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## CORPORATE GOVERNANCE

# Banks experiment with tying executive pay to diversity goals

By Laura Alix   May 24, 2021, 12:01 a.m. EDT   5 Min Read



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When Black Lives Matter protests spread across the nation last year, many banks responded with splashy pledges to do better, in part by hiring and promoting more people of color.

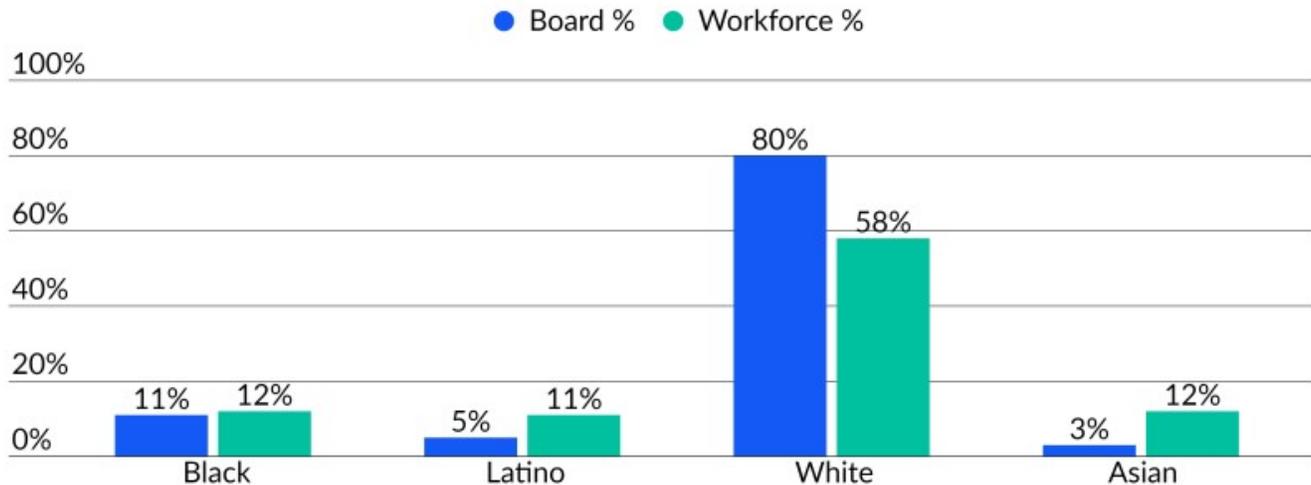
Now some of those banks are tying executive pay to certain diversity and inclusion metrics.

A recent analysis of 60 companies' executive pay packages suggests that more banks are incorporating diversity, equity and inclusion factors into executive pay decisions this year than in the past. While the details can vary from bank to bank, the basic intent is still the same: if diversity is

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## Makeup mismatch

An analysis of data from 44 large U.S. banking companies found more racial diversity in their workforces than on their boards



Source: House Financial Services Committee, Democratic staff report, February 2020

“Boards are learning how these incentives are working,” said Shaun Bisman, a principal at the consulting firm Compensation Advisory Partners, which conducted the analysis. “This is really in the beginning stages where companies and boards want to see how these incentives are working before they set these more quantifiable goals.”

Larger banks will likely emerge as the trendsetters, with smaller and regional banks following suit, as regulators, shareholders and the public more closely scrutinize whether companies follow through on their diversity pledges. Wells Fargo, for example, said last year that it would [tie senior leaders' compensation](#) partly to their progress on improving diversity at the company.

A [report](#) last year by the Democratic staff of the House Financial Services Committee faulted big banks for what it characterized as a lack of diversity among their senior executives and on their boards of directors. The findings were based on the results of a survey of 44 large banking companies. While 58% of those firms' employees were white, 80% of their board members were.

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year.

About one-third of those companies included some kind of diversity, equity and inclusion factors in their executive pay plans this year, said Kelly Malafis, a founding partner at the firm. Roughly three-quarters of those banks, or 24% of the overall sample, used a discretionary adjustment related to diversity and inclusion, meaning that the compensation committee could choose to adjust the amount awarded based on the firm's progress, or lack thereof. Typically, the diversity and inclusion factors are tied to annual bonuses, rather than long-term incentives.

While comparable data from earlier years was not available, Malafis said that tying executive pay to diversity and inclusion is a fairly new practice. As a result, companies are generally looking at qualitative factors, or a range of improvement on certain goals, as opposed to hard numbers, when making pay decisions, she added.

"Part of that is, maybe they don't know what the right number is, or they want to look at several different factors. Not just the numbers, but maybe also the promotions and performance and progress," Malafis said. "Some of it is, they know it's the right thing to do, but they're not sure how to measure it."

Comerica in Dallas began incorporating diversity and inclusion metrics into executive pay this year, said Megan Burkhart, chief human resources officer.

Last year, the \$86.3 billion-asset company created a scorecard that it could use to track its progress on a variety of diversity indicators, including succession planning, volunteerism, business outreach and supplier diversity. For about 320 executives across the organization, a portion of their individual awards will depend on how much progress the bank makes on those measures.

"We believe that tying these metrics to compensation certainly increases the attention to it and will help us to ultimately achieve the goals we've set for ourselves," Burkhart said.

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On the issue of supplier diversity, Comerica is now looking not just at how much it spends on diverse suppliers, but also whether that spending keeps pace with overall supplier spending. While Comerica had increased its spending on diverse suppliers, the dollar amount hadn't increased at the same rate as overall spending.

"Some of the parts of our scorecard are a moving target and require almost constant discussion on an annual basis," Bennett said.

The \$176.2 billion-asset KeyCorp considers diversity, equity and inclusion goals among a number of non-financial factors that it uses to calculate executive pay, said Brian Fishel, chief human resources officer.

The company recently started getting more prescriptive about the diversity and inclusion factors it considers, Fishel said. Those factors include representation of women and minorities in the company's management ranks, employee volunteerism and engagement with internal programs.

Cleveland-based Key has also broadened the conversation about diversity to include issues like mental health, in addition to racial and gender representation, according to Fishel.

More companies are beginning to evaluate the use of environmental, social and governance metrics in executive compensation, said Gillian Emmett Moldowan, a partner who specializes in compensation and governance at the law firm Shearman & Sterling. That trend has accelerated over the past year, driven in large part by the pandemic.

"We are seeing the diversity and other social or human capital targets, along with environmental targets, more commonly in annual bonus plans than in long-term performance stock incentives, but that may shift, and that's something to keep an eye on," she said.

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social metrics, which could also include employee safety and wellness, in addition to diversity and inclusion, has significantly increased this year, she said.

For now, most bank compensation committees will feel more comfortable awarding diversity and inclusion bonuses when they are attached to a range of improvement on certain diversity metrics, as opposed to meeting more specific targets, said Malafis of Compensation Advisory Partners.

“It’s easy to put a hard number around representation, but is representation the full picture? It’s diversity, equity and inclusion, so what does that mean and how do we measure it?” she said. “That’s where the conversations are happening. There are companies that don’t want to make it just about representation, it has to be a more holistic approach.”

**Laura Alix** Reporter

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