ELIMINATING COMPLACENCY TO CLOSE THE GENDER PAY GAP.

The Pay Paradox in the Financial Sector

questback

White Paper

EXECUTIVE SUMMARY

Complacency is one of the biggest challenges to closing the gender pay gap in the US financial sector. Despite evidence that women are systematically underpaid[1], new Questback research indicates US employees in financial services are more inclined to believe that gender bias exists, but not within their company. *There is a problem, but the problem doesn't exist in "my organization."* The result is a lack of urgency for change—especially among senior management—which hinders progress towards gender parity.

The belief in the meritocracy of an individual's organization undeterred by evidence to the contrary creates a paradox. This new evidence suggests there is a need for US financial organizations to implement an objective, quantifiable mechanism to begin to bridge the gender pay gap. As part of this research, independent assessment psychology firm, Conflux Ltd., developed the Talent Parity Index (TPI). A new metric, TPI quantifies unconscious bias through measuring the correlation between the value placed on certain leadership traits and the extent to which those traits are seen as gender-specific (masculine or feminine). This allows companies to quantify gender bias at the organizational level and across different employee groups.

While this new Questback research focused on the financial sector, most large global companies have the same problem. Gender equality continues to elude organizations and society around the world. Understanding and measuring unconscious bias is essential before behaviors and corporate policies can be remedied. Despite mounting evidence of inequity, many organizations continue to publicly boast about their equality and inclusion credentials. In doing so without matching remedial actions, organizations are opening themselves to potential reputational damage and a perception of lacking in integrity.

Gender inequality and the resulting pay gap threaten business competitiveness. With new ways of working, technological disruption, changing workforce demographics and evolving consumer demands, the financial sector is at the cusp of a new era of business. It's vital that companies achieve a closer gender balance if they are to benefit from a wider, more diverse range of skills, become more innovative, manage risk successfully, demonstrate integrity and make better decisions. Open, meritocratic cultures are increasingly crucial to attracting and retaining top talent, customers and even investment. As PayPal's CEO states, "It's the right thing to do...It's also about self-interest as a company and how we best serve our customers, because this idea [that] more diverse companies perform better—that's a fact."[2]

> **"As the world moves from capitalism into the era of talentism, competitiveness on a national and on a business level will be decided more than ever before by the innovative capacity of a country or a company. In this new context, the integration of women into the talent pool becomes a must."**
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> **World Economic Forum[3]**

INTRODUCTION

In the US, a woman earns an average of 80 cents for every dollar earned by a man.[4] The financial sector holds the widest pay gap where median weekly earnings for women are just over 70% of men's according to the Bureau of Labor Statistics.[5] While women comprise 46% of total employees within the financial sector, their share of employment falls to 15% at the executive board level.[6]

Beyond the financial sector, gender equality continues to elude many organizations. Less than 5% of Fortune 500 CEOs are women. Nearly one-third of businesses have no female leaders, and only 22% of senior leadership positions are held by women.[7] Forbes' list of highest-earning jobs in business all go to men; the highest-paid CEOs are also all men.[8] Clearly, a major chasm persists when it comes to gender equality. To address it, bolder, transformative steps are required.

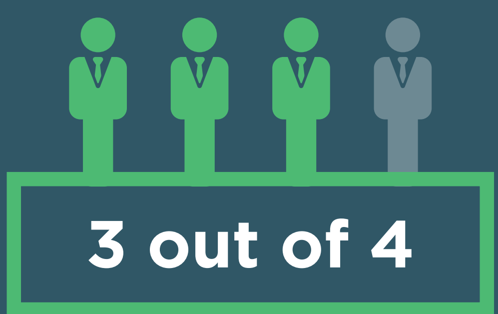
New Questback research highlights a pay paradox within the financial sector. Despite an abundance of evidence to the contrary, US employees in financial services indicated they believe that their employers were meritocratic and committed to equality of opportunity. The result of this paradox is a lack of urgency for change—especially among senior management—which further hinders progress towards gender parity.

PayPal CEO Dan Schulman

"It's the right thing to do...It's also about self-interest as a company and how we best serve our customers, because this idea [that] more diverse companies perform better—that's a fact."

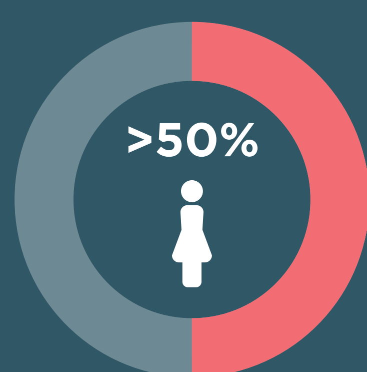
NEW QUESTBACK RESEARCH UNCOVERS A PARADOX

More than 6 of 10 employees surveyed in the financial sector believe individuals succeed based on merit at their current company.



Leadership viewed the meritocracy of their organization more strongly with 3 of 4 senior managers believing individuals succeed based on merit at their current place of employment.

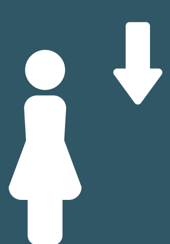
Yet, more than 50% of women surveyed also indicated that they experience some form of gender bias in their current organization.



THE GAP BETWEEN PERCEPTIONS & REALITY

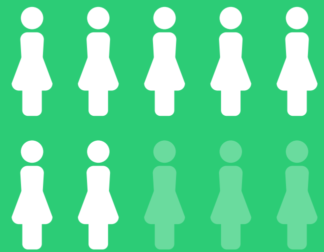
In late 2018 and early 2019, Questback and independent assessment psychology firm, Conflux Ltd., collected online survey feedback from a representative sample of over 1000 individuals in the United States from financial services organizations with more than 250 employees. The survey measured their perceptions of traits that are most valued and rewarded in their organizations and the extent to which they viewed these traits as masculine, feminine or gender-neutral. It also explored the decisions individuals make about their own career development and experience of talent management processes in order to better understand the factors behind gender inequality and the gender pay gap. The findings of this study mirror previous research conducted within the financial sector in the UK. While this report focuses on the financial sector in the US, the lessons are equally applicable to many other industries and organizations.

NEW QUESTBACK RESEARCH: GENDER BIAS DESPITE BELIEF IN MERITOCRACY

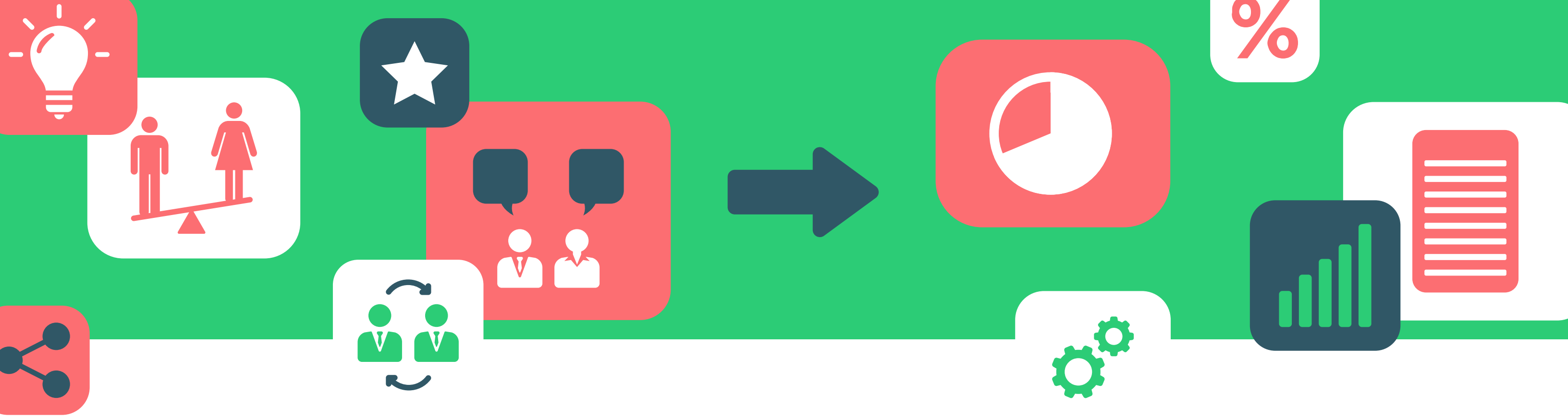


Nearly half (49%) of women said they were assumed to be more junior than their actual role or title.

More than 50% of women believe taking parental leave would hurt their career.



70% of women reported being treated in an unprofessional manner within the last year—double the number of men!



The findings in this study reveal a paradox. Comparing the results with official statistics exposes a major disparity between what employees think and what seems to be happening in reality. Despite well-publicized pay gap statistics, the vast majority of both women and men employed within the financial sector believe their own organizations are meritocratic and offer equal opportunities regardless of gender. For example, 63% of women said that people succeeded on merit at their company, 67% of men said the same. At the same time,

67% OF MEN & 63% OF WOMEN

SAID THAT PEOPLE SUCCEEDED ON MERIT AT THEIR COMPANY

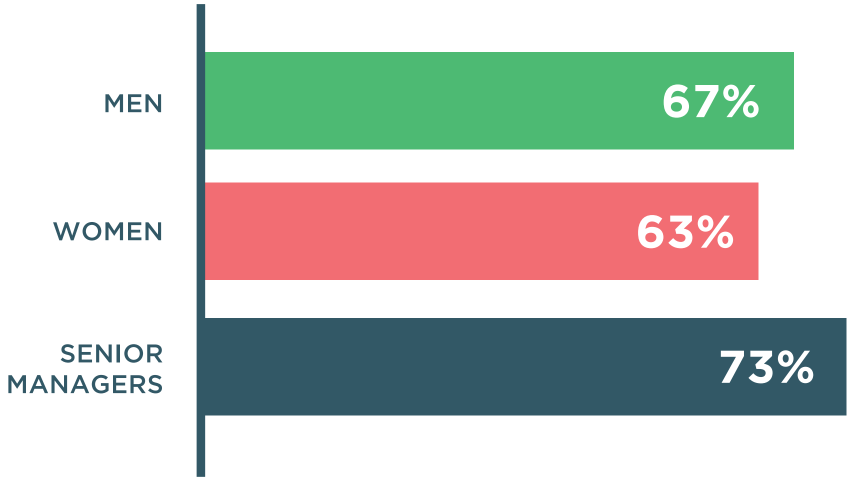
women are much more likely than men to indicate being treated in an unprofessional manner, being assumed to be more junior than they actually are and fearing a parental leave penalty in their career.

Furthermore, this belief in the meritocracy of an individual's organization only strengthens with seniority. Seventy-three percent of senior managers said that people succeed on merit at their company. This is crucial given that senior managers typically make important talent decisions and hold the key to driving the necessary cultural change to ensure gender parity. Until leaders acknowledge the depth and scale of the problem, they will lack the motivation and information necessary to take sufficient action that drives lasting change.

THE PARADOX OF MERITOCRACY

MIT Sloan School of Management professor, Emilio Castilla, identifies the disparity between perception and reality as the 'paradox of meritocracy.' In this context, managers' belief in the meritocratic nature of their business leads them to also believe that their decisions are more impartial than they really are. This allows leaders to unconsciously act on their own biases, believing they are in fact being impartial. In short, the belief in the meritocratic nature of the company can lead directly to increased bias, thereby decreasing overall meritocracy.

NEW QUESTBACK RESEARCH: BELIEF IN MERITOCRACY INCREASES WITH SENIORITY



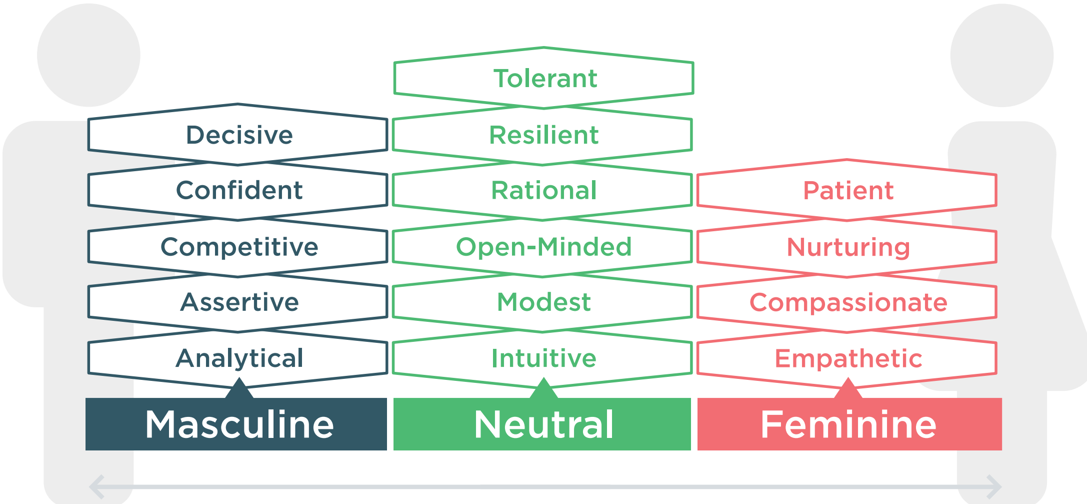
QUANTIFYING UNCONSCIOUS BIAS

What is the reason for this chasm between perception and reality? It's culture. Culture drives behavior, and it does so in ways that are typically unconscious and automatic. As shown by the results, gender bias is deeply embedded within the cultures of many financial sector organizations. In practical terms, financial sector organizations automatically value and promote traits and behaviors which are typically associated with masculinity. They value and promote male traits—men.

This underlying preference permeates recruitment, performance management and reward. It can be seen in job descriptions, search criteria, competency frameworks and performance evaluations. It also impacts everyday fair treatment. For example, half of the women surveyed in the study said they were assumed to be more junior than their actual role or title. Seven out of 10 women reported being treated in an unprofessional manner within the last year—double the number of men. As a result of unconsciously favoring male traits, both unfair treatment and the gender imbalance persist. Grappling with unconscious bias can appear challenging in a "measure to manage" business context. But it is both necessary and achievable.

To promote accountability when it comes to pay parity and gender equality, this new evidence points to a need for US financial organizations to implement an objective, quantifiable mechanism to begin to bridge the gender pay gap. Understanding and measuring unconscious bias is essential before behaviors and corporate policies can be remedied.

TRAITS & TYPICAL ASSOCIATIONS INDICATED IN THE RESEARCH



Unconscious bias and culture are tangible when measured through behaviors, attitudes and assumptions. For example and as a result of this research, Conflux, developed the Talent Parity Index (TPI). The TPI quantifies unconscious bias through measuring the correlation between the value placed on certain leadership traits and the extent to which those traits are seen as masculine or feminine. This allows companies to quantify gender bias at the organizational level and within employee sub-groups. When the TPI is measured and managed, organizations can identify corrective actions and drive change in a continual cycle of improvement.

Change must happen. Clearly narrowing the current chasm is a matter of fairness, but it should also be a business imperative. The world of work is evolving, requiring new skills and greater innovation if organizations are to survive, let alone remain competitive. For change to be effective at an organizational level, a clear line of sight into your actual gender pay gap and the behaviors that allow it to exist is required. The alpha male culture of yesterday is not enough to drive success tomorrow.

IDENTIFYING THE CULTURAL FACTORS BEHIND THE PAY GAP

Transforming corporate culture is not something that happens overnight. But it's also impossible without an objective understanding of the problem. Identifying cultural and behavioral biases that create and perpetuate gender inequality is the first step. Armed with this cultural awareness, organizations in the financial sector and beyond can begin to measure and remediate their organization's biases to start to narrow the pay gap. This insight empowers organizations to intervene and act towards greater equality and diversity in the workplace. Characteristics that are increasingly vital in a transforming and hyper-competitive world. Without such insight, organizations are in no position to demonstrate authenticity or cultural integrity.

Based on our experience and this recent research, the following unconscious biases are identified as underlying the gender pay gap.

01

THERE'S A NOT-ME SYNDROME IN ASSESSING ONE'S OWN ORGANIZATION

The belief in the meritocracy of an individual's organization remains strong despite opposing evidence. When asked to rate the level of commitment to equal opportunity for their current employer, the majority of respondents—74% of men and 69% of women—indicated their current employer was "fully committed to equal opportunity for all staff." Moreover, 67% of men and 63% of women believe that people succeed on merit in their company. These findings suggest that US employees in financial services are more inclined to believe that gender bias exists elsewhere, but not within their company.

Takeaway: For organizations to narrow the gender pay gap, they must first become self-aware of the issues within their organization.

02

THE NOT-ME SYNDROME STRENGTHENS AMONG LEADERSHIP

The belief in the meritocracy of an individual's organization strengthens with seniority. Respondents in senior management rated their organization more favorably than other employees. Nearly nine of ten (84%) senior managers believed their organization was fully committed to equal opportunity and almost three of four (73%) believed individuals succeeded based on merit. These findings suggest a lack of awareness and complacency in leadership. The result is a lack of urgency, especially among those with the greatest responsibility for making talent management decisions and driving cultural change.

Takeaway: Leadership must recognize the gender pay gap and actively embrace remedial actions for the culture of the organization to change.

03

MASCULINE TRAITS ARE VALUED & REWARDED

Respondents identified the key leadership traits they felt were most valued and rewarded within their organization when it came to decisions regarding hiring, promotion and performance management. Separately, respondents also rated these traits as perceived masculine, feminine or gender-neutral.

The relationship between the value placed on these traits and their association with gender, the TPI, indicates a very high correlation at 0.71 for both female and male respondents. Masculine traits such as confidence and assertiveness were perceived as being of far greater value in leadership than feminine traits such as patience, compassion and empathy. These findings are true of all respondent groups, regardless of factors such as gender or seniority.

This preference for masculine characteristics in hiring, promotion and performance management unconsciously reinforces the gender gap and prevents the creation of more balanced senior teams.

Takeaway: Challenge stereotypical views of leadership and support the advancement of women in the workplace to create more balanced teams, especially at senior levels.

04 VALUING MASCULINE TRAITS IS THE STATUS QUO

When asked what traits should be most valued and rewarded if their organization is to perform at the highest possible level, respondents continued to place a much greater emphasis on masculine traits. In contrast, a similar study in the UK financial sector found a desire for greater value to be placed on feminine traits than is currently the case. In other words, US respondents felt masculine traits were and should be valued and rewarded whereas UK respondents felt masculine traits were rewarded but organizations should take a more balanced approach.

A balanced and inclusive team is a business imperative today. More than three out of five CEOs ranked "inclusive growth" among their top three strategic concerns, three times higher than "shareholder value."[9] Why? A diverse and inclusive workforce brings with it a host of business benefits including attracting and retaining top talent, increasing innovation, improving decision-making and building stronger customer loyalty. As the World Economic Forum states, "As the world moves from capitalism into the era of talentism, competitiveness on a national and on a business level will be decided more than ever before by the innovative capacity of a country or a company. In this new context, the integration of women into the talent pool becomes a must."[10]

Challenging the status quo is required if organizations are to achieve gender parity. Yet, these findings indicate the dominance of masculine traits is a deeply-rooted norm in the US financial sector.

Takeaway: Organizations and workforces must challenge the status quo to create more diverse and inclusive cultures.

05

A LACK OF MERITOCRACY IMPACTS EMPLOYEE EXPERIENCES AND CAREER CHOICES

Twice as many women as men (70% vs. 35%) reported being treated in an unprofessional manner in the last 12 months. Nearly half (49%) of women said they were assumed to have a more junior position than they did. Lack of support, being questioned without justification and having their suggestions and ideas for change overlooked were also common forms of reported unprofessional treatment.

Female respondents also believed they would be unfairly assessed or treated in the future. 55% of women believed taking parental leave would hurt their career (vs. 49% for men). Women respondents were nearly twice as likely to exclude themselves from promotion opportunities. And, in contrast with men, they are 70% more likely to express a need to develop their skills and knowledge before applying for a more senior position.

Takeaway: Organizations need to re-evaluate internal practices and policies to foster and reinforce a more balanced approach.

RECOMMENDATIONS: NARROWING THE PAY GAP

Companies are increasingly coming under pressure to promote and exemplify gender equality. Urgent, targeted action is required if they are to do so. Organizations need to show potential recruits, existing employees, regulators and consumers that they are making changes today and are committed to doing what it takes to improve gender parity. Only then will financial organizations reap the benefits of a more diverse senior management team and workforce.

Every company is different, but based on our research and further analysis we believe organizations need to focus on seven areas:

#1. DEVELOP A SHARED VIEW OF THE NEED

Before any action can be taken on an issue, organizations must recognize that there is a problem and appreciate that addressing it is a business imperative. Our research highlights a gulf between perception and reality. This needs to be acknowledged by senior-level leadership if tangible, meaningful action is to occur. Culture change isn't always easy, but it is both possible and vital for your organization's future. Leaders must understand the unconscious biases and cultural factors that underpin the organizational imbalances and involve everyone in the solution. Culture assessments and metrics like the TPI generate hard data on employee attitudes and behaviors that can be shared across the business, thereby raising awareness of the scale of the problem and soliciting a shared commitment to act.

#2. TARGET INTERVENTIONS WHERE THEY ARE NEEDED

While traditional approaches such as quota- and target-setting and unconscious bias training have their place, to drive real progress organizations need a much more targeted approach based on hard evidence. This means combining structural population data (e.g., What percentage of my senior managers are female?) with cultural insights (Do women feel they fit in with the senior management culture?) in order to derive targeted interventions that match your business and its specific needs.

#3. MAINTAIN SCRUTINY & BE SELF-CRITICAL

Constant scrutiny of procedures and decisions around recruitment, performance management and promotion is required. Introducing diversity managers and task forces can help. By giving them the power to ask for more information on why particular decisions were made, they ensure accountability and help safeguard against bias. Critically evaluate the language and tone of all materials related to recruitment, competency frameworks, performance management and career development. Look for any inherent gender bias such as the language and tone used in job descriptions and the channels leveraged for recruitment. This is particularly important given women's increased tendency to self-select out of promotion opportunities.

#4. DEVELOP SELF-AWARENESS AT SENIOR LEVELS

The tendency of organizations to give greater emphasis to masculine traits in leadership is given additional significance through the work of researchers such as Kellogg School of Management's Adam Galinski. These researchers identified that the more power a leader attains, the more likely they are to become confident and self-assured; they are also more likely to assume that their views are shared by others. In turn, leaders become more dismissive of views that don't conform to their own. In effect, leadership erodes the capacity to show empathy with another point of view. The selection of potential leaders based on existing traits of self-confidence and self-assurance rather than empathy or compassion can only serve to exacerbate this tendency and inhibit diversity and inclusiveness. However, Galinski's research also concludes that executive coaching is extremely effective in helping leaders to develop the self-awareness to recognize and mitigate the impact power has on their capacity for empathy.

#5. STRUCTURE RECRUITMENT & PROMOTION PROCESSES

Informal and unstructured recruitment and assessment procedures are a major source of bias. Ensure structured, skills-based assessments are in place for recruitment and promotion decisions. Rigor in selection based on clear, transparent criteria that stand up to further scrutiny help to eliminate bias. Practices such as blind-resume screening can also assist. Bear in mind that teams need to exhibit a balance of skills and approaches to function well. When recruiting, rather than focusing purely on the role profile, ensure that considerations are also taken towards a complementary balance of skills and approaches within the wider team.

#6. INTRODUCE MENTORING & SPONSORSHIP

As our research shows, a much higher percentage of women than men self-exclude when applying for a promotion. Introducing mentoring and sponsorship programs can increase confidence and provide a sounding-board for women looking to advance their careers. Role models demonstrate that opportunities are available to all. They also provide an example for individuals to identify with as someone who can successfully move into senior management.

#7. ENSURE PROCEDURAL BEST PRACTICE

To drive lasting change, best practice processes need to be in place and enforced across the organization. It isn't enough for them to be set centrally if they are not put into practice. Ensure that all managers with responsibility for talent management follow established best practices, such as providing detailed feedback to unsuccessful applicants. Reinforce best practices with training so that it becomes the expected cultural norm. This will benefit the entire organization and support the creation of an open, meritocratic business.

CONCLUSION: CULTURAL INTEGRITY & THE SELF-AWARE ORGANIZATION

The war for talent is over, the talent won. And in this new era, organizations must evolve to compete. Organizational culture impacts all aspects of the business from talent acquisition and retention to employee engagement and leadership development, offering innovation and services to business performance and investment. Organizations require a shift in culture to start to bridge the gap, but that can only happen when the entire organization—employees to executives—is committed to diversity and inclusiveness.

Organizational integrity is at a premium as never before, particularly in the financial sector. Cultural integrity requires a consonance between espoused values and actual organizational culture and behaviors. Organizations who persist in repeating easy platitudes regarding their commitment to equality and inclusion in the face of mounting evidence to the contrary, risk suffering real reputational damage. To begin closing the gender pay gap, organizations and individuals must first become self-aware. There are three initial steps to start that journey.

1. **Identify the Gap.** Measure the actual gender pay gap within your own organization.
2. **Dive into Culture.** Uncover the gender discrimination and unconscious biases lurking within your business and its people.
3. **Empower people to power change.** Create and embrace trust and transparency throughout the organization, working collectively to evolve the organization's culture and its impact on gender equality.

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Gender inequality and the resulting pay gap threaten business competitiveness and corporate reputation. It's vital that companies achieve a closer gender balance if they are to innovate and benefit from a diverse workforce.

Assessments, like our Talent Parity Index, provide measurable evidence of what's really happening in your organization when it comes to gender parity. The TPI identifies the factors contributing to your organization's gender pay gap as well as the cultural factors influencing decisions made both about and by individual employees.

Uncover your organization's unique behaviors, triggers and roadblocks. Equip your organization, leaders and employees with the insights they need to proactively change. With Questback, start bridging your gender pay gap.

1 Pew Research Center, https://www.pewresearch.org/fact-tank/2019/03/22/gender-pay-gap-facts/
2 CNBC, https://www.cnbc.com/2019/03/21/paypal-ceo-dan-schulman-on-exactly-how-the-company-closed-its-pay-gap.html?__source=newsletter%7Cclosingthegap
3 World Economic Forum, http://www3.weforum.org/docs/WEF_GGGR_2017.pdf
4 The Simple Truth about the Gender Pay Gap Report, https://www.aauw.org/aauw_check/pdf_download/show_pdf.php?file=The-Simple-Truth
5 Bureau of Labor Statistics, https://www.bls.gov/cps/cpsaat39.pdf
6 Forbes, https://www.forbes.com/sites/forbesmarketplace/2018/06/05/5-things-you-need-to-know-about-women-in-finance/#4e73cb924e77
7 Grant Thornton International Business Report 2015, https://www.grantthornton.global/globalassets/1.-member-firms/global/insights/ibr-charts/ibr2015_wib_report_final.pdf
8 Forbes, https://www.forbes.com/sites/kimelsesser/2018/08/27/8-unbelievable-gender-pay-gap-statistics-from-top-athletes-actors-and-ceos/#3598fcfa6559
9 Deloitte Insights, https://www2.deloitte.com/content/dam/insights/us/articles/HCTrends2018/2018-HCtrends_Rise-of-the-social-enterprise.pdf
10 World Economic Forum, http://www3.weforum.org/docs/WEF_GGGR_2017.pdf

ABOUT QUESTBACK

Questback is a complete feedback system that helps companies transform customer, employee and market research programs. Used by thousands of companies, including one-third of the Forbes list, Questback is the smarter, faster way to manage feedback. Get the software, services, and human support you need to manage customer, employee and market feedback—all in one place.

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WWW.QUESTBACK.COM

New York
295 Madison Avenue
New York, NY 10017
United States

Houston
1330 Lake Robbins Drive, #430
The Woodlands, TX 77280
United States

Oslo
Bogstadveien 54
0366 Oslo
Norway

Cologne
Gustav-Heinemann-Ufer 72a
50968 Köln
Germany

Stockholm
Kungsgatan 48
111 35 Stockholm
Sweden

London
7th Floor, 110 Cannon Street
London EC4N 6EU
United Kingdom

Helsinki
Keilaranta 1
02150 Espoo
Finland

info@questback.com | www.questback.com

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