

Bringing the Diversity Discussion into the Compensation Committee

AUGUST 11, 2017



Blair Jones

Companies have embraced diversity as a way to enhance dialogue, broaden thinking, better represent customer perspectives and drive innovation. Diversity—including diversity of race, gender, cultural background, experience and age—is now a strategic imperative and benefits from the Board of Directors' full commitment. Board Nominating and Governance Committees are playing an important role in introducing more diversity into the boardroom by bringing forth diverse slates of outside director candidates. Compensation Committees have a critical role to play as well, fostering diversity efforts within the employee and management populations. Here's how:

- 1 **Monitoring of diversity and inclusion initiatives and outcomes within the organization:** As many Compensation Committees expand their charters to include talent oriented responsibilities, diversity is a front and center issue. Committees are receiving at least annual updates from management on diversity and inclusion statistics, programs to support diversity and inclusion, and development opportunities for diverse leadership candidates. Many Compensation Committees are also taking the opportunity to get to know some of the diverse high potentials and their career experiences: they will invite diverse candidates to speak with them about their career path to date and the development actions they are undertaking. These “real-life” examples bring texture to the Committee members' understanding of the Company's endeavors and highlights the programs' improvement opportunities and impact. In some cases, based on this understanding, the Committee can be instrumental in fostering mentoring relationships within or outside the Board that may accelerate the high potential individuals' careers faster.

2 Succession planning: Succession planning for the CEO and direct reports is most frequently a full Board discussion. However, Compensation Committees may preview CEO direct report succession planning discussions to focus the Board conversation and give additional time to this important topic. In addition, many Compensation Committees are choosing to focus on succession planning one level down, gaining insight into the longer-term talent pipeline. In both cases, there is an opportunity to probe where diverse candidates reside in the organization and the efforts being taken to enhance their readiness. Where fewer diverse candidates exist, Compensation Committees can push brainstorming about where additional candidates might be sourced and creative ways to make the company attractive among those groups.

3 Oversight of annual compensation actions: This core Compensation Committee responsibility supports diversity when viewed with a finer lens: as Committees review annual pay change recommendations, it is important that they not only understand the individual actions but also look for patterns. How do increases and actions for women and minority executives compare? Are there other biases that the recommendations represent? Fairness and consistency are key. In addition, there is an opportunity to ensure pay actions are aligned with succession planning discussions. Are those diverse employees who have been identified as potential successors experiencing the appropriate pay trajectory? In considering these perspectives, the Committee helps ensure the Company put its money where its mouth is.

4 Gender pay equity: This issue is quickly emerging, advocated by institutional investors, political leaders, employees and others alike. It has been the focus of shareholder proposals and company pledges in the last few years and is increasingly in the governance dialogue. Compensation Committees have the opportunity to work with management take a leadership role on this issue. The first step is to get an understanding of what the data shows about the current state. Then the Committee can work with management to clarify the company's philosophy on the topic. Clear and practical responses related to compensation design and administration as well as targeted disclosure will help the company underscore its commitment to diversity and fair treatment to all stakeholders.

Compensation Committees can help the companies they serve walk the talk on diversity and inclusion. Whether their charters and committee names formally include "Human Resources", "Organization", or "Talent" responsibilities, it makes business sense for Committees to take on these issues. By focusing on questions about where more diverse talent needs to be sourced and fostered, who diverse high potentials are, what is being done to promote their career experiences, and how these individuals are paid relative to others on similar trajectories, the Committee ensures the issue does not get lost in the midst of its other compliance and regulatory duties. Diversity and inclusion is a clear area where continuous measurement and sharing of experiences makes everyone learn faster and better. Therefore, Committees should ask for the dialogue, and management teams should not be shy to engage.

For more information, visit us at SEMLERBROSSY.COM, or please contact:

Blair Jones, Managing Director
Semler Brossy Consulting Group LLC
1021 Hedge Row
Clinton, NY 13323
212.388.9776
bjones@semlebrossy.com

