make a meaningful and sustainable difference:

1. **Target turnover:** Typically, recruiting and hiring are the primary actions for most organizations trying to increase representation of Black employees, especially at senior levels. Our data show that companies would be better served by focusing more effort on improving retention levels among this population. US organizations are hiring Black talent at a robust pace, but much of that talent isn't staying. The resulting turnover cuts careers short, reducing the likelihood of Black employees advancing to higher career levels. Plus, it does little to help increase long-term gains in the actual representation of Black employees in the workforce.

2. **Pivot the pipeline:** Organizations have not yet developed strong internal talent pipelines for Black employees — particularly managers. Changing this dynamic will require challenging traditional succession and promotion practices to access previously untapped sources of talent.

3. **Create pay and career equity:** Achieving pay equity by race has become a more conscious part of many organizations' compensation philosophies. Achieving statistical parity in pay is foundational but is only part of the story of what constitutes equity overall, even with respect to pay. Understanding the degree and sources of inequity in advancement, career development, performance management and rewards, among other areas, is vital to attaining full racial equity in the workplace.

4. **Dig into disparities:** The data needed to identify disparities and close gaps are often at hand, but adequate practices are not yet in place to use data to optimize the effectiveness of corporate diversity, equity and inclusion (DEI) efforts. Robust health and financial well-being data are especially valuable in addressing endemic disparities that impact the Black workforce. Unfortunately, many companies lag in leveraging these powerful insights.

5. **Explore employee experience:** Workplace experience plays a critical role in development and retention. Companies cannot address equity without ensuring equal inclusion and belonging for Black employees. The data point to significant disparities in how employers approach the issue.

6. **Target transparency:** Pressure is increasing from many internal and external constituencies to visibly improve corporate DEI outcomes. The rapid rise of environmental, social and governance (ESG) investing is bringing considerable pressure to bear on publicly traded companies to disclose what they are doing to address equity. Customers and activist investors are increasingly demanding progress on DEI. Internal pressure from employees has also grown significantly over the past few years. Across multiple fronts there are new demands on companies to openly share and address data about historically sensitive and legally protected issues.

7. **Too soon to know:** US companies are eager to identify the most impactful strategies to close workforce gaps among Black Americans. Our study found that while organizations are experimenting with a broad range of actions, it remains to be seen whether these interventions will result in meaningful and sustainable change.

Contents

01.

Target turnover

Hiring has been the primary focus of most organizations working to increase representation of Black employees. And why not? It seems logical that adding diverse talent to the workforce will eventually result in a more representative workforce. Yet data show that companies can better accelerate progress by achieving higher retention levels, which translates into a very different set of actions to ensure progress.

To measure the diversity of the workforce, some organizations look no further than simple and static breakdowns of gender, race/ethnicity, etc. However, representation is dynamic, varies by level and is driven by three components: hiring plus promotion and retention.

A key part of this *Stepping Up for Equity* study was understanding how Black talent flows through participant organizations across these critical areas. To do this, we used Mercer's proprietary Internal Labor Market (ILM) map, which shows that organizations have been working diligently to attract and hire more Black employees (see Figure 1). Despite this, we note an acute challenge in disproportionately high turnover rates among Black employees — particularly in the support-level jobs and managerial roles that should be feeding talent into higher levels and, ultimately, executive ranks.

Our ILM map (Figure 1) shows consistent over-indexing in hiring Black employees — an effort to increase representation across the board, not just in the highest-profile positions. This is good news on the surface. Hiring rates that favor Black talent are an important indicator of employers' commitment to closing the representation gap. More than half of survey participants are leveraging tools to further support this effort, with 55% reporting that diverse candidate slates provide high or moderate efficiency as a strategy for driving equity and 57% reporting the same outcome for diverse interview slates (see Figure 2).

What is an Internal Labor Market map?

The patterns through which people are selected into an organization, learn, develop, perform, advance and ultimately choose to stay or leave characterize an "internal labor market" or ILM.

An ILM map for the organization visualizes the talent flows of that workforce across career levels, forming a "system at a glance" view by showing the entry and exit of talent by career level and the various rates of advancement from lower to higher levels. Breaking down this information further by race or gender can deliver valuable insights, such as:

- **Balance, or imbalance, of representation of various groups by career level**
- **The degree of organizational or career hierarchy and the overall velocity of talent movement in, through and out of the organization over time**
- **The extent to which an organization "buys" its talent via hiring or "builds" its talent through promotion — which can disproportionately affect different subgroups**
- **The presence of bottlenecks in rates of advancement overall and for any given group**
- **Unwanted differences in talent losses between different groups**

At Mercer, we use ILM maps to offer essential insights to organizations. They serve as a starting point to identify where and what interventions are needed. For this research, we have aggregated the ILMs of 22 companies, representing nearly 114,000 employees.

Figure 1. Internal Labor Market map

Career level	Total hires	Average representation (Black / Non-Black)	Total promotions	Total exits
Executive	Black: 40% Non-Black: 6%	3% / 97%		Black: 16% Non-Black: 10%
Senior Manager	Black: 16% Non-Black: 11%	2% / 98%	Black: 1% Non-Black: 2%	Black: 8% Non-Black: 12%
Manager	Black: 18% Non-Black: 13%	4% / 96%	Black: 6% Non-Black: 6%	Black: 20% Non-Black: 12%
Professional	Black: 41% Non-Black: 23%	6% / 94%	Black: 4% Non-Black: 3%	Black: 18% Non-Black: 18%
Support Staff	Black: 52% Non-Black: 27%	13% / 87%	Black: 7% Non-Black: 8%	Black: 34% Non-Black: 20%
Overall	Black: **45%** Non-Black: **22%**		Black: 5% Non-Black: 5%	Black: **26%** Non-Black: **17%**

Overall representation: **8% Black | 92% Non-Black**

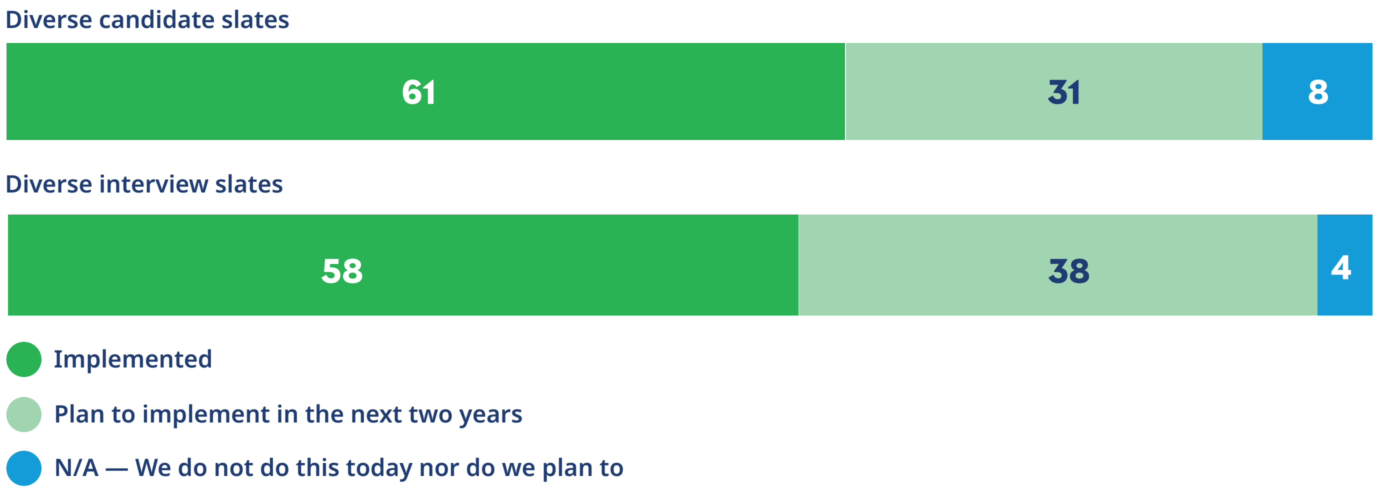
Black

Non-Black

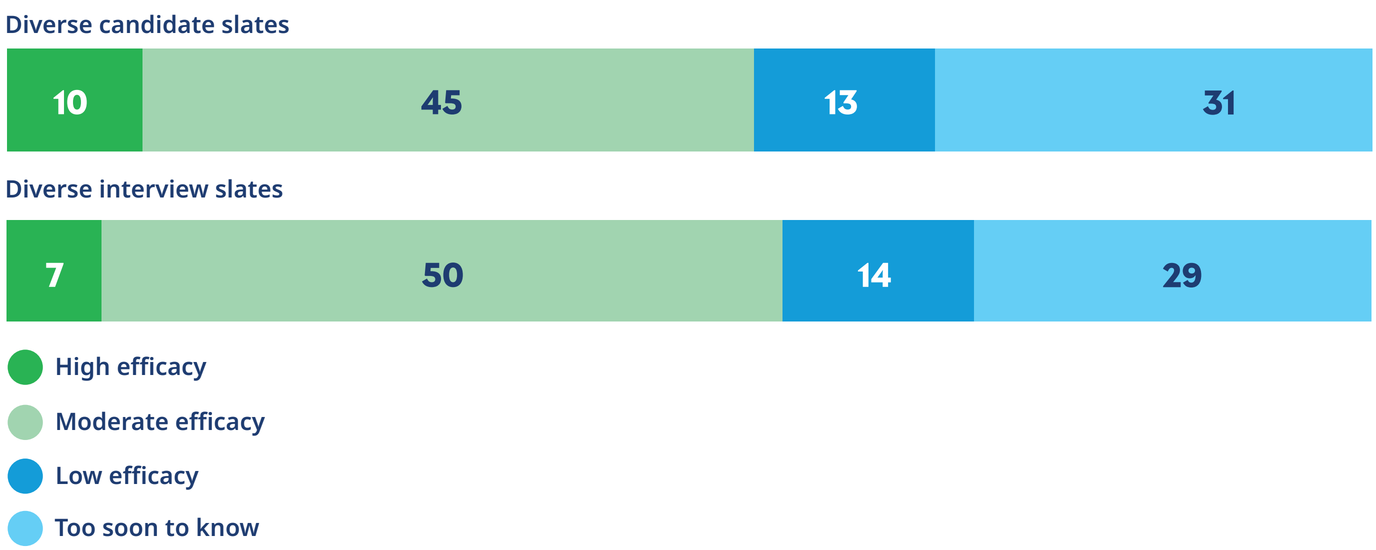
Note: ILM map reflects average representation and talent flows over the most recent 12 month period across 22 participating organizations. The rates shaded in pink highlight where Black employee hire, promotion or exit rates are unfavorable as compared to non-Black employee rates.

Figure 2. Diverse candidate and interview slates

Which of the following talent acquisition strategies has your organization implemented? (prevalence)



How well have each of the talent acquisition strategies served to increase the hiring rates of Black employees in your US workforce? (efficacy)



The emphasis on hiring is understandable. With low representation in the workforce overall in many occupations, employers must continue to work hard to expand their populations of Black employees. Yet, as Figure 1 above shows, this flurry of hiring has not significantly increased overall representation.

So, what's happening?

Turnover is draining the talent pipeline

The story about attrition told in Figure 1 is critical. Representation is important, especially at senior levels, but disproportionate attention is being given to a ramp-up of talent acquisition, while developing and retaining employees is not keeping pace.

Turnover rates are substantially higher for Black employees, at 26% compared to 17% for non-Black employees. The turnover rates are especially high for both support staff and manager career levels, which undercuts the increasing flow of Black talent into organizations — especially at manager level, typically the gateway to the more senior leadership ranks.

Hiring is essential for driving representation, but filling the pipeline from the outside is not sufficient if talent is draining out before the pipeline can sustainably deliver needed talent from within. This challenge will be particularly acute for organizations that maintain a build-from-within orientation in their talent strategies.

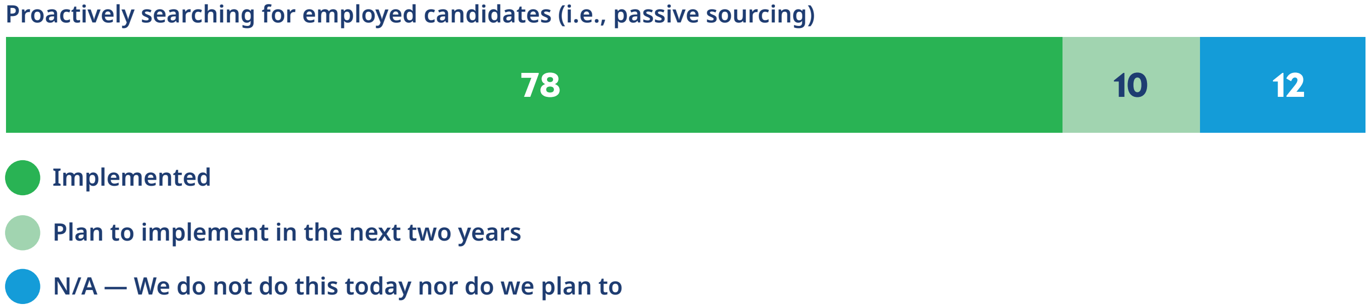
This idea of recycling the pool is supported by survey data — where 78% of companies say they have implemented passive sourcing (that is, proactively identifying and establishing relationships with desirable workers in anticipation of future openings or opportunity hires) or are looking for already-employed candidates (see Figure 3).

Companies were split on whether passive sourcing for diverse candidates is a successful technique — but it is too soon to know how well this strategy is delivering for companies. In fact, it may be contributing to high rates of churn among the Black workforce, so the overall effect may be detrimental to both representation and equity.

Figure 3. Passive sourcing of Black candidates

Which of the following talent acquisition strategies has your organization implemented?

Proactively searching for employed candidates (i.e., passive sourcing)



Misdiagnosing the problem

The overemphasis on hiring is pervasive. Companies seem to be unaware of the degree to which turnover of Black employees is undermining their efforts, and they still see hiring as the primary or only solution to improving representation.

This is a fundamental disconnect for companies, many of which still report that sourcing and hiring are their most significant challenges. When we asked organizations what they found most challenging, hiring was the most popular answer. Notably, fewer respondents reported that retaining Black employees is challenging for them (see Figure 4).

Why are Black employees leaving? Our study didn't probe the question specifically, but getting very precise answers is becoming easier in this age of Big Data and analytics. There are effective ways to identify and prioritize the drivers of turnover using rigorous empirical methods that draw on workforce data that companies already have available. Rather than relying simply on exit interviews or other qualitative assessments, organizations can learn much from analyzing the running record of actual turnover. This can help them uncover the predictive antecedents of turnover and develop retention policies that target the drivers unique to their challenges.[1]

Figure 4. Assessing the challenges to Black equity

[1] A detailed review of this methodology and the value of turnover modeling can be found in Nalbantian HR, Guzzo R, Kieffer D and Doherty J. *Play to Your Strengths: Managing Your Internal Labor Markets for Lasting Competitive Advantage*, New York: McGraw Hill, 2004.

The hidden cost of turnover

The net effect of robust hiring with high turnover can be a spiraling deficit for both organizations and their Black talent.

Turnover can be costly for companies. Higher tenure is not only associated with better individual outcomes — such as performance ratings — but also, in many cases, with positive business impact.[2]

High turnover of Black talent prevents companies from building up a strong, diverse pipeline of Black employees within their organizations. No matter how competent replacement hires are, they will lack the firm-specific institutional knowledge and internal support networks that can ensure their success — and by extension, the company's success as well. That firm-specific human capital is a valuable commodity that takes time and resources to replenish.

On the employer side, turnover can be costly, and companies need to be wary of the presumed quick fix of hiring senior Black talent. Instead, they should focus hiring on the right levels and help these employees percolate up into senior levels over time. Also consider the troubling message high turnover sends to Black employees, raising the question, "Do I have a long-term future here?"

Turnover is equally disadvantageous for Black employees. There may be a short-term benefit — in the form of a pay bump — from carousel employment, but there is also a risk of precluding long-term career development. When employees are removed from the talent pipeline, they are deprived of the ability to build up valuable reservoirs of belonging and firm-specific human and social capital that help ensure they thrive and prosper. Moving to a new firm means beginning again at square one to build these important reservoirs of knowledge and support. This reset will negatively impact a Black employee's ability to survive and thrive in an unfamiliar company.

This means that while switching firms may improve the earnings of a small number of Black professionals, it can adversely impact aggregate Black wealth over time. Likewise, companies should be wary of thinking that hiring Black talent at senior levels can be a quick substitute for promoting Black employees up through the organization's ranks. These senior hires, generally in high demand in the market, will be at greater risk for churn themselves because they lack the firm-specific human capital to help them succeed with their new employers.

[2] Guzzo, R. A., Nalbantian, H. R., & Anderson, N. L. (in press, 2022). "Age, experience, and business performance: A meta-analysis of work unit-level effects". *Work, Aging, and Retirement.*

02.

Pivot the pipeline

Organizations have yet to develop strong internal talent pipelines for Black employees — particularly managers. These pipelines will require accessing previously untapped sources of talent.

High turnover of Black talent is one factor that prevents companies from building up a strong, diverse talent pipeline of Black employees. No matter how competent replacement hires are, they will lack the firm-specific institutional knowledge and internal support networks that can ensure their success — and by extension, the company's success. That firm-specific human capital is a valuable commodity that takes time and resources to replenish.

Promotion rates don't tell the entire story

The ILM map shows that Black workers get promoted at roughly the same rates as their colleagues (see Figure 1). Although promotion rates are comparable, due to underrepresentation (8%, see Figure 1), the overall pool of Black employees simply isn't substantial enough to support a build-from-within strategy. It's important to note that these are raw data. In our work with clients, multivariate statistical modeling typically shows significant disparities in promotion probability for Black employees once we've accounted for other relevant factors that drive promotion, such as ratings, education, type of job performed, etc. As with turnover, the simple descriptive data can disguise profound underlying differences that appear once "apples-to-apples" comparisons are made.

People manager roles are critical

The survey data bear this out, as representation of Black employees in leadership still significantly lags (see Figure 5). Manager roles are particularly critical, not only for representation but also for driving outcomes and career advancement among all Black employees (see Managers Matter sidebar).

Consider the experience of promotion

Although 58% of companies say they have a formal succession planning process for all employees, less than 10% say these efforts are very successful for driving career progression for Black employees or supplying their pipelines with Black talent (see Figure 6). This may show that companies lack an effective formal succession planning process, or it may be that their formal process is still at an early stage of development. Ultimately, it may just be too soon to know. Companies report even less confidence in the value of their formal career development and sponsorship programs. Less than half of companies are even tracking career mobility by race/ethnicity (see Figures 6 and 7).

Figure 5. Black representation in leadership and people manager roles

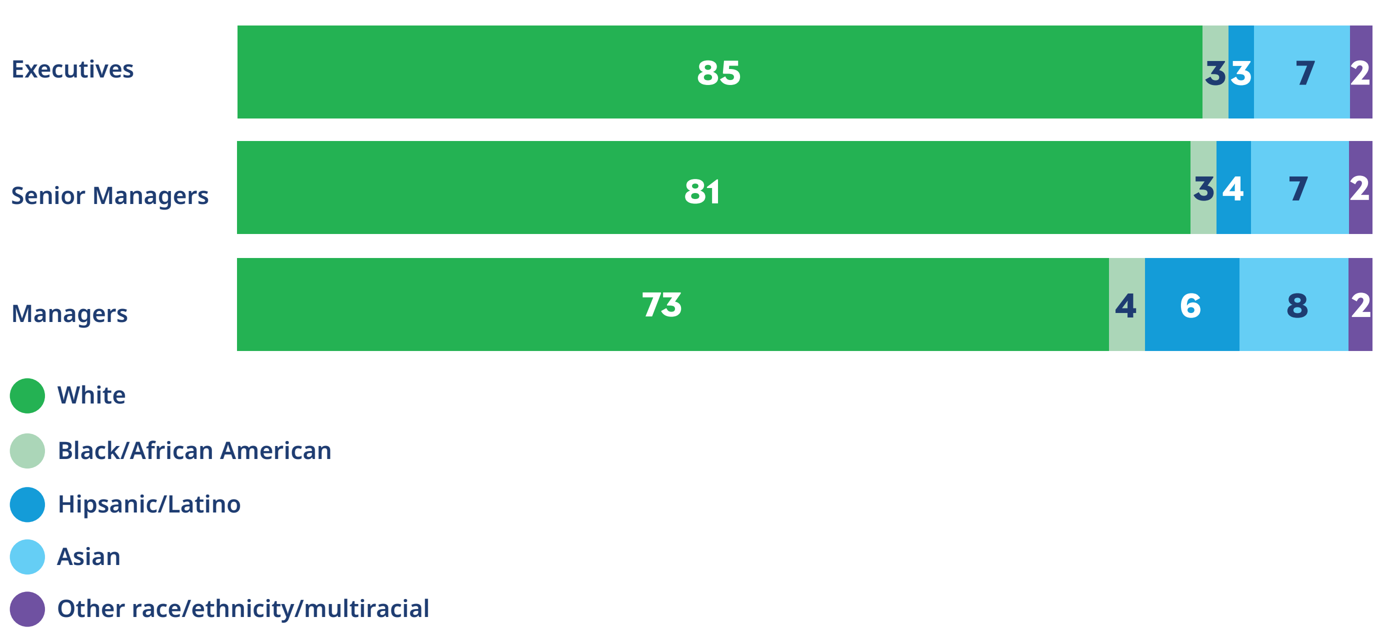


Figure 6. Success of programs for Black employees

What actions does your organization have in place to prepare and support talent for future leadership roles?

How successful have these efforts been in driving career progression of Black employees to more senior leadership roles?

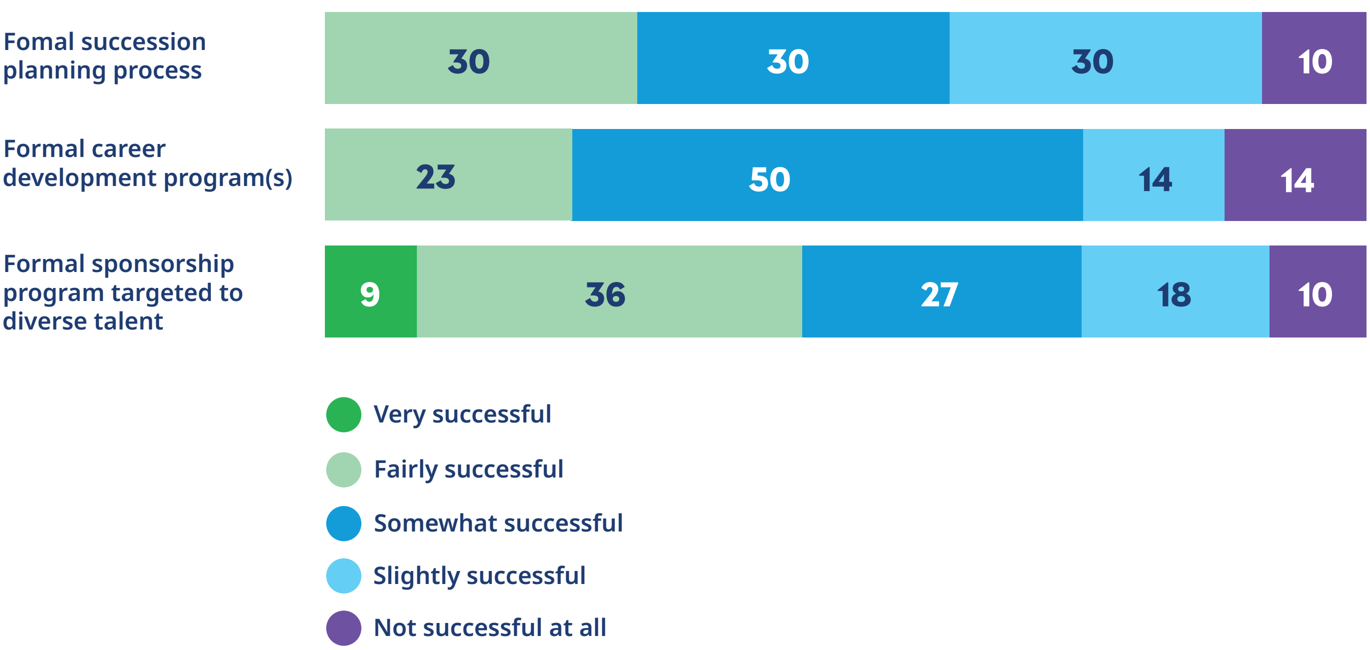
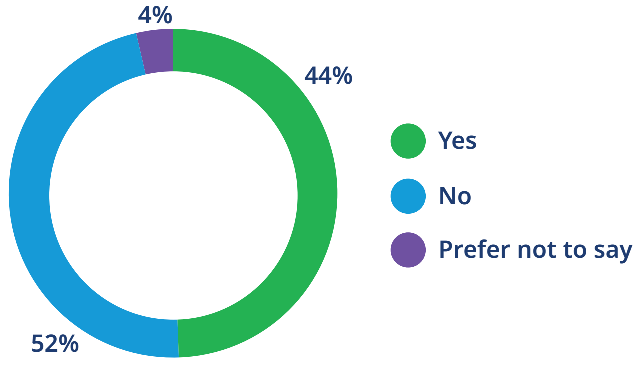


Figure 7. Tracking career mobility by race/ethnicity

Does your organization track internal career mobility



Cultivate new internal sources of Black talent

Companies can build a stronger overall pipeline by sourcing and developing talent from new places, such as their existing pools of nonexempt Black employees. Indeed, more employers have come to recognize that reservoirs of talent within the nonexempt ranks could be tapped for effective professionals and managers if given the opportunity. Because Black employees tend to be more concentrated in lower-level, nonexempt jobs, finding a way to transition more nonexempt employees to exempt roles could particularly benefit employees and employers.

Some roles and jobs require professional backgrounds and experience that simply aren't present in the nonexempt population, but that is not universally true. In many companies, firm-specific human capital creates premium value — that is, knowledge of the product, customers, process, technologies and co-workers drives higher productivity. The presence of this knowledge — a kind of human capital — may override other shortfalls, which could be addressed on the job.

Companies prioritizing hiring new Black employees over promoting incumbent Black employees should provide those hires with adequate networks, experience and support, helping them thrive in an organization that is otherwise oriented to favor candidates who are promoted from within.

Managers matter

Our work with clients shows that simply being in a manager role can strongly accelerate career progress and advancement. However, we see a pattern where Black employees, people of color generally and women tend to have lower representation in people-manager roles.

This gap is particularly critical for Black employees as it compounds prevalent disparities in performance ratings that also impede career advancement.

Getting into managerial roles is critical for Black employees if they are to step into senior management and executive roles. It is also important for lower-level Black employees to see people who look like them in higher-ranking positions. Managers are conduits of organizational practices and culture that affect the careers and experiences of subordinates, so representation ensures that the Black experience in the organization carries equal influence when it comes to building programs, processes and culture.

Despite the importance of Black people managers, ILM data show us that companies are focusing most closely on high-profile Black representation at the executive level (see Figure 1). These executive roles are disproportionately filled externally, so they do not reflect a healthy pipeline of candidates or significantly impact the advancement or representation of lower-level Black employees.

The critical work of representation, therefore, will be more impactful at lower managerial levels that ultimately feed the executive ranks, and that is where companies should begin to build solid succession pipelines.

03.

Create pay and career equity

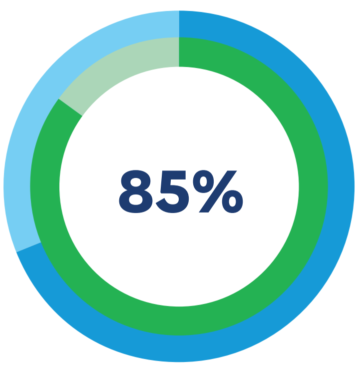
Achieving pay equity by race has become a more conscious part of organizations' compensation philosophy. However, many pay equity assessments do not tell the whole story — not even the whole compensation story.

Achieving pay equity by race has become a focus for many organizations, and they have been diligent in examining and consciously acting on that data.

Companies are tracking pay equity closely

A full 85% of companies say they are assessing pay equity. This is particularly impressive when we reflect that only 69% of companies in our 2020 *When Women Thrive* report said pay equity was part of their organization's compensation philosophy/strategy (see Figure 8). However, although the vast majority of companies report tracking pay equity, only a quarter of them (26%) describe their efforts as "very effective" in achieving pay equity for Black employees, indicating the challenges of closing compensation gaps in a dynamic, ever-changing world.

Figure 8. Assessing the effectiveness of pay equity efforts



85% include pay equity part of the organization's compensation philosophy/strategy, compared to 69% in 2020

2022, *Stepping Up for Equity*

2020, *When Women Thrive*

How effective have your pay equity efforts been in achieving pay equity for Black employees specifically?

- Very effective
- Fairly effective
- Somewhat effective
- Slightly effective
- Not effective at all

Companies may be responding more to external regulation than internal factors as a motivation for tracking pay equity. When we look at the reasons companies are tracking, nearly half (45%) cite meeting legal compliance, whereas only 14% say they are responding to internal or external pressures (see Figure 9). It is worth noting that both these reasons have increased from our 2020 *When Women Thrive* data, where only 21% cited a need to meet legal compliance, and only 3% said they were responding to pressure. This would suggest that increased regulation and social pressure are having a rapid, material effect on company behavior.

Although this external pressure may still be limited, it can be dramatic. For example, in early 2021, Arjuna Capital released the fourth annual edition of its Racial and Gender Pay Scorecard, which examines the quantitative actions companies are taking to close workforce pay gaps. The results: Fewer than one in 10 got an "A," while more than half received an "F," reflecting a failure to disclose. This type of exposure palpably raises pressure on companies to disclose and, therefore, to focus on pay equity gaps and workforce representation issues; increased attention and action are inevitable.

This is certainly what we're observing in our client work, where the past few years have seen a surge in the number of clients proactively assessing pay equity using objective statistical methods. Concerns about racial equity in pay parallel the attention to gender pay equity. Although complete success at achieving statistical pay parity remains elusive, the good news is that companies are acting aggressively to close and monitor gaps regularly to ensure against slippage. Since pay equity is a leading indicator of better results on current and future representation, this suggests that major improvements in the trajectory of Black representation in management and leadership are likely.

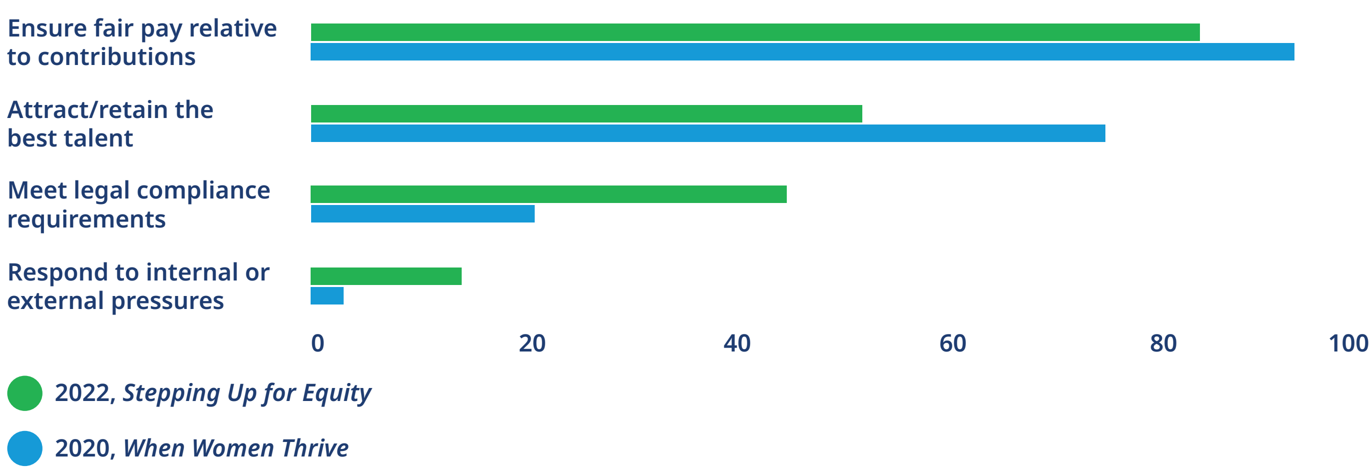
Tracking career equity is equally important

Pay equity is a necessary foundation for creating more fully equitable workplaces. Employers will find it challenging to work on career equity — equal opportunities to advance into high-earning roles — without first ensuring equitable pay; that is, equitable rewards within roles.

Indeed, the pervasive differences in Black-white presence at higher career levels contribute to the reemergence of pay inequities following an employer's efforts to restore pay equity at any given point. This makes it important to track not only pay equity but also career equity — the opportunity for progression into the more highly compensated positions — for Black employees. Career equity will also contribute to closing the nation's Black-white wealth gaps.

Figure 9. Reasons for tracking pay equity

My organization's primary objectives for analyzing pay equity are to:



Understand asymmetry in performance management

Likewise, we often find that Black employees are less likely to receive the highest performance ratings.[3] Unfortunately, this is an almost universal pattern we find when we undertake ILM analyses with clients, and it is most acute and persistent for Black employees. As high ratings almost always lead to better pay and a higher likelihood of promotion and are also associated in most organizations with higher retention rates, disparities in ratings systematically undermine the ability of Black employees to thrive at work.

Such disparities can also distort statistically based pay equity comparisons. Because these often account for performance ratings, eliminating bias in ratings is critical to ensure pay equity, just as it is for career equity.

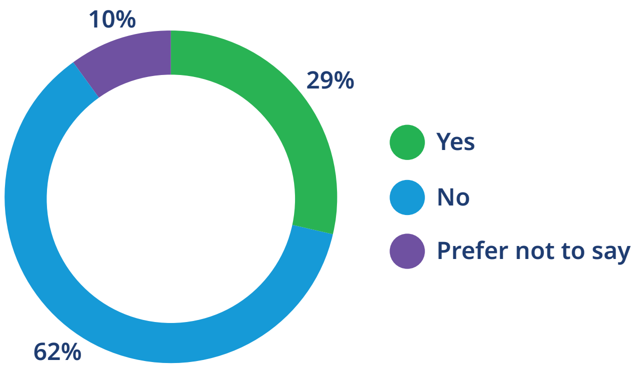
Companies can identify disparities in their performance management processes by simply looking at this data through the right lens. But only 29% of companies are routinely reviewing performance management data by race/ethnicity.

Of those who do track performance management data by race, 25% have found evidence of inequity. It's worth noting that 19% of companies say they would prefer not to disclose whether they have found evidence of inequity, so in reality this number may be much higher (see Figure 10).

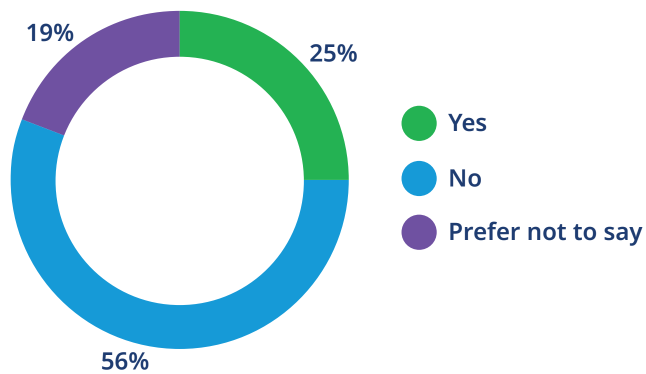
Yet 38% of companies are not tracking perceptions of fairness of the performance management process (see Figure 11). This is a huge opportunity for companies to gain a better understanding of the impact of reviews and potentially identify areas of concern for further investigation.

Figure 10. Tracking performance management data by race/ethnicity

Does your organization routinely review performance ratings by race/ethnicity?



Has your organization's assessment of performance ratings revealed any evidence of inequity in the distribution of ratings by race/ethnicity?



[3] Nalbantian HR, Guzzo R and Berg A. "Workplace Inequities Contribute to the Black-White Wealth Gap," *BRINK*, June 18, 2021.

As noted above, 25% of companies have found inequities in their performance management processes. Anecdotally, we can confirm that this number is probably even higher as the companies measuring inequity are also more likely to be working to eradicate it. There are deep biases ingrained in review processes that have yet to be fully addressed by organizations.

Mercer ILM findings show a pattern where Black employees are less likely to receive high ratings than white employees — a pattern uniquely persistent across organizations. Yet our survey shows that only half (48%) of companies offer supervisors bias training for the performance management process (see Figure 12).

Of course, these observations are based on patterns observed in our data, and it's important to note that there are always exceptions to general patterns. Moreover, not every pattern will apply to every employer.

Figure 11. Tracking perceptions of fairness by race/ethnicity

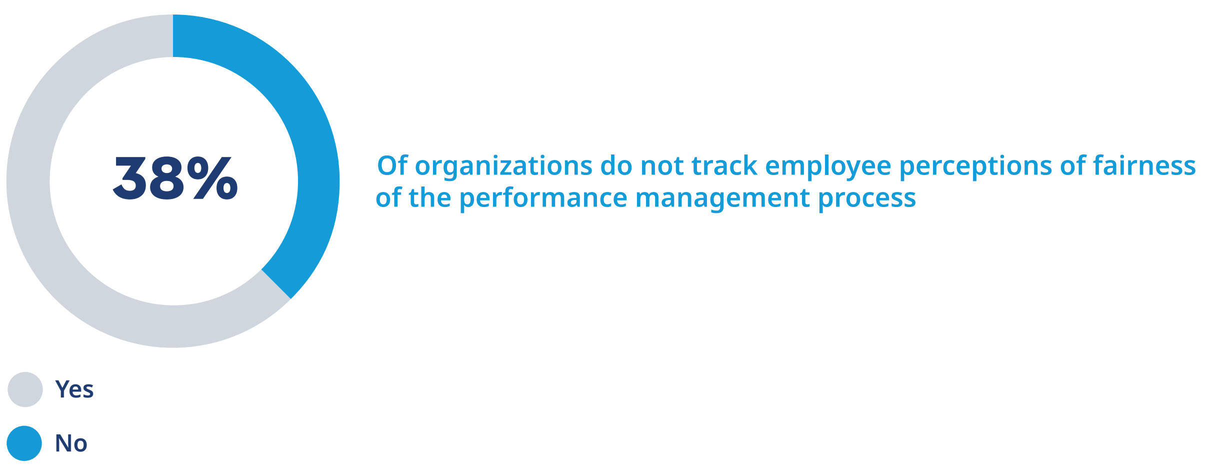
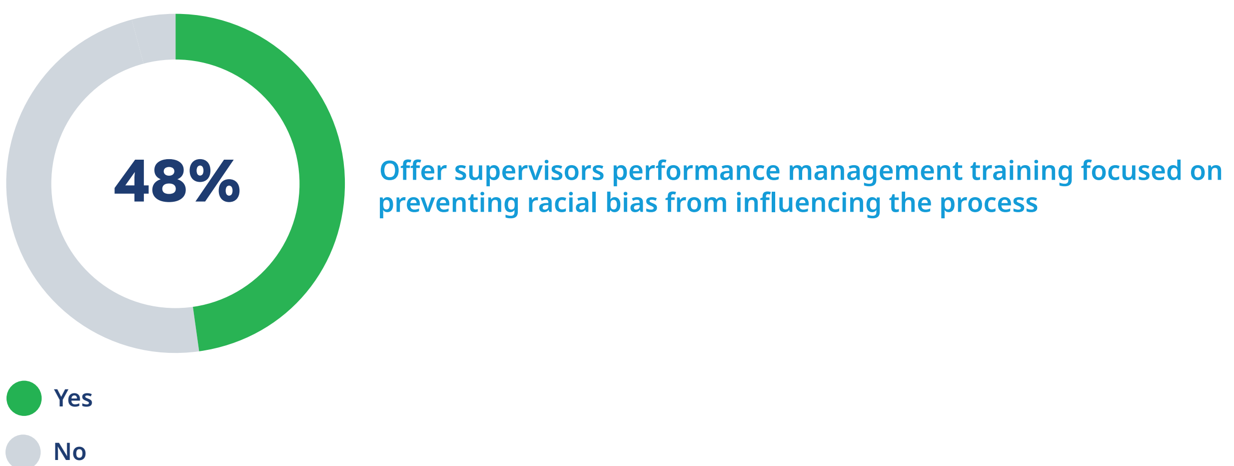


Figure 12. Bias training for performance management



Identifying systemic barriers to thriving careers

Take, for example, the case of a leading financial services company deeply committed to increasing Black employees' representation in its leadership ranks and overall workforce. The company undertook an evidence-driven approach to identify current disparities and their root causes. The revealed facts painted a troubling picture of systemic and pervasive inequities.

In this example, Black employees fared poorly in pay and career advancement. Their pay was significantly below that of white peers after adjusting for other factors that legitimately make for differences in pay. The career perspective was even more discouraging: All else being equal, Black employees were 18% less likely to be promoted than otherwise comparable white employees and were 16% more likely to leave the employer in any given year. Promotion and turnover differences presented significant challenges to fulfilling the commitment to increase Black employees' representation at all levels.

These were the unexplained disparities. A large part of the "explained" differences arose from serious inequities in performance management. Year after year, all else being equal, Black employees were about half as likely as white employees to receive the highest performance ratings. Further, employees who received a high rating in one year were six times more likely than others to have another one in the next year, a dynamic that worked to keep Black employees from breaking into the high-rated category.

As ratings tend to link directly to virtually all other outcomes, significant disparities in ratings can cascade, creating more inequities at work. That was certainly the case at this company. The grinding realities observed contributed systematically to Black employees receiving lower pay, leaving the organization at higher rates and being out of the running for career advancement.

Unfortunately, these patterns are quite representative of what we find in our ILM work with organizations. Career inequities for Black employees are pervasive among employers and certainly contribute to the wealth gap in American society at large.

Fortunately, there are steps companies can take to limit potential bias in performance ratings and mitigate the strong negative effects on equity. In addition to implementing and communicating a well-defined performance management process, it's equally critical to ensure that managers make decisions, including pay and promotion decisions, with greater consistency and discipline. Effective manager training and other steps to properly direct discretion, such as having multiple raters and a robust calibration processes, can limit bias. Mercer research has also linked annual unconscious bias training preceding the allocation of performance ratings to reduced bias.[4]

[4] Levine B and Chen L. "Abandon Performance Ratings With Caution," *Workspan*, June 2016.

04.

Dig into disparities

Effective corporate DEI strategies need to address sizable disparities in health and financial wellness that afflict the Black workforce. Robust data in these areas are especially valuable for determining how employer health and financial wellness programs contribute to disparities and in developing targeted solutions that address structural imbalances and encourage health- and wealth-generating behaviors. Our findings (consistent with our consulting experience) show that many companies have yet to begin leveraging data on race and ethnicity to uncover these powerful insights.

Employers have a tremendous opportunity to move the needle on DEI simply by analyzing and acting on data they already have readily available — yet most are not taking the first steps to organize or examine the data they have available around health and financial well-being.

Measure health as a bellwether of equity

One of the less-explored aspects of equity is also one of the most influential. Companies' current emphasis is overwhelmingly on pay and career, but when it comes to the critical issue of health and well-being, there are many levers not being pulled today.

Health equity is important for its own sake but also has far-reaching effects on other influential aspects of equity, including engagement, performance, absenteeism, career mobility and financial wellness. As we shared in a recent *BRINK* article,[5] the costs inherent in shortfalls on racial inequity will be borne by employers, who pay 82% of healthcare costs for employees and 70% of costs for families.

When it comes to health equity, employers have yet to tap into a broad range of unique opportunities to identify health disparities. This data can be used to develop and implement initiatives for achieving health equity. By leveraging existing demographic and health plan data, companies can identify and address disparities through a racial and intersectional lens.

Track health data by race and ethnicity

The first thing employers can do is quite simple: Begin tracking aggregated and de-identified health claims and risk data through the lens of race/ethnicity. Our survey shows that most employers are not even tracking the utilization of health benefits by race/ethnicity (see Figure 13).

According to the Kaiser Family Foundation,[6] there is a distressing lack of both access to and participation in voluntary health benefits for Black employees. The foundation's data have shown a significant gap in coverage, access and use of healthcare by Black Americans compared to other racial/ethnic groups.

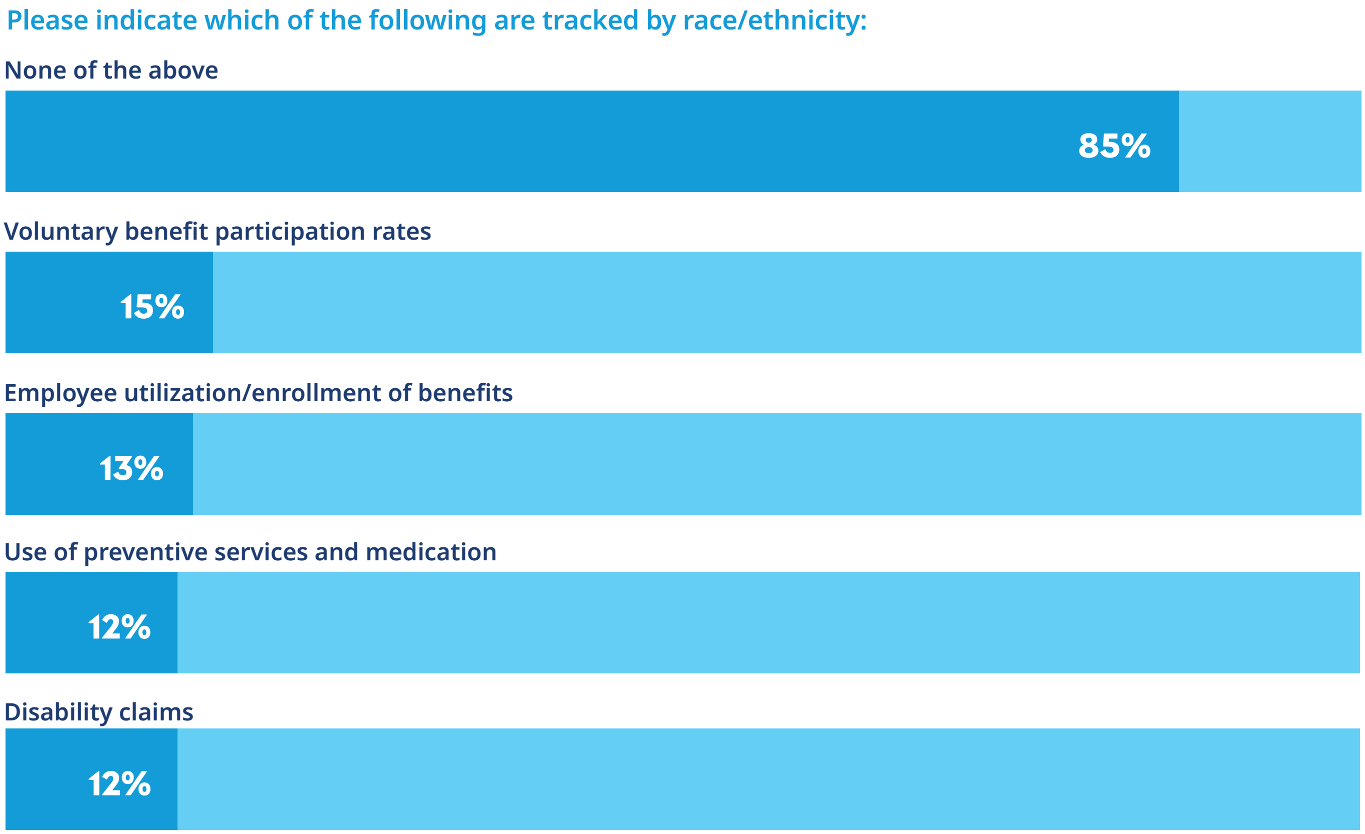
The only way to measure and confront that gap is by gathering the data close to home and understanding what is happening with our employees and why — a process that most companies have not implemented fully (see Figure 14).

We know that preventive measures, such as screenings for cancer — as well as services for chronic conditions, such as refilling medications — are important components that support a healthy and productive workforce. Yet only 6% of companies say they track the use of prevention services or refills by race/ethnicity (see Figure 15).

[5] Branch R, Garrett M and Knoepflmacher A. "What Can Employers Do to Impact Black-White Health Disparities?," *BRINK*, October 26, 2021.

[6] Kaiser Family Foundation. "Key Facts on Health and Health Care by Race and Ethnicity." Available at www.kff.org/racial-equity-and-health-policy/report/key-facts-on-health-and-health-care-by-race-and-ethnicity/

Figure 13. Tracking health benefits data by race/ethnicity



Note: More than one answer could be selected; therefore, the total may exceed 100%.

Figure 14. Tracking health disparities data by race/ethnicity

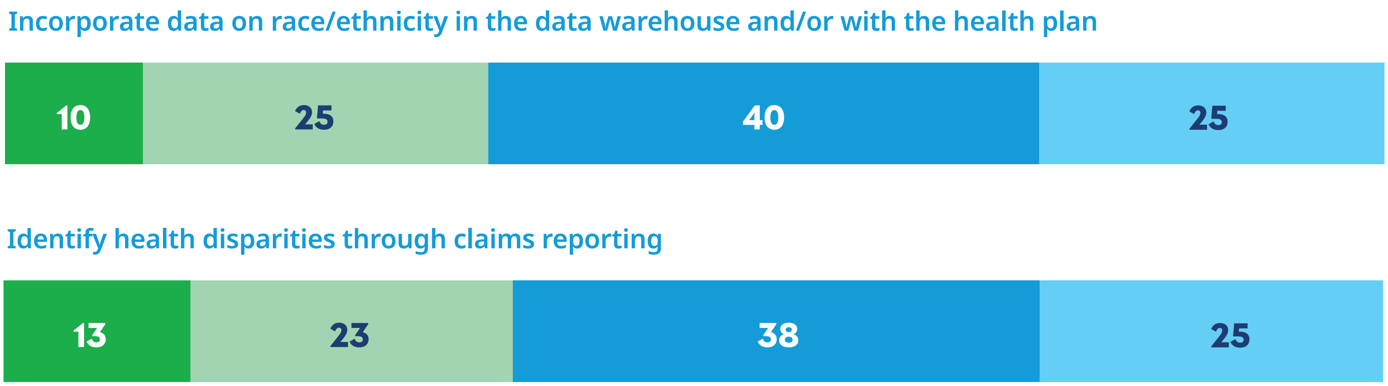


Figure 15. Tracking prevention services by race/ethnicity

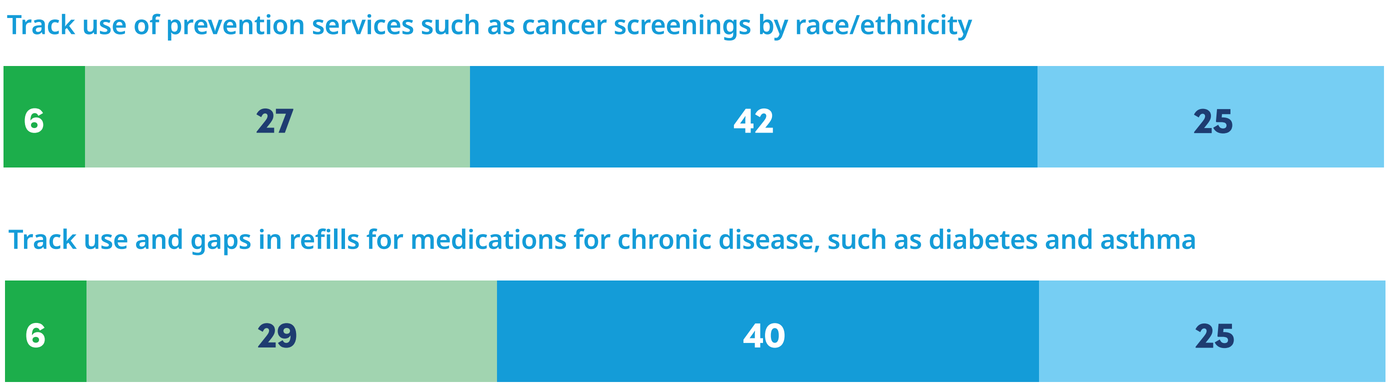
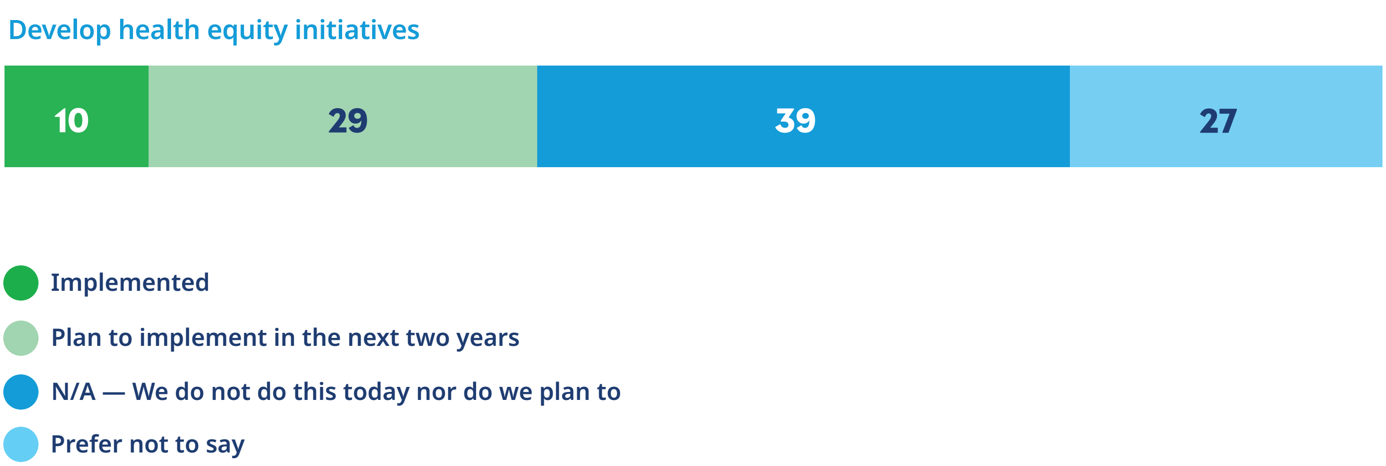


Figure 16. Health equity initiatives

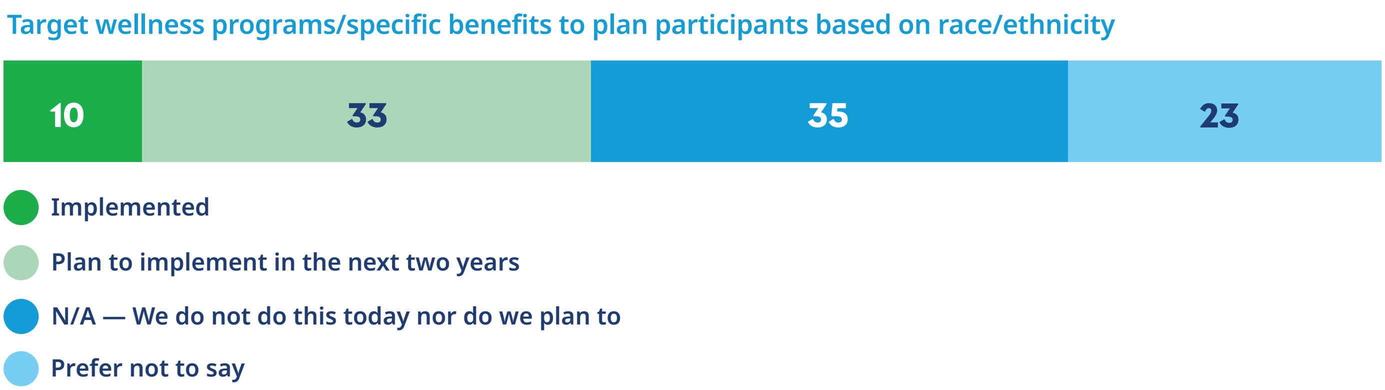


Create targeted health equity plans

Once organizations have gathered the data to understand health inequities, they can address those disparities with targeted programs — in conjunction with their benefit vendor partners — focused on improving healthcare experiences and outcomes for Black employees and their families. This includes health equity initiatives (Figure 16) and targeted wellness programs based on race/ethnicity (Figure 17). Employers are in a unique position to partner with health plan administrators and even healthcare systems to improve health equity for Black employees and their families. This could take several forms:

- **Provider diversity:** Make available information about the race, ethnicity, etc., of healthcare providers, collected on a voluntary and self-identified basis, to allow members to find providers who look like them and share their lived experience.
- **Cultural competency and cultural humility training for healthcare providers and teams:** More health plans offering training on cultural competency and cultural humility for providers and healthcare teams may help improve the member experience and potentially health outcomes.
- **Verticalized navigators/digital health solutions:** These are emerging solutions designed to address specific needs of the Black population that may not otherwise be covered adequately by the employer's primary health plan.
- **Value-based care:** Some published studies show that value-based care arrangements, such as centers of excellence, have demonstrated improved health outcomes and member experience.
- **Social determinants of health (SODH):** Some employer-sponsored plans are beginning to identify social risks, assess for social needs and offer coordination to community-based organizations (CBOs) to meet those needs. Black employees, as well as other under-served populations, are disproportionately impacted by SDOH and have a greater need for services from CBOs.

Figure 17. Tracking wellness program data by race/ethnicity



The convergence of health and wealth is an important area for attention. Health costs can quickly and severely erode financial health, and Black Americans are more likely to be uninsured or underinsured, according to the Kaiser Family Foundation. Although the average American family spends 11% of family income per year on healthcare premiums and out-of-pocket costs, the Century Foundation[7] estimated that the average annual cost for Black families alone is closer to 20%.

Black employees are more likely to enroll in high-deductible healthcare plans and utilize healthcare spending accounts (HSAs) to offset deductibles and shortfalls in insurance coverage. This has created a huge opportunity for investment in HSAs by employers to make those plans more workable.

The bottom line is that we know income levels have a strong relationship to health. To the extent that disparities in pay, career advancement and representation in the higher-paid jobs play out in organizations, we expect health disparities to follow suit.

Addressing career and pay equity is clearly part of the solution for closing health disparities. However, even for more highly compensated Black employees, there can be additional challenges to achieving health equity. For example, Black employees may receive services from healthcare providers who are not culturally competent or who have conscious or unconscious bias that negatively impacts member experience and outcomes.

Recognize financial wellness as part of equity

Closing the wealth gap for Black employees also means directly addressing their financial wellness — which begins with a deeper understanding of the current state. Retirement and other financial wellness programs can play a role, by virtue of their design and structure, in creating wealth disparities — but there are opportunities to make changes to these programs that could support better outcomes.[8] As with health equity, this can be accomplished by simply analyzing data that most employers already have within easy reach.

Most companies, however, are not yet taking this step. A majority of employers have yet to think about financial wellness through the lens of equity (see Figure 18). Likewise, eight in 10 organizations do not yet customize or target retirement/savings education or training programs by race/ethnicity (see Figure 19).

Companies are also missing a big opportunity to understand in terms of race and ethnicity the utilization of the programs they have available — such as retirement/savings plan deferral rates, investment elections, participation in defined contribution plans and utilization of employer-sponsored budgeting, credit management, financial counseling or similar tools (see Figure 20).

Figure 18. Tracking financial wellness by race/ethnicity

Analyze the financial wellness of employees by race/ethnicity

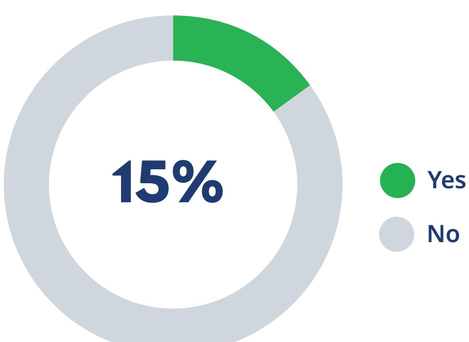
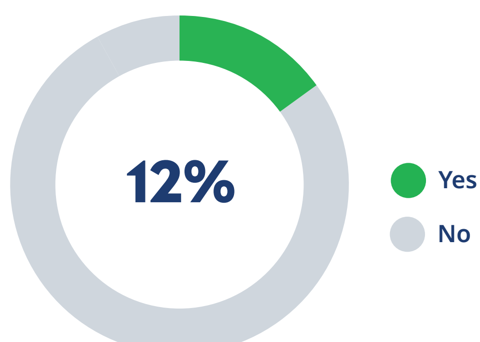


Figure 19. Targeting financial programs by race/ethnicity

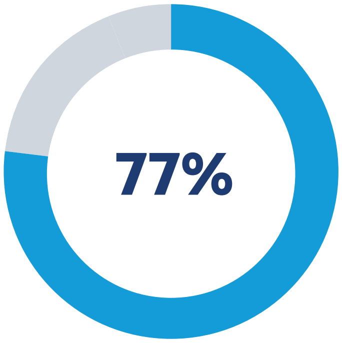
Customize/target main retirement/savings education/training programs by race/ethnicity



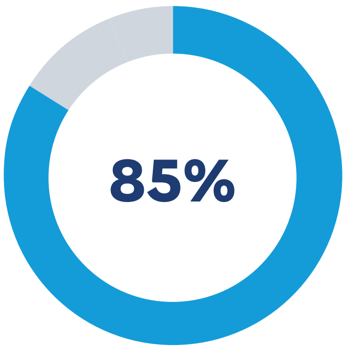
[7] The Century Foundation. "Racism, Inequality, and Health Care for African Americans." Available at https://tcf.org/content/report/racism-inequality-health-care-african-americans/

[8] Cadenhead B, Hockenmaier K, Baensch H and Gold L. "Retirement and the Black-White Wealth Gap," *BRINK*, January 13, 2022, available at https://www.brinknews.com/retirement-and-the-black-white-wealth-gap/

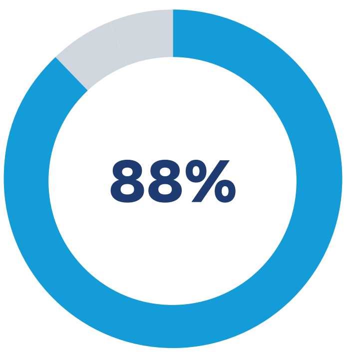
Figure 20. Tracking financial program participation by race/ethnicity



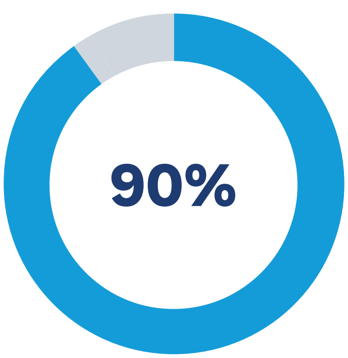
Do not monitor retirement/savings plan deferral rates or investment elections by race/ethnicity



Do not track participation in the defined contribution plan by race/ethnicity



Do not track participation in the stock purchase plan by race/ethnicity



Do not track the utilization of employer-sponsored budgeting, credit management, financial counseling or other such tools by race/ethnicity

Yes

No

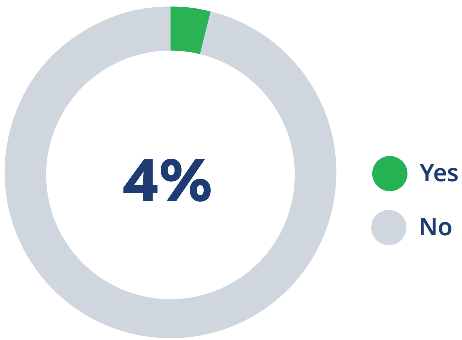
Understanding utilization is an important step in determining whether programs are meeting the needs of Black employees. Also important is designing programs that speak to savings and investment behaviors among Black workers. Our survey revealed a shortfall here too: Only 4% of companies track racial or ethnic differences in saving behavior, and 2% of companies track racial or ethnic differences in investment behavior (see Figure 21).

For some employers, race/ethnicity influences participation in wealth accumulation opportunities. In one such case, after accounting for annual income, age, years of service and other factors relevant to investment behaviors, Black and Hispanic employees were found to be directing significantly smaller proportions of their income to their 401(k) plans and, relatedly, had accumulated substantially less wealth.

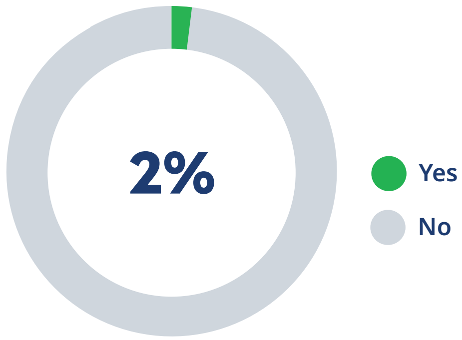
In sum, our survey indicates that most companies are simply unaware of how their health and financial wellness programs affect their Black populations and contribute to the wealth gap. Tapping the data to expose the current reality is the essential first step in closing the gaps.

Figure 21. Tracking financial behavior by race/ethnicity

Track racial/ethnic differences in:
Saving behavior



Track racial/ethnic differences in:
Investment behavior



05.

Explore employee experience

Workplace experience plays a critical role in development and retention, and there is abundant evidence that Black employees are having a less positive experience in some dimensions than other groups of employees. Our study shows that employers are taking steps to close these gaps, but they may not be enough.

Not everyone has the same positive workplace experience

There is increasing understanding in corporate America that positive day-to-day employee experience is critical to having a thriving workforce. It is also the cornerstone in building and sustaining a diverse workforce. What does that experience look like for Black employees?

A recent Mercer study[9] among US employees found that personal and psychological safety was the top-ranked concern for Black employees, above physical, mental and financial well-being. In contrast, Hispanic and Asian participants ranked it fifth, and white participants ranked it even lower. In the workplace, key drivers of psychological safety include being able to 1) bring your whole self to work, 2) trust others and especially your manager, 3) voice an opinion safely in a collaborative environment, 4) enjoy an environment free of harassment and micro-aggressions and 5) report inappropriate behavior or situations without fear of retaliation.[10]

We know from our broader research and consulting experience that Black employees typically report challenges in each of these areas. For example, a recent study[11] found that Black workers were more than twice as likely as white workers to have experienced retaliation for speaking up about pandemic-related concerns. Relative to other groups, Black workers were also most likely to say that the reason they would consider leaving their employers, besides pay and benefits, involved relationships with their bosses and colleagues — which underscores the fact that day-to-day inclusion has a meaningful impact on retention.

Clearly, improving experience for Black employees is essential. What are employers doing?

Understanding the issues

Although 87% of companies are conducting regular engagement-type surveys and 82% are specifically measuring inclusion/belonging, only 64% of those companies are looking at that data through the lens of race/ethnicity (see Figure 22).

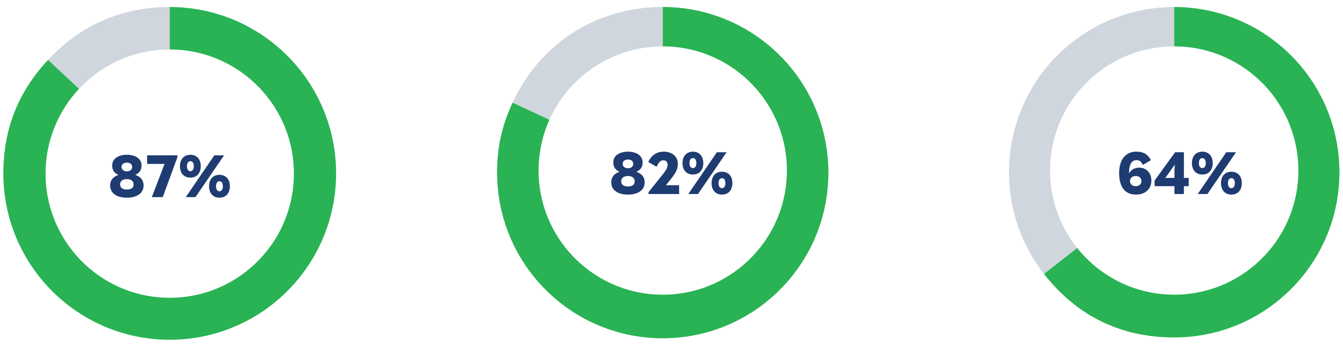
Underscoring that point, more than half (56%) of companies looking at belonging through a racial lens have found that Black employees' results are lower than those of other employee groups. None has found that Black employees' results are higher than those of other groups (see Figure 23).

[9] Mercer. Inside Employees' Minds: A Study of 2,000 Workers. Published August 2021.

[10] Mercer. The Truth About What Employers Want. 2021.

[11] National Employment Law Project. "Silenced About COVID-19 in the Workplace." Available at www.nelp.org/publication/silenced-covid-19-workplace/

Figure 22. Tracking engagement data by race/ethnicity



Regularly conduct an employee engagement or similar survey

Include a statement/question similar to "I feel like I belong here?"

Analyze the survey results by race/ethnicity

- Yes
- No

Figure 23. Tracking belonging by race/ethnicity

In general, what do the most recent survey results for this question (i.e., "belonging") reflect for your Black employees only:

- Black employee results are similar to all other employee groups
- Black employee results are lower than other employee groups
- Black employee results are higher than other employee groups
- Results are mixed for Black employees
- Prefer not to say

Opportunities to create targeted programs to enhance experience

Special programs targeted toward Black employees seem to be a burgeoning focus for many companies. Some 17% plan to implement an employee assistance program (EAP) with a specific educational focus on Black members, with 13% planning to implement loan support and 12% planning to implement coverage of disability periods due to surviving racial trauma.

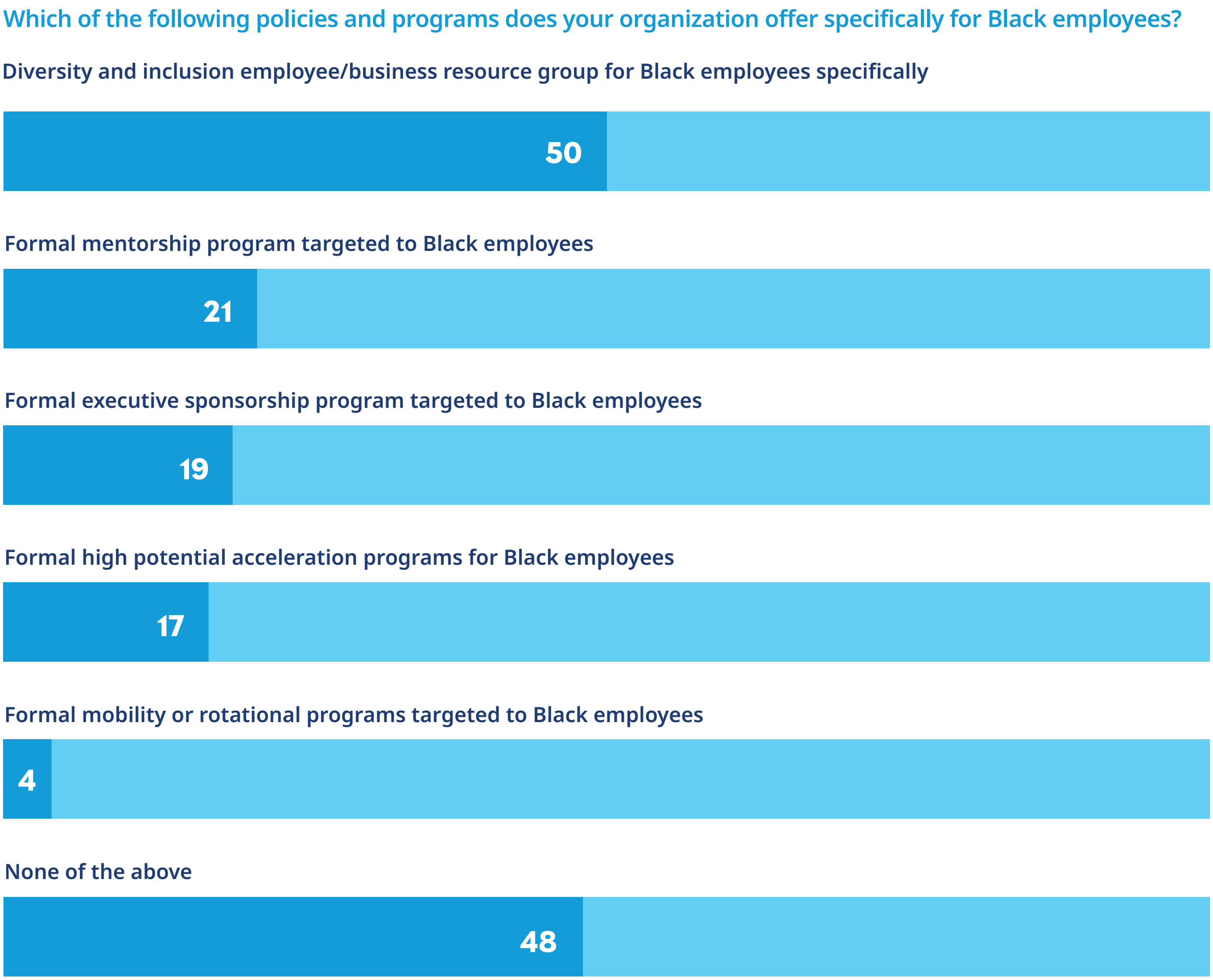
There are also significant new programs targeted around broader belonging and social support. For example, 8% of companies plan to implement a policy definition of family beyond the traditional nuclear family. One in four (25%) plans to implement programs to support access to community-based organizations to meet social needs and address social determinants of health — a large group, considering that only 37% currently offer such programs.

In the workplace itself, 29% of companies plan to implement listening sessions with Black business resource groups (BRGs) and employee resource groups (ERGs) — almost doubling the 33% that currently offer these kinds of sessions.

Against these figures, 48% of companies say they do not have any policies and programs in place specifically to support Black employees (see Figure 24). And although 77% of companies say they have ERGs/BRGs focused on racial/ethnic diversity and inclusion, only 50% of companies report having a BRG specifically for Black employees (see Figure 25).

Companies appear to be better about addressing existing problems than preventing problems in the first place by proactively addressing belonging and inclusion; for example, through formal training programs for identifying, mitigating or reporting racial discrimination or harassment. However, less than 20% offer mentorship, sponsorship, high-potential or mobility programs specifically for Black employees (see Figure 24).

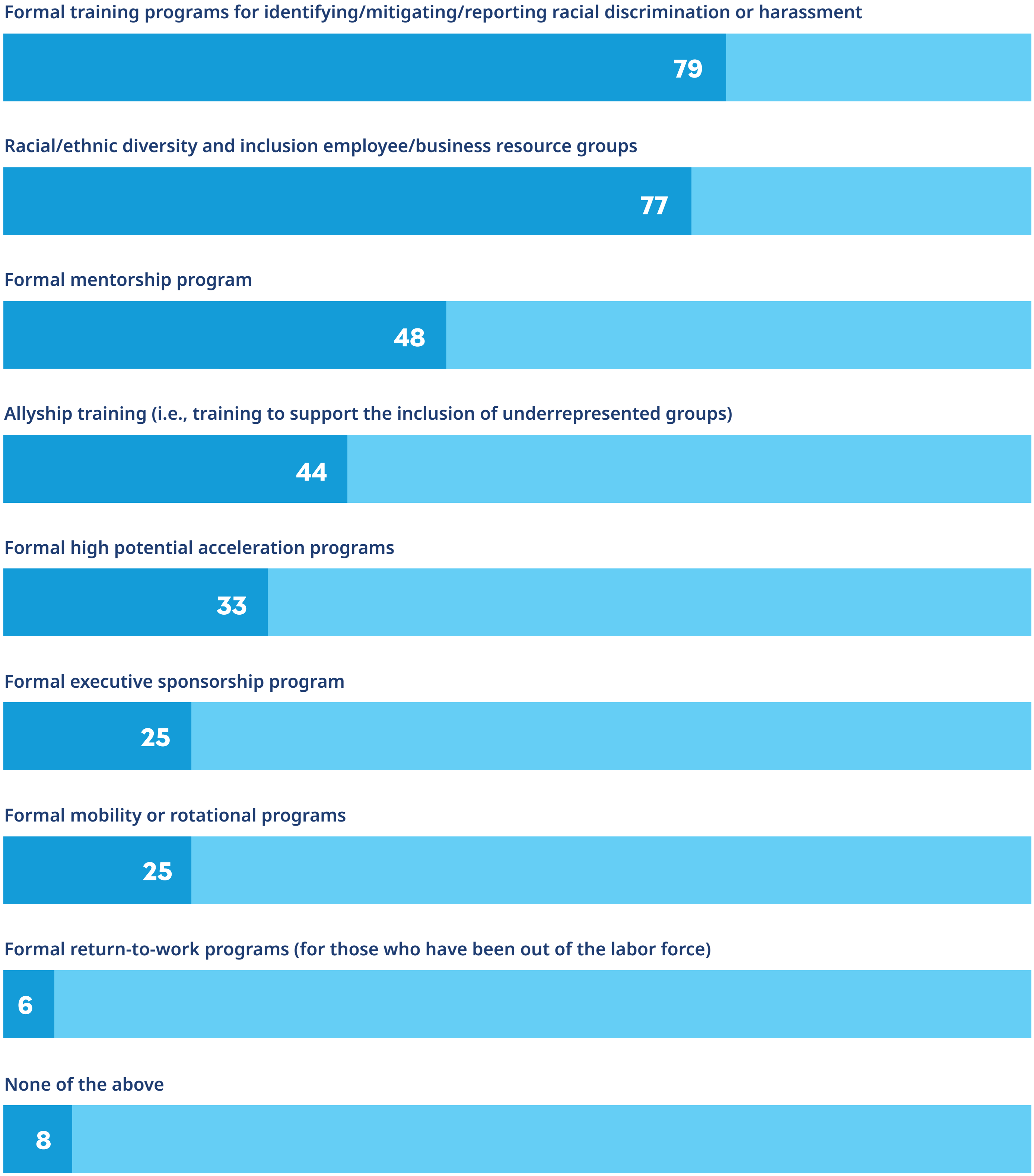
Figure 24. Policies and programs to support Black employees



Note: More than one answer could be selected; therefore, the total may exceed 100%.

Figure 25. Business and employee resource groups (BRG/ERG)

Which of the following policies and programs does your organization offer?



Note: More than one answer could be selected; therefore, the total may exceed 100%.

06.

Target transparency

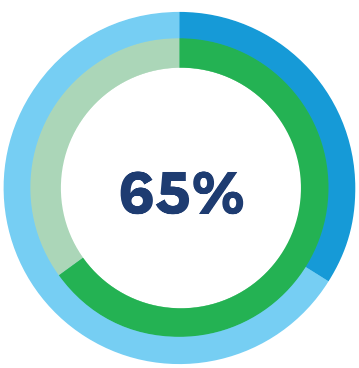
External pressures on US employers to visibly improve corporate DEI outcomes continue to climb. Today, there should be no question that DEI is a business imperative and doing it well is a differentiating business capability that stakeholders notice and value. Most remarkably, it's the pressure from an activated and vocal workforce that has grown most significantly over the past few years — and these groups are challenging companies to openly share historically sensitive and protected data.

The urgency to improve DEI outcomes is much greater today than we saw in our 2020 *When Women Thrive* report, which was mainly focused on gender equity. Today, 65% of companies report sustained pressure to improve racial/ethnic diversity, equality and/or inclusion, a remarkable surge of 31 percentage points from that 2020 study (see Figure 26).

A lot of this pressure is coming from inside the house, with 92% of companies reporting pressure from their employees. More than half of companies (52%) are also reporting pressure from their customers or clients (see Figure 27). Perhaps in response to this pressure, 54% of companies say they have appointed a chief diversity officer or similar role. Again, this number is up from 31% of companies in the 2020 *When Women Thrive* report (see Figure 28).

Figure 26. Sustained pressure for progress on DEI

Report sustained pressure in the past two years to improve racial/ethnic diversity, equity and/or inclusion outcomes



65% report sustained pressure in the past two years to improve racial/ethnic diversity, equity and/or inclusion outcomes, compared to 34% in 2020

2022, *Stepping Up for Equity* **2020, *When Women Thrive***

Figure 27. Pressure sources

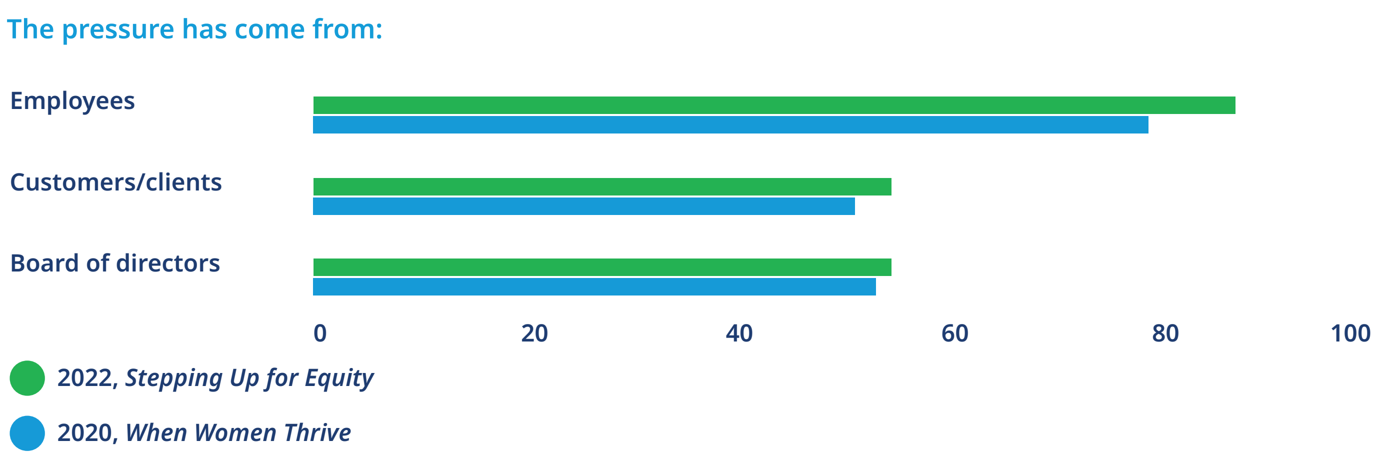


Figure 28. DEI leadership

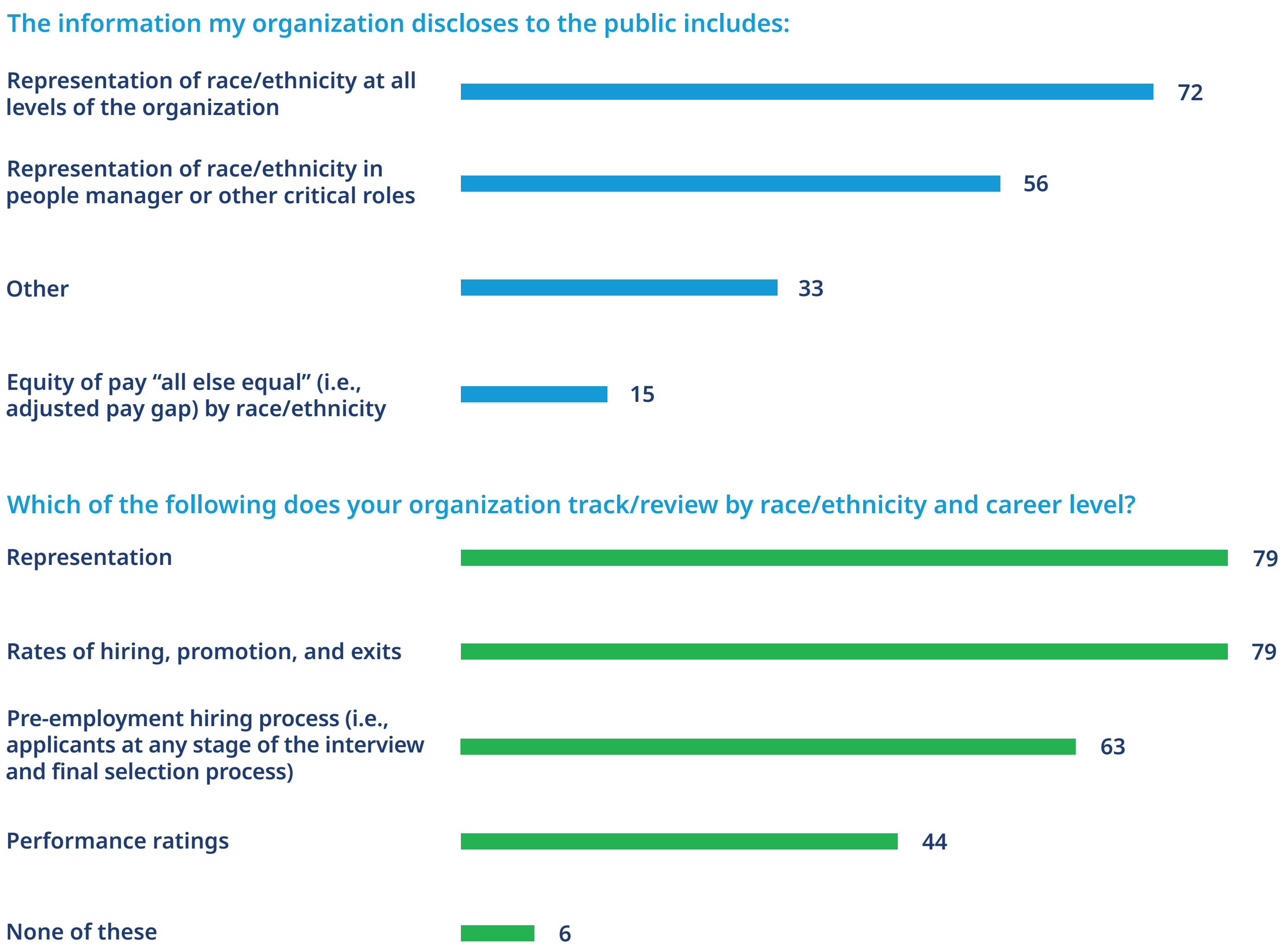
We have also seen calls for greater transparency from organizations on DEI measures and outcomes. Disclosures are still lagging in many areas, but this will likely change due to regulation and internal and external pressure. Of the surveyed companies, 75% report documenting DEI efforts in annual reports, websites, etc.

The information reported still varies: 72% disclose representation of race/ethnicity at all levels of the organization, 79% track hiring and promotion of talent by race/ethnicity and career level, and only 15% disclose pay or pay gaps by ethnicity (see Figure 29).

History suggests, however, that today's voluntary disclosures will become tomorrow's requirements. There is increasing government and investor pressure for greater transparency around DEI and human capital management more generally, reflected, for example, in the new (2020) SEC rule about human capital management disclosure and reporting requirements from many other jurisdictions.

Growing transparency and investor interest in such information also suggest companies that lag will find themselves facing severe headwinds in their ability to create shareholder value, leading to an acceleration of efforts to advance the DEI agenda.

Figure 29. Transparency and public documentation



Note: More than one answer could be selected; therefore, the total may exceed 100%.

07.

Too soon to know

Since the 2014 launch of Mercer's *When Women Thrive* global gender study, we've collected and analyzed the prevalence of DEI-linked programs, policies and processes. In *Stepping Up for Equity,* we wanted to further understand the perceived effectiveness of these actions and what employers have planned for future implementation. The results indicate that companies are taking a wait-and-see approach to some key tactics. In other cases, they say it's too soon to know whether these types of programs are having any impact.

- In the area of recruitment, 10% of companies say they plan to implement passive sourcing in the next two years, 31% plan to implement diverse candidate slates in the next two years and 38% plan to implement diverse interview slates in the next two years.
- When we asked about sponsorship, 40% of companies told us they plan to implement sponsorship for Black employees in the next two years.
- In health equity, one in four companies plan to work with health plan providers to identify health disparities by incorporating race/ethnicity data, and 23% plan to identify health disparities through claims reporting. Nearly one in three told us they plan to develop health equity initiatives, and 27% plan to track the use of preventive services, such as cancer screenings by race/ethnicity. One third plans to target wellness programs/specific benefits to plan participants based on race/ethnicity.

Figure 30. Too soon to know

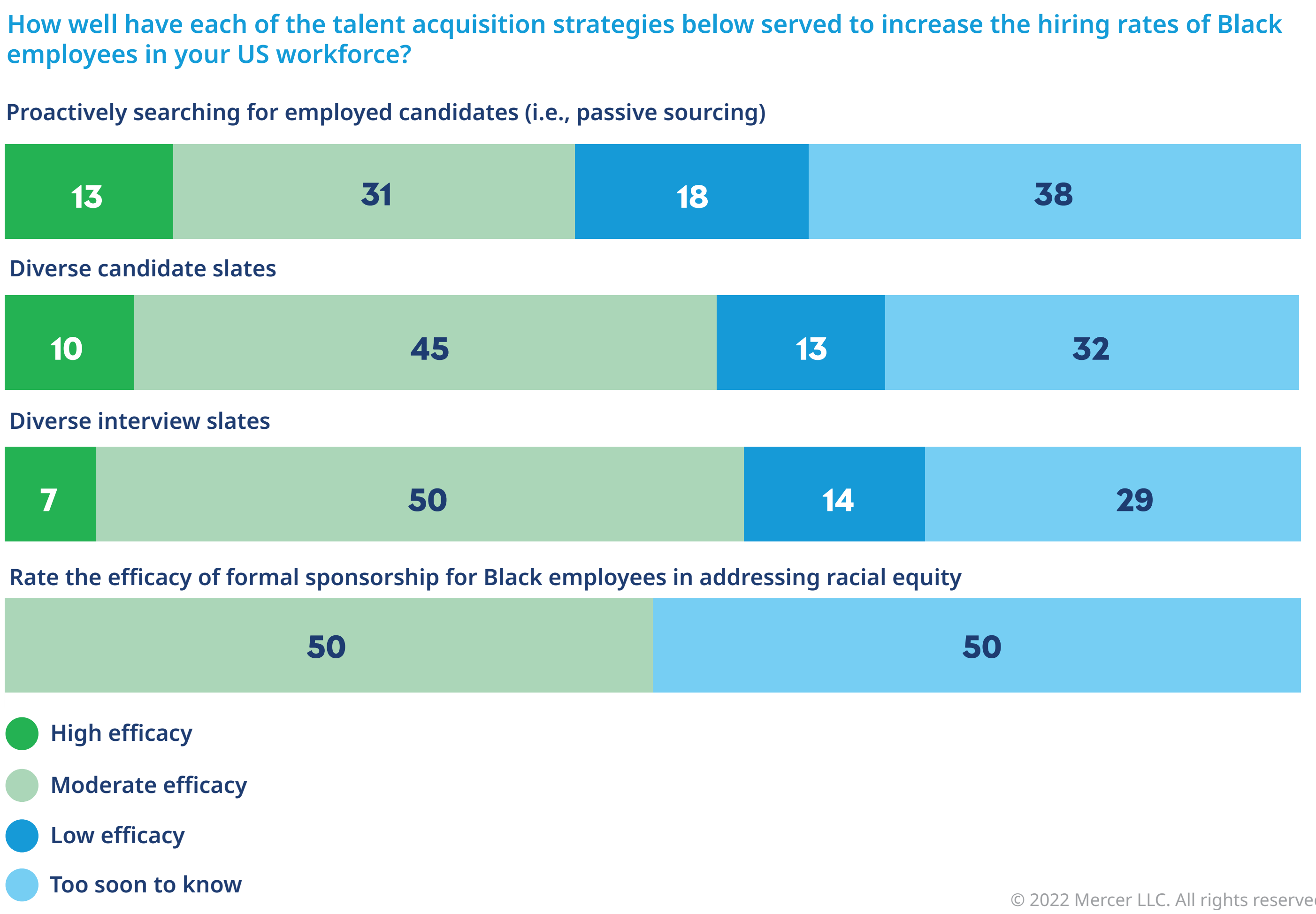
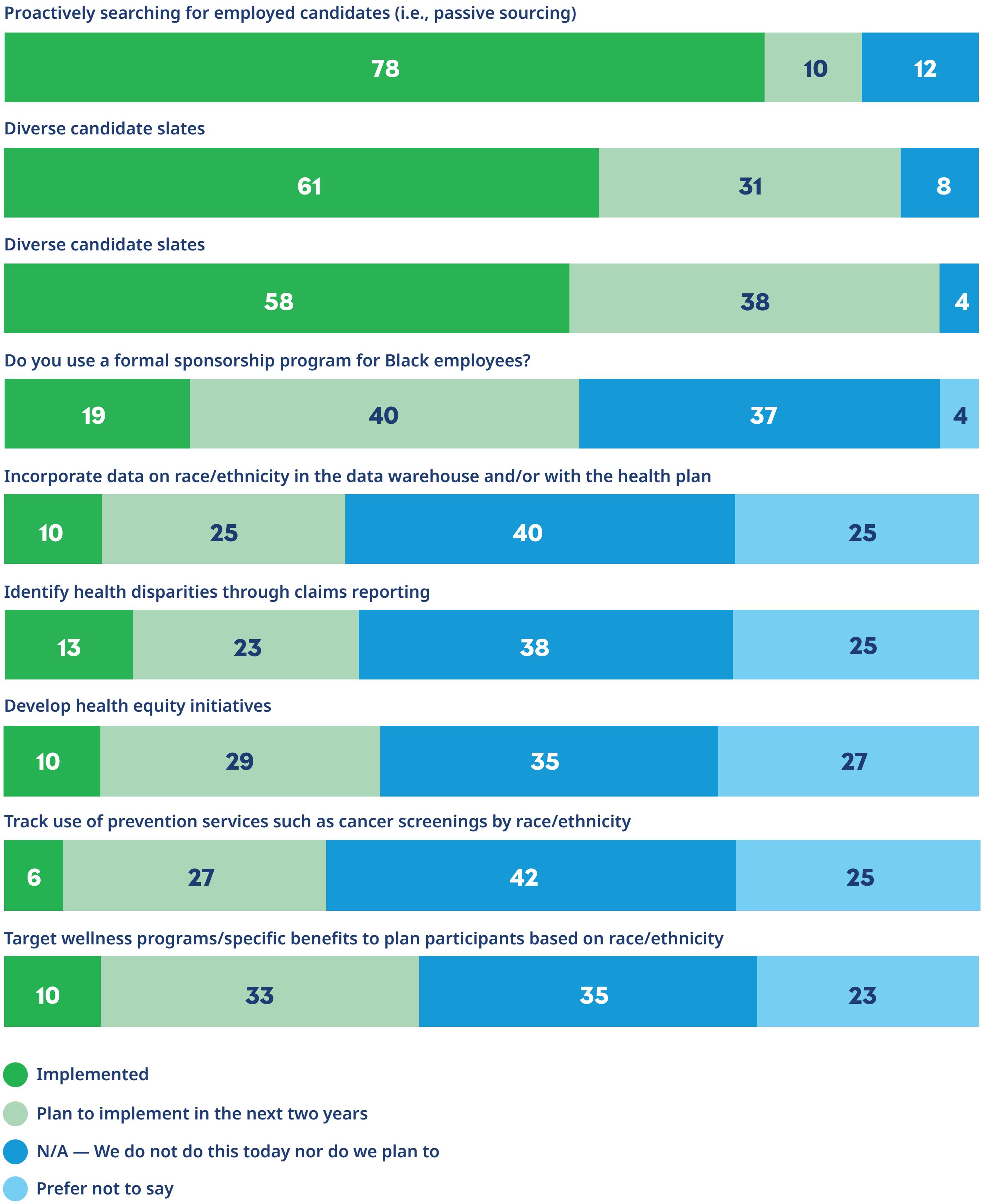


Figure 31. Many programs are still being rolled out



08.

Blueprint: Stepping up for equity

Employers **can** make a difference. Collectively, they have a unique opportunity to take actions that will help close the career, health and wealth gaps affecting Black employees.

The time for action is now

Business leaders are being pressed to take action on social justice. Societal and business norms have been upended, exposing preexisting career, health and wealth disparities worldwide and exacerbating the disadvantages faced by underrepresented groups — including Black Americans.

The business benefits of pursuing aggressive DEI strategies are clear. It has quickly become a top business imperative for companies to help create more diverse organizations and a more equitable and inclusive society. We invite US employers to examine the powerful role they can play in contributing to real progress by eliminating disparities within their own walls and embedding social justice in their workforces.

There is no single solution.

To accelerate and sustain progress, employers will need to commit to a synergistic set of actions that address this complex problem holistically:

- Track critical workforce data by race/ethnicity beyond basic workforce composition. The insights this step yields inform every part of the blueprint. Include hiring, promotion and retention rates of Black employees by level; Black representation in the talent pipeline and "feeder" roles; the differing experiences of Black employees in the workplace; and health and financial disparities and unmet needs among Black employees. Rigorously test for equity in career advancement and the factors that best predict employee success.
- Prioritize retention and growth of the internal pipeline of Black talent through rigorous, bias-checked succession planning and formal sponsorship programs.
- Regularly assess and ensure pay equity, relying on robust statistical analyses.
- De-bias the performance management process. Review performance management processes and ratings distribution through a demographic and fairness lens. From a career and wealth standpoint, eliminating disparities in performance ratings is critical to improving the chances of Black employees staying and thriving in an organization.
- Address health and financial well-being disparities through employer-sponsored benefit plans. Take a more thoughtful approach to health benefits and health education — tracking health benefits utilization data by race to better understand opportunities and targeting outreach and education to improve health outcomes for Black employees. Engage health and financial wellness partners in the effort to address more systemic and structural challenges.
- Identify significant gaps in Black employee experience, and implement programs that will help close them. Ensure that both leaders and managers are equipped to participate effectively in these efforts through training and accountability — especially to ensure fairness, build trust, and improve psychological and physical safety for their Black employees. Create a safe-space environment where Black employees can confidently reach out when they feel there is an issue at work that is not being addressed.
- Commit to accountability and transparency. Share goals and outcomes both inside and outside the organization. Ensure that leaders and managers have access to the data and insights that can help them proactively manage the career opportunity, experience and pay outcomes of their Black employees.

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You're invited to learn how Mercer can help your organization step up for equity

We help clients design and implement evidence-based DEI strategies. Regardless of what stage your organization is at in its journey, Mercer offers practical actions that make true and lasting progress. **Because when people thrive, societies thrive.**

Embark

Envision the future:
- Articulate and align on DEI mission, vision and values.

Discover

Gather evidence through data and insights.

Analyze workforce data to diagnose gaps and opportunities:
- ILM maps and workforce projections
- Predictive analytics
- External market analysis
- Network analysis

Conduct employee listening to gain insights on culture and experience:
- DEI virtual focus groups and surveys
- Leadership DEI readiness assessment

Assess and benchmark DEI linked policies, processes and programs.

Shape

Enable DEI infrastructure:
- Define DEI function, roles and governance structure.
- Support diversity council/ employee resource group launch and strategy.
- Design an HR transformation strategy.

Drive career equity:
- Ensure transparent pay practices, and conduct robust **pay equity** analyses.
- Optimize critical **talent management processes** to mitigate bias and support DEI goals.
- Empower talent through a **sponsorship/mentorship strategy.**

Enhance experience equity:
- Build a compelling and holistic **employee value proposition.**
- Implement formal **flexible work** programs.
- Assess **health and welfare benefits** through a DEI lens to identify gaps and opportunities.
- Offer **voluntary benefits** to close health and wealth equity gaps.
- Design and optimize **defined benefits/defined contribution** plans through the lens of equity.

Elevate culture:
- Align and equip leadership with **inclusive leadership competencies.**
- **Upskill leaders and managers** to support the DEI strategy.
- Equip all employees with the awareness and skills needed for an inclusive culture through **allyship training.**
- Design a roadmap for **culture change.**

Drive

Embed accountability and sustainability:
- Establish **DEI/business metrics** with linked goals.
- Link **executive rewards to DEI goals.**
- Enable **data tracking** through **DEI technology** and Workday (DEI Dashboard).
- Design internal/external DEI transparency and **disclosure strategy.**
- Develop and implement a holistic **internal and external change and communication strategy.**

Staying connected

Mercer believes in building brighter futures by redefining the world of work, reshaping retirement and investment outcomes, and unlocking real health and well-being.

Mercer's approximately 25,000 employees are based in 43 countries, and the firm operates in 130 countries. Mercer is a business of Marsh McLennan (NYSE: MMC), the world's leading professional services firm in the areas of risk, strategy and people, with 83,000 colleagues and annual revenue of nearly $20 billion. Through its market-leading businesses, including Marsh, Guy Carpenter and Oliver Wyman, Marsh McLennan helps clients navigate an increasingly dynamic and complex environment.

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