

# Incorporating DEI into Incentive Compensation Programs: Creating a Meaningful and Successful Plan

Presented by

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# Agenda

- Background
- Incentivizing DEI: Core Considerations and Process
- Creating the DEI Plan
- DEI Reporting and Governance Trends

# Background

- COVID-19 Pandemic, social unrest
- Shareholder activism
- SEC disclosure requirements

# Background - DEI

- Diversity: the presence of differences that may include race, gender, religion, sexual orientation, ethnicity, nationality, socioeconomic status, language, (dis)ability, age, religious commitment, or political perspective.
- Equity: promoting justice, impartiality, and fairness within the procedures, processes, and distribution of resources by institutions or systems.
- Inclusion: ensuring those that are diverse actually feel and/or are welcomed. And the degree to which diverse individuals are able to participate fully in the decision-making processes and development opportunities within an organization or group.

# Background - ESG

- Environmental: the contribution a company or government makes to climate change through greenhouse gas emissions, along with waste management and energy efficiency
- Social: human rights, labor standards in the supply chain, any exposure to illegal child labor, and more routine issues such as adherence to workplace health and safety. A social score also rises if a company is well integrated with its local community and therefore has a 'social license' to operate with consent.

# Background - ESG (continued)

- Governance: a set of rules or principles defining rights, responsibilities and expectations between different stakeholders in the governance of corporations. A well-defined corporate governance system can be used to balance or align interests between stakeholders and can work as a tool to support a company's long-term strategy.

# **Incentivizing DEI: Core Considerations and Process**

# Emerging Trend

- Hold senior management responsible for Diversity, Equity and Inclusion (DEI) through executive pay
  - Example: Fortune 500 talking about DEI in 2020 earnings reports:
    - Q2 – 2%
    - Q4 – Over 50%
- Q1 2021
  - Starbucks
  - McDonalds
  - Nike



# Executive/Incentive Pay

- Performance-Based Compensation Incentive Plan Structures
  - Short vs. Long
  - Cash vs. Stock
- Overall, cash and stock performance-based compensation now make up approx. 58% of S&P 500 executive's total pay
  - Compared to 34% in 2019

# Performance-Metric Purposes

- Condition compensation on performance metrics designed to achieve organizational goals and avoid harmful behavior
- Performance metrics should be carefully considered:
  - Who is responsible for achievement?
  - What is the end goal or vision?
  - Where is the motivation?
  - When will progress be assessed?

# Who is responsible for DEI achievement?

- C-Suite, VPs and above, officers, or all employees?
- Answer starts to frame what compensation arrangements may be effected
  - Short or long term incentive plans?
  - Broad-based compensation arrangement?
- Current philosophy is C-Suite with Compensation Committee oversight of DEI initiatives

# What is the end goal or vision?

# What is the performance metric?

- Substantive and structural elements to performance metrics
  - Substantive – What behavior do we want to motivate? Is the goal achievable? How will we measure success?
  - Structural – Which incentive plan is best placed to achieve goals? What's the time horizon involved? How much compensation should be contingent on goal achievement? Sufficiently motivating?

# Structural Features to Performance Metrics

- Quantitative or qualitative
- Company or individual

# Features of DEI Performance Metrics

- DEI tend to be “soft” metrics
  - Makes sense as DEI metrics in infancy
- Possible changes as DEI goals mature/organizations progress or achieve initial goals

# Where is the motivation? Emerging Trends

- Emerging
  - Use of DEI performance metrics still developing
  - Less than 10% of Russell 3000 have reported using DEI metrics for FY 2020
  - Long-term equity plans
  - Approx. 10 – 20% weightings
- Sample DEI Metrics regarding underrepresented groups:
  - Establish and maintain growth opportunities – business exposure and leadership development
  - Create business resource groups – networking
  - Establish scholarship and jobs programs – access
  - Learning sessions on DEI concepts – awareness

# When will progress be assessed?

- Depends on the substantive and structural features of the DEI goal
- Generally, Compensation Committee evaluates achievement for qualitative and individual goals
- Annually or 3-5 year cycles



# Creating the DEI Plan

# The DEI Plan

Create a strategic or action plan for DEI that:

- Articulates goals for the program
- Determines program focus area(s)
- Identifies stakeholders/those involved
- Sets resources needed and budget
- States timelines and deliverables
- Defines how to measure progress



# DEI Areas of Measurement & Accountability

- **Representation:** Demographics data in identified areas
- **Retention:** Diversity and Inclusion Employee Survey Index; comparison of employee experience survey among various groups, including follow-up to leaders
- **Program Engagement:**
  - Participation in outreach
  - Participation in pipeline activities
  - Participation in Business Resource Groups
  - Mentorship
  - “Stay” interviews
  - Training completion

# DEI Plan

Sample Diversity/Inclusion Plan

In order to realize fully our Mission and Vision, we are committed to actively fostering diversity, inclusion and cultural competency throughout our programmatic, research, development, and operational efforts.

Goal 1: Build our organization's capability to execute the long-range inclusion plan

- Create a Diversity/Inclusion BOD Standing Committee
- Create and lead cross divisional implementation team
- Increase diversity of staff and volunteer population
- Assess the level of intercultural competency of staff and volunteers, and design tools to increase and develop the competency
- Evaluate our diversity/inclusion initiative activities

Goal 2: Increase the number of people from diverse and underserved populations using our supportive services and informational products

- Develop appropriate current and proposed tools and information
- Develop and implement education and program initiatives for individuals and their care partners

## UO Diversity Action Plan Template

► **GOAL #1 (I: Inclusion):** Create an inclusive and welcoming environment for all.

- **School, College, Research or Administration Strategy 1** – Create a more welcoming, respectful and inclusive climate for all.

Tactics	Target Measures	Resources to be used for this tactic.	Lead	Timeline Year 1, Year 2, Year 3
1.1 UO to develop and unveil a diversity wall, chronicling significant events in UO's history that advanced diversity within the university's workforces. The wall will highlight major diversity milestones at the UO. Historical photos and information will come from UO's library and other sources.	# of individuals/units who participate in the development and implementation of the diversity wall. #Location of Wall # of individuals who view wall	Time for development of concept, participants and budget.	UO Executive Leadership	Develop Concept, Identify Budget and Approval Year 1 Implementation of Project Year 2

Describe the evaluation tool that you will utilize to measure progress and ensure accountability.

Qualitative survey will be created to measure impact, success of diversity wall.

### Plan:

GOALS	OBJECTIVE	ACTIONS	ACCOUNTABILITY	BY WHEN	MEASURING SUCCESS
Workforce diversity	Recruit from a diverse, qualified group of candidates to increase diversity of thinking and perspective	1. Advertise roles in a broad range of publications 2. Ensure a diverse range of candidates are represented at shortlist stage	Human resources  All hiring managers	Quarter 1	Increase in the representation of diverse employees
Workplace inclusion	Foster a culture that encourages collaboration, flexibility and fairness to enable all employees to contribute to their potential and increase retention	1. Provide inclusive leadership training for managers 2. Establish employee advocacy groups	Senior Leadership team	Quarter 4	All managers participate in inclusive leadership training Three employee advocacy groups are established

# Qualitative Assessment – *Not one size fits all*

## Questions to Ask

- What are we trying to accomplish?
- How are we doing now?
- What do we need to do?

## Assessment Techniques

- Crisis areas
- Culture audit/climate survey/focus groups
- Prior efforts
- Resource groups
- Policies/training

# DEI Major Programming Areas

Recruitment/Hiring - Diversity

Training - Inclusion

Employee Resource Groups - Inclusion

Succession Planning/Evaluation/Promotion - Inclusion

Leadership Engagement/Development - Inclusion

# **DEI Reporting and Governance Trends**

# External Reporting of DEI Progress

DEI and/or  
CSR  
Reports

Press  
Releases

Proxy  
Statement

ESG Report



# Understanding ESG Reporting & DEI



## E

### ENVIRONMENTAL

Considers effects of company's operations on environment, such as:

- Greenhouse gas emissions
- Waste and pollution
- Resource depletion
- Treatment of animals



## S

### SOCIAL

Looks at company's ability to deal with social trends, labour and politics, including:

- Working conditions
- Employee relations and diversity
- Data security
- Ties with local communities



## G

### GOVERNANCE

Considers how a company is run, taking into account factors such as transparency, board diversity and corporate governance

# Board Diversity

- Shareholder derivative lawsuits
- State law mandates
- SEC approves Nasdaq Rules 5605(f), 5606 & adds Rule 5900-9
- Expect continued interest in board diversity from all company stakeholders

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