

MORE

**DIRECTORS,
PREPARE FOR MORE:**

TRACKING, REPORTING,
AND INCENTIVIZING DE&I



WomenCorporateDirectors
A Foundation Inspiring Visionary Boards Worldwide

Pearl Meyer

INTRODUCTION

“ Boards play an important role to ensure management attention is placed on DE&I so the leadership see it as part of their job to challenge measures and actions when they aren't aggressive enough and reinforce the long-term value and feasibility of high DE&I standards. ”

- Evelyn D'An, Director, Summer Infant, GHD Group and Backblaze

Over the last decade, diversity, equity and inclusion (DE&I) has been elevated as a critical issue for boards and management teams. Several catalysts have accelerated this focus, including new pay equity laws in the US at the state level; the #MeToo movement; media attention on the gender pay gap and broader income inequality; and waves of social unrest. As this topic takes center stage now in the boardroom, Women Corporate Directors Foundation (WCD) and executive compensation consulting firm Pearl Meyer set out to understand the extent to which directors are engaging in discussions about DE&I and tracking various relevant measures.

A recent survey conducted by WCD and Pearl Meyer shows a consistent theme: **more**. Directors are more involved than they've been in the past when it comes to DE&I discussions. Companies are measuring more metrics related to DE&I and communicating more about their progress across additional channels in a sophisticated way. Directors and management teams are playing a greater role in integrating DE&I into the entire organization. It should be noted these findings also show that DE&I is not simply a hot-button topic that boards are reacting to as a result of external pressures, such as media coverage or social unrest. Rather, it is a critical topic that directors and corporate leaders have been discussing for years, and they are now taking greater strides to measure and accelerate progress.

The data show DE&I practices are evolving rapidly; yet, companies are at different maturity points in their DE&I journey. Organizations will be developing more sophisticated measures and tracking systems, improving communication, and reporting and holding executives accountable for progress on DE&I. These survey findings, complemented by perspectives from WCD members and Pearl Meyer senior consultants, can help inform, guide and accelerate action as boards and management teams look more holistically across the organization to address DE&I and build cultural norms and operational structures to help achieve their goals.

DE&I DISCUSSIONS ARE NOT NEW

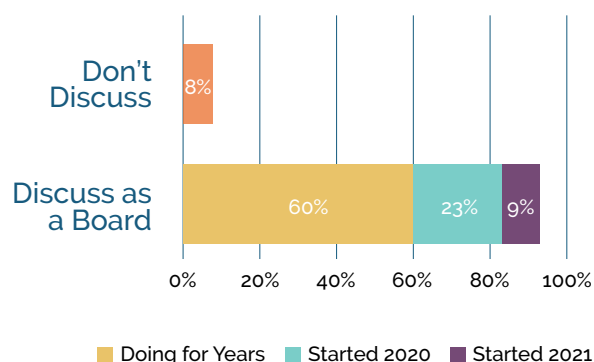
“The pandemic may have played a part in accelerating the DE&I discussion, but there is also plenty of pre-pandemic research proving the link between diversity and company performance, so it is clear that focusing on DE&I is the smart thing to do.”

- Deborah Ellinger, Director, Women Corporate Directors, Covetrus, iRobot and Tupperware Brands

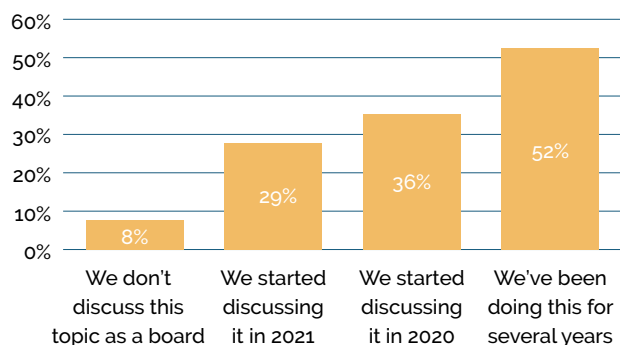
1. Directors are involved in DE&I discussions and this is not new.

It is abundantly clear that directors are engaging in DE&I discussions at the board level (92%), and many (60%) have been for years. The continued focus on DE&I shows these discussions are not a knee-jerk reaction to the events of the past 18 months, but rather an important trend that follows a culmination of decades-long societal pressures.

How Long has the Board Been Involved in Discussing DE&I Matters?



Percent that Rated Gender Representation as Better Than Peers



Boards are expanding the depth and breadth to which they discuss these matters. Successful organizations will see their board taking an active role which may include asking the management team more detailed questions about their DE&I programs, talking through issues that may arise or setting up DE&I councils.

Beth Florin, Managing Director at Pearl Meyer, points out in her analysis

that directors who stated they have been involved in DE&I conversations for the past several years, are also those who are asking management to be involved. She states "The organizations that are making progress are the ones where the leadership team is invested in creating change." This is supported by the data which show that firms that have been engaged in DE&I discussions for multiple years are also the firms that believe they do better than peers in terms of gender representation (52%).

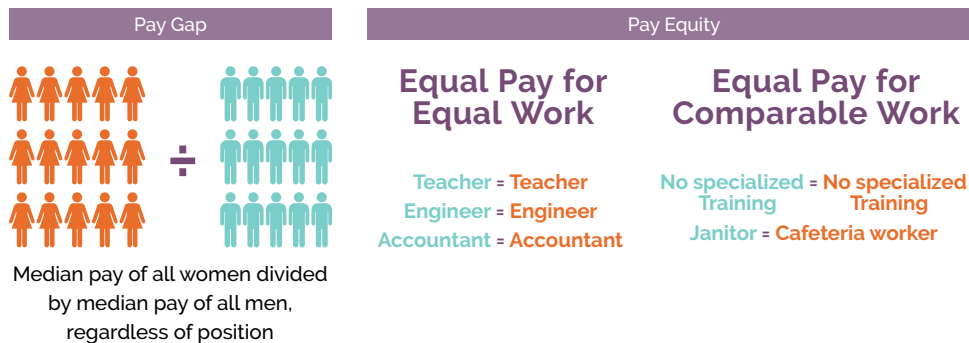
DEFINING THE “E” IN DE&I

Pay Gap and Pay Equity

Recent legislation in the US on pay equity and in the UK on pay gap has raised the prominence of the need to assess an organization’s current state. While the terms are often used interchangeably in the media, they are two very different perspectives of gender pay equality. Pay gap refers to the difference between the median or mean pay for men and women (regardless of other factors), whereas pay equity refers to equal pay for comparable work regardless of gender.

In a 2020 Pearl Meyer survey of Human Resources practitioners, respondents indicated that 91% of their organizations had completed a pay equity assessment or plan to do so within the next year, and 75% have measured their pay gap. In contrast, in the WCD and Pearl Meyer survey, directors indicated that 54% have assessed pay equity and only 40% have examined pay gap. This suggests that these topics are not rising to the level of the board, missing the opportunity for meaningful discussion on the implications of the results for the organization.

How Are Gender Pay Issues Defined? Clarity on the Nomenclature is Critical



“ The pay gap in the US is driven by a number of factors, the most prominent being fewer women in leadership positions; more women in low paying occupations; and societal norms on childcare and home care. As a result, ‘closing the gap’ is typically beyond the control of an individual organization. Pay equity—paying people fairly given the job they perform, the experience they bring to the position and their performance—is absolutely under the control of an individual organization and we believe should be an imperative for all firms to achieve. ”

- Beth Florin, Managing Director, Pearl Meyer

METRICS ARE EXPANDING

“ At a mature organization, this is an annual discussion using tracked lagging, activity, potential and bias metrics. For less mature organizations, lagging measures, some activity measures and potential bias measures are being developed. ”

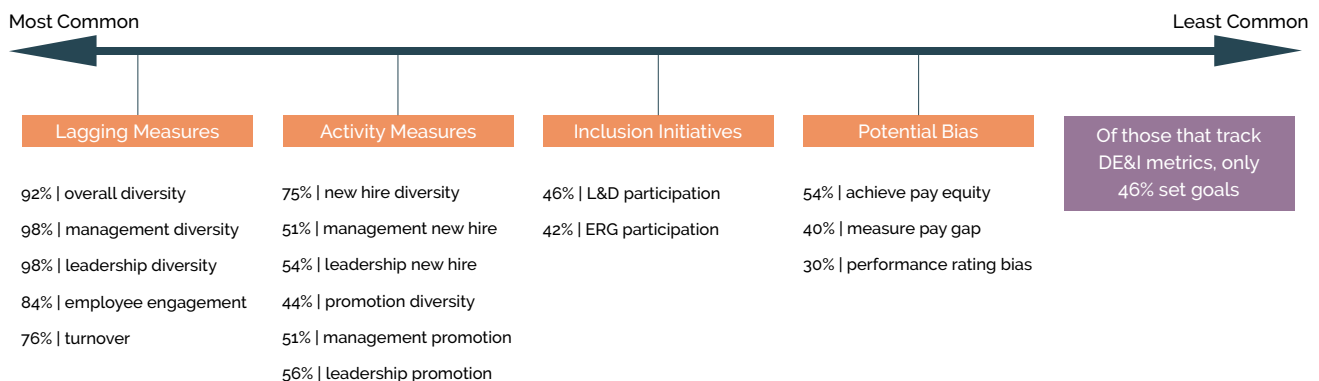
- Evelyn Dilsaver, Director, Health Equity, Tempur Sealy, Ortho Clinical Diagnostics, Blue Shield, Protiviti and Bailard Real Estate Fund

2. Organizations are expanding the metrics they use to track DE&I.

Organizations are using a range of DE&I measurements to track their progress. Lagging measures such as end-of-year reporting on diversity in the overall workforce and in management and leadership positions, workforce engagement scores and turnover rates were cited as the most common, likely because they are more readily available and have been tracked previously.

However, organizations are also increasingly tracking activity-based measures, such as those related to hiring and promotion, with 75% citing that they track new hire diversity and 56% citing that they track diversity in leadership promotions. In her work, Florin is seeing this data play out as organizations are evolving to track activity measures. “Companies are evaluating whether the actions they’re taking today—hiring and promotion diversity—are in alignment with their strategic objectives from a DE&I perspective.”

Measurement is Evolving Percent of Firms That Measure and Track



METRICS ARE EXPANDING

“ I think DE&I is tough to measure with numbers and that the best tool is a well-crafted, thoroughly analyzed employee survey with pulse updates to measure cultural progress in addition to counting representation at the various levels. A leading company will ensure that it does not promote leaders who create a toxic environment from a DE&I perspective, and it will celebrate those who really move the needle. ”

- **Martha Brooks**, Director, Jabil Inc., Volvo AB and Constellium SE

Inclusion initiatives and potential bias were ranked the least commonly tracked data. Inclusion initiatives, such as leadership & development programs and employee resource groups, are tracked by less than half of respondents. Measures that can point to potential bias, such as pay equity, pay gap and whether there are issues in performance rating systems, are likewise infrequently compared to lagging and activity metrics. While only between 30-54% of the organizations surveyed track within these categories, the data indicate that organizations are becoming more sophisticated in how they measure more complicated aspects of DE&I.

Despite organizations expanding their level of DE&I measurement, only 46% of organizations set DE&I goals, which in part may be attributed to the difficulty in setting quantitative goals to track against. “Setting up DE&I goals is not easy—especially for global companies. Every company I am involved in has a global workforce, and the definition of ‘diversity’ is different everywhere. I think it is important to pick one region at a time, show some successes, learn what works, and then continue to expand the effort from there,” said Ellinger.

While progress continues to be made to capture DE&I information, collecting consistent and accurate DE&I data was cited as a continuing challenge. Varying laws and regulations complicate the data collection process. According to D’An, “The right systems [and technology] must be in place and fully integrated to ensure data consistency. Companies with disparate systems and manual interfaces run a high risk of data errors.” In addition, D’An commented, “much of DE&I reporting is dependent on self-identification to capture and accurately report ethnic and under-represented groups.”

COMMUNICATION IS IMPERATIVE

3. Communication around DE&I is expanding exponentially.

As measurement and tracking of DE&I increases, we see internal and external communication increase on a parallel path. There are many external factors that have been a driver of communication as it relates to this topic, including new [SEC regulation for disclosure of material human capital management information](#)¹, as well as calls for additional disclosures from prominent organizations like ISS, Glass Lewis, and BlackRock. “These outside stakeholders are setting the expectation that organizations need to be serious about [DE&I] which is leading companies to step up their DE&I efforts and board members to ask for more information from their management teams,” said Florin.

A majority of directors (65%) cited that their company's primary communication method on DE&I is through targeted communication to employees, indicating that management is being transparent and open with their workforce about their DE&I efforts. Perhaps unsurprisingly, the survey also revealed that a large percentage of directors indicated that their companies include the topic within their ESG scorecards (58%) or sustainability reports (56%). As pressure increases for companies to describe their DE&I position, ESG and sustainability reports have become the most frequently used vehicle for communicating externally on a firm's progress.



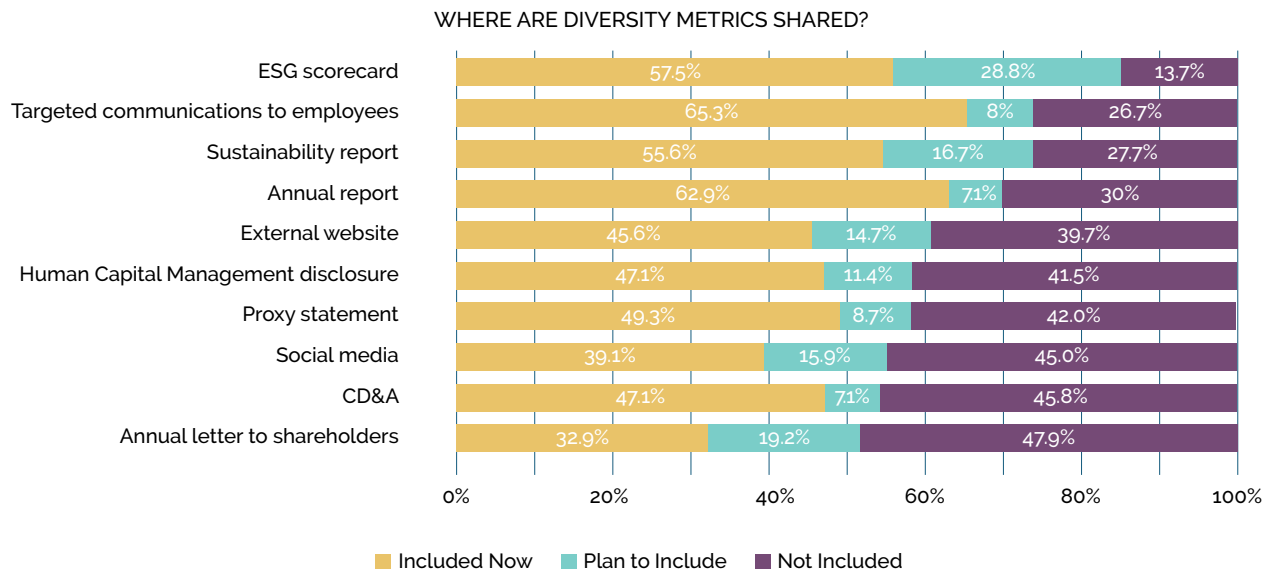
¹SEC Mandates Human Capital Disclosure: Nebulous Guidance Provided
<https://www.pearlmeier.com/knowledge-share/client-alert/sec-mandates-human-capital-disclosure-nebulous-guidance-provided>

COMMUNICATION IS IMPERATIVE

When looking toward the future, organizations expect to expand the methods and channels through which they're communicating about DE&I, including more companies using human capital management disclosures, social media and communication with shareholders. Communication has and will continue to become increasingly sophisticated and deeper as organizations track more metrics and as external pressures continue to rise from investors, consumers and potential employees.



Organizations Plan to Increase Communication of Diversity Metrics Across All Vehicles



ANNUAL INCENTIVE PLANS AND DE&I

“ Focusing on a single DE&I measure in an incentive plan fails to provide a holistic view of the diversity health of an organization and can have unintended consequences. Rather than using a single measure in an incentive plan, we encourage organizations to take a broader viewpoint by using a scorecard approach. ”

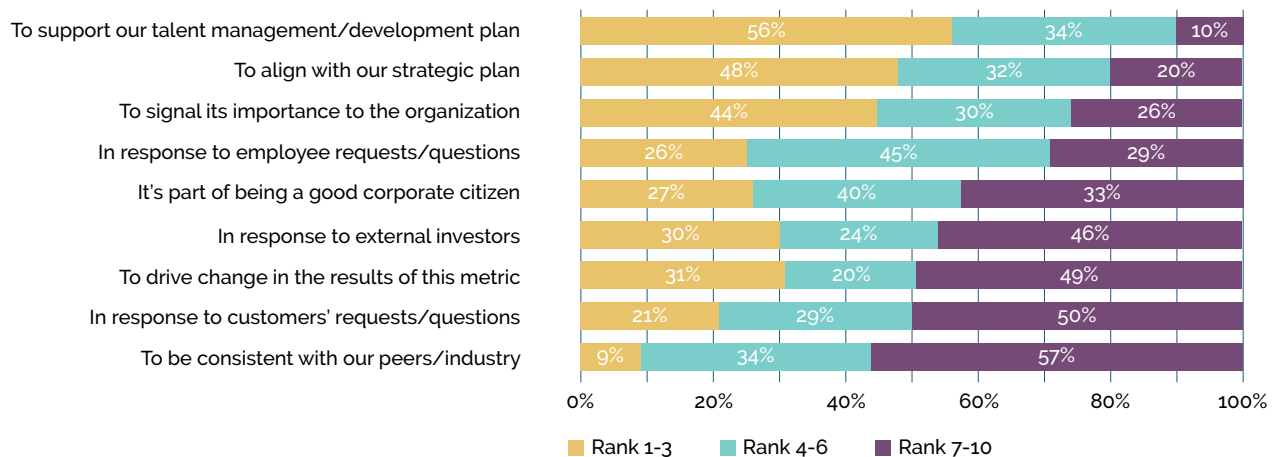
- Beth Florin, Managing Director, Pearl Meyer

4. DE&I is increasingly being considered as part of annual incentive plans.

While DE&I has been a discussion in the boardroom for many years, its inclusion in executive incentive plans is a growing trend. In fact, 39% of organizations currently include DE&I in their executive annual incentive plan and another 41% indicate they are likely or very likely to incorporate DE&I into incentive plans moving forward.

Of the organizations including DE&I in annual incentive plans, more integrate it into existing components such as individual management business objectives, the company's overall business plan, or an ESG scorecard. Less often, DE&I is included as a stand-alone metric for executives. Another way companies are holding executives accountable through their compensation is to have DE&I metrics influence the size of an annual award, either as a threshold or modifier, or to be used at the compensation committee's discretion.

Reasons to Include DE&I in Incentive Plans



ANNUAL INCENTIVE PLANS AND DE&I

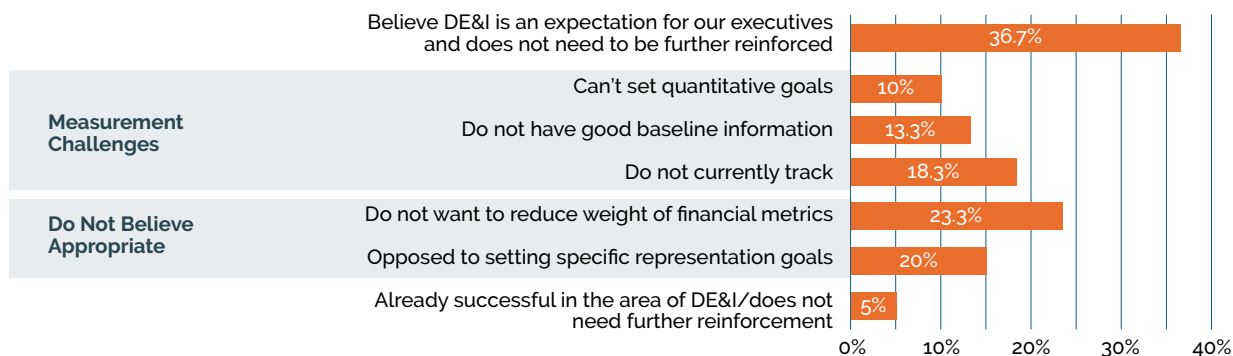
“ One of my boards wanted to make sure we further developed the pipeline [of diverse candidates], to be more intentional and more transparent. ”

- Evelyn D'An, Director, Summer Infant, GHD Group and Backblaze

The range of approaches that organizations are using to incorporate DE&I metrics into executive incentive plans suggests that this is an evolving practice with no one clear best practice. The most common reason cited for including this in the executive annual incentive plan was due to its "strategic importance," indicating that organizations are no longer looking at DE&I as a separate or "nice-to-have" initiative.

Further, some respondents (36.7%) said their organizations do not agree with identifying and including specific DE&I metrics in annual incentive plan because it is a baseline expectation for executives and does not need to be further reinforced. Other respondents reported they do not want to reduce the importance of financial metrics in order to include DE&I metrics.

Reasons for Not Including DE&I in Incentive Plans



The practice of how and where to account for DE&I in executive incentive plans is still emerging for some organizations. Many directors may be serving on boards that are just beginning to tackle this very topic. However, on another board, D'An has not discussed incorporating DE&I into incentive planning as their organization believes they are performing well in this area. Over the coming years, boards should expect to continue seeing organizations debate how best to create DE&I accountability and align it with their business strategy, including incentive design where appropriate.

WHAT MORE CAN DIRECTORS DO?

It is clear that the state of DE&I in corporations is evolving, and directors and companies are becoming more sophisticated in how they approach its tracking, goal setting and communication. This heightened level of activity is being driven by an increasing demand from investors, employees, regulators and consumers to address equity at all levels of an organization. However, achieving an advanced state of leadership equity is a long-range endeavor. The boards that take a methodical approach to setting diversity, equity and inclusion milestones and meeting long-term goals will be the most successful.

There are six interrelated steps that can lead to an improved DE&I environment and a more mature, human capital-oriented organization.

- 1. Understand the Current State:** This includes a thorough review of the organization's current DE&I status, setting the relevant tracking systems and ensuring those systems include activity, inclusion and potential bias metrics.
- 2. Build a Diverse Pipeline:** Ensure the board and management team have protocols in place for requiring diverse candidate slates and procedures that ensure diverse candidate selection when all else is equal.
- 3. Develop Future Leaders:** Create formal processes to help increase diversity in leadership positions, with talent management and development programs that are specifically gender, minority, and/or identity-oriented.
- 4. Engage a Diverse Workforce:** Encourage formal internal affinity and networking groups and develop programs that focus on inclusivity concepts and actions.
- 5. Retain a Diverse Workforce:** Beyond compensation, companies will be forced to get creative in order to retain their diverse workforce. In addition to overall workplace and time flexibility, examples to reduce the potential for career-interruption include on-site childcare, job sharing and plans to facilitate career re-entry.
- 6. Create Accountability:** The involved board can lead to an accountable management team. Tracking, reporting, and holding leaders accountable for measurable progress is key. In addition to regular formal and informal, internal and external communication, directors can influence success by incentivizing management to set and meet short- and long-term goals.

WHAT MORE CAN DIRECTORS DO?

Once board members and management teams have a thorough understanding of where their organization stands on DE&I and have a documented vision for its future state, they can build a plan for action. "Continuous follow-up from the board to management is necessary to ensure progress," said Dilsaver. There are many ways organizations are already affecting change and organizations have an opportunity to accelerate progress by prioritizing a diverse, equitable environment. Brooks commented, "DE&I will be with us for a long time. It is critical that we get a clear pulse on the employee experience to understand the barriers we need to overcome in DE&I to build the best possible culture to support the corporate strategy."

Methodology

This study was distributed as an online survey of WCD members, conducted from July 13 to July 30, 2021. Of 157 total respondents, 90% are directors currently serving on boards, while the remaining percentage are in the C-suite or senior management positions. Approximately 70% of respondents currently serve on the board or leadership team of a public company. A decision was made to survey board members of US-based organizations due to the varying regional definitions of diversity and regulations related to equity.



ABOUT WOMEN CORPORATE DIRECTORS EDUCATION AND DEVELOPMENT FOUNDATION, INC.

A unique global network, the Women Corporate Directors Education and Development Foundation (WCD), a not-for-profit organization, has served as the place where the most powerful and influential women in the world have convened for more than 20 years.

WCD is recognized as:

- A bold catalyst for board diversity
- A true world-wide peer community for seasoned and acclaimed female corporate directors
- A critical resource for board opportunities
- A leader in developing high-quality governance programming, thought leadership, and sharing best practices
- A valued facilitator accessing critical insights from leading authorities across a variety of industries and topics

Our Mission

As the preeminent organization for women directors globally, WCD seeks to:

- Foster a powerful, trusted, and global community of women corporate directors who meet specific and objective criteria
- Increase representation of women on public and large private company boards and in board leadership positions
- Increase the pipeline of aspiring and qualified female board candidates
- Inspire visionary boards worldwide – by providing education and tools that keep members engaged, informed, and high-performing as directors.

For More Information

To learn about the benefits of WCD membership and how to join, visit womencorporatedirectors.org.

ABOUT PEARL MEYER

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer's global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in Atlanta, Boston, Charlotte, Chicago, Houston, London, Los Angeles, New York, Rochester, and San Jose.

For More Information

To learn more about why Pearl Meyer is the leader in executive compensation consulting, visit pearlmeyer.com.



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