Pearl Meyer

TRENDS & ISSUES

Findings in Gender Pay Inequality and Opportunity Disparity Among CFOs at Russell 3000 Companies

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Introduction and Methodology

Gender pay and gender opportunity concerns, as well as other related environment and social issues, are steadily making their way onto the list of top governance and compensation considerations for public company boards of directors. A special issue of Bloomberg Businessweek on "The Business of Equality" and numerous other articles have cast a spotlight on gender pay equity issues. Conversely, we've seen research from Harvard Business Review[1] that may indicate female CEOs make more than similarly situated male counterparts, along with similar findings that once they make it to the senior management ranks, women may be paid up to 10% more than their male peers[2].

With this as a backdrop, Pearl Meyer set out to thoroughly study data on CFOs at Russell 3000 companies to determine the scope and scale of both gender pay equity and gender opportunity disparity. We began with three avenues to pursue:

1. Do female CFOs make less (or more) than their male counterparts?
2. Do female CFOs make less (or more) as a percentage of CEO pay than their male counterparts?
3. Is the number of female CFOs higher or lower than we would expect based on basic demographic facts?

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[1] "We Know Female CEOs Get Paid More, But We Don't Know Why", *Harvard Business Review*, March 13, 2017

[2] Leslie L, Manchester C, Dahm P. "Why and When Does the Gender Gap Reverse? Diversity Goals and the Pay Premium for High Potential Women." Academy of Management Journal. 2016;60(2):402-432. doi:10.5465/amj.2015.0195

We chose to review the CFO position for a number of reasons:

- Every company reports a principal financial officer (aka CFO);
- With the exception of the CEO, this is the most universal and compatible position in a public company; and
- Unlike operational executives (e.g., presidents and division heads), the core responsibilities of top finance positions are largely consistent, with CFOs and other senior financial leaders often moving between and across varying sectors and industries.

Main Data Group, a leading provider of executive compensation benchmarking and governance analytics, provided the total compensation data for Russell 3000 CFOs, as well as the CEO to CFO pay ratio information based on proxies filed in 2018.

Findings on Pay Disparity

Pay gap is the aggregate average female total compensation compared to the aggregate average male total compensation. Female CFOs make, on average, 90.7 cents compared to $1.00 for males. This gap however, is misleading as executive pay levels are strongly related to firm size and industry (and the distribution of women across firm size and industry vary meaningfully).

To understand whether there are gender-based pay inequities, we completed an in-depth statistical assessment using multiple regression, which allows us to examine how multiple factors play a role in predicting compensation. Based on our comprehensive regression analysis, we were able to conclude that gender is *not* a statistically significant factor in predicting total compensation for CFOs in the Russell 3000. Said another way, from a statistical perspective, factors other than gender account for any pay inequities. Key variables that played a role in predicting individual compensation include company revenue and industry. Company assets, market cap, EVP status, total years of work experience, and whether the firm pays dividends are also statistically significant but have a minor influence.

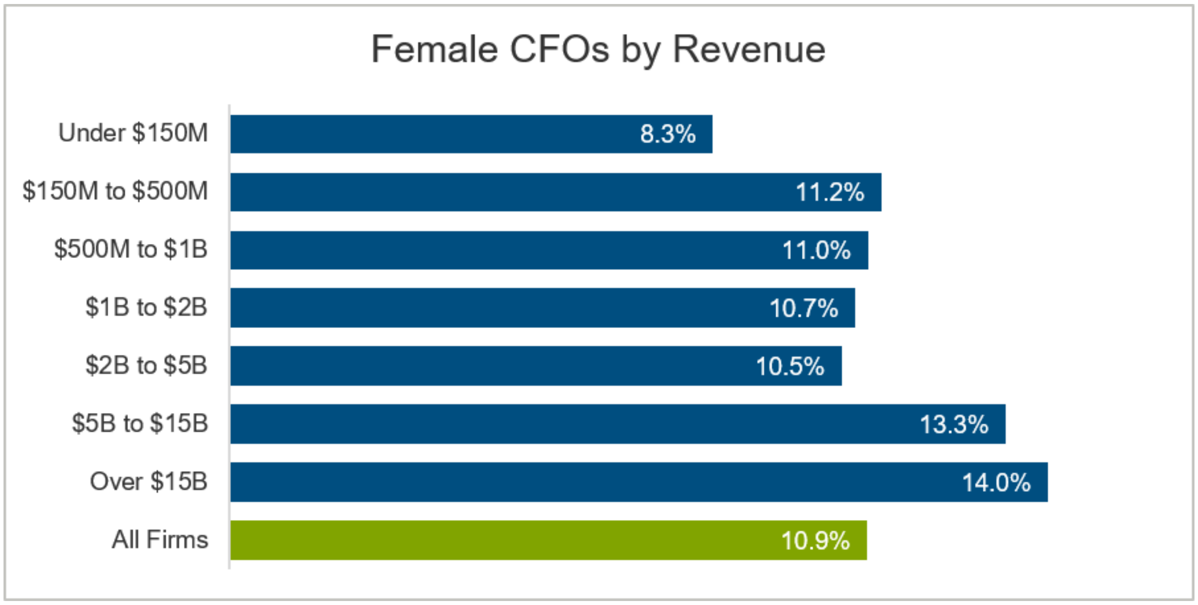
Similarly, gender was not a statistically significant factor in predicting the ratio of CFO total pay to CEO total pay, nor did the presence of a female CEO influence CFO total pay levels.

Findings on Opportunity Disparity

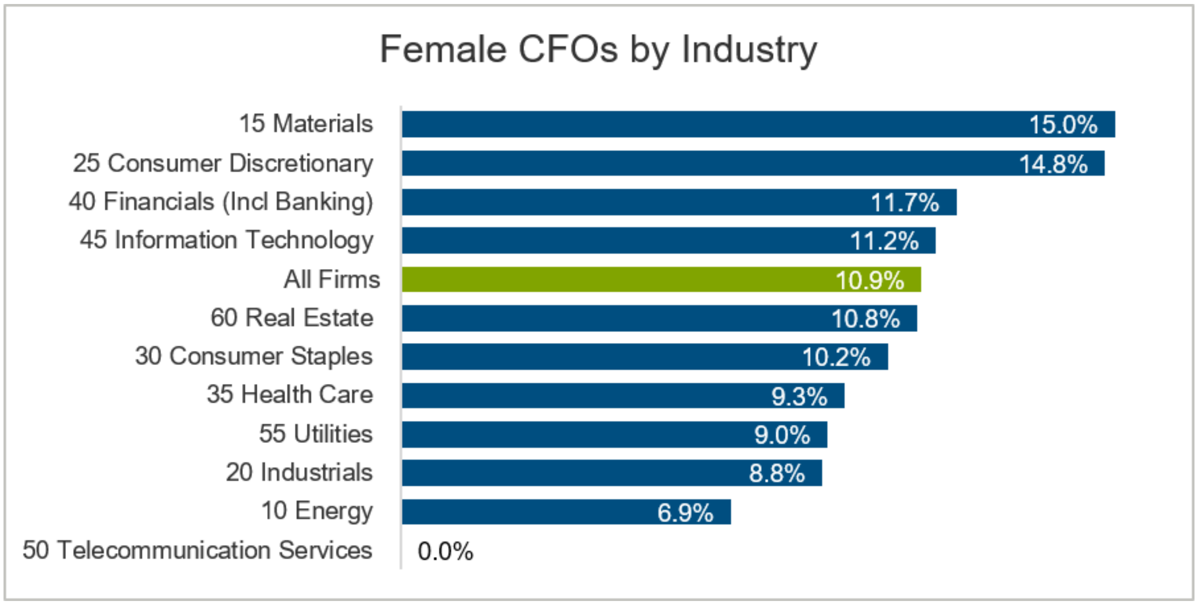
While our findings showed no pay inequity in the area of *compensation* as related to gender, there is unquestionably a disparity in *opportunity* based on gender at the CFO position.

Overall, the percentage of Russell 3000 companies with a female CFO is 10.9%. We would have expected to find 20% to 25% of the CFO ranks to be female. This clearly indicates that companies have a long way to go to achieve gender opportunity parity throughout the executive ranks. With employment low and companies riding a robust economic wave in many industries, it is surprising that companies may be leaving talent on the sidelines.

Across the various company-size-by-revenue bands, the percentage of female CFOs is fairly consistent. We do see that the largest companies (more than $5B in revenues) are more likely to have a female CFO and the smallest companies (under $150M in revenues) are least likely to have a female CFO.



However, we found a wide opportunity disparity across industries.



Generally speaking, operating executives (subsidiary presidents and top division executives) are very industry-centric with deep knowledge of the industries in which they operate. On the other hand, legal, accounting, and financial disciplines tend to require less industry-specific expertise. So then why is the prevalence of female CFOs so much higher in certain industries (consumer discretionary, materials, and IT) than others (telecom, real estate, and energy)?

Conclusions: Discover Challenges and Provide Opportunities

So where do we find ourselves? When it comes to opportunity and the position itself, women make up nearly half of the employed U.S. labor force, and enroll and graduate from higher education institutions at rates higher than men, yet less than 11% of Russell 3000 CFOs are women.

And while the results regarding any possible gender-based pay equity at the position may seem surprising, there may be several more obvious driving factors that set the CFO position apart. The most likely being that CFO pay levels are required to be disclosed publicly and benchmarking compensation levels across peers provides a straightforward source of pay equity information. Where they have female Named Executive Officers (NEOs), companies may be consciously or unconsciously positioning CFO pay competitively for all those visible individuals to signal both to the external market and to various internal constituencies that the company does not have a gender pay disparity issue. Of course, opportunity disparity is another matter.

Perceived Challenges to Addressing Opportunity Disparity:

- Recruiting and retaining women in some industries may be difficult
- Differences in negotiation style may impact promotion and salary increases
- Limiting impact of maternity leave on women's career progression
- Ensuring performance metrics do not have implicit gender bias
- Managing risks: litigation, financial, and reputational

Potential Opportunities for Improvement:

- Examine career paths and opportunities, and aggressively determine ways that will enable women to be positioned to be perceived as high performers in the same way as other successful employees
- Assess and mitigate gender biases in performance evaluation processes
- Broaden the array of talent definitions
- Consider "career reentry programs" and not solely for women and/or former employees, but for anyone with high potential who has left the workforce for a meaningful period of time

In addition to rethinking perceived challenges and exploring opportunities to improve, companies will want to examine themselves broadly to mitigate the typical situation where below a certain level within the organization women and men are equally represented but above a certain level, usually mid- to upper-management, there are markedly more men than women. This pattern is often quite stark. For example, one level in the company may be 48% to 50% female but the next level up is over 70% male.

Finally, companies should adopt a mindset that it is a competitive advantage to take the lead in attracting and retaining a diverse talent pool, particularly from underrepresented and underutilized groups.

About the Authors

Wes Hart is a managing director in the Houston office of Pearl Meyer. He has nearly 19 years of experience advising clients in the assessment and development of executive compensation programs, including competitive pay and performance analyses and extensive experience in the design of annual, long-term, and other incentive plans. Mr. Hart has performed work for clients in a wide variety of industries with a focus in the broad energy, financial services, and healthcare sectors.

Malcolm Adkins has over 10 years of compensation consulting experience and is based in Pearl Meyer's Houston office. Prior to joining Pearl Meyer, he served as a compensation consultant at Aon Hewitt and Longnecker and Associates. Over the course of his career, Malcolm has developed broad experience consulting to senior management and boards of directors on a variety of compensation and governance related matters. He has worked with clients spanning many different industries, and with a particular focus in the energy sector.

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 New York, Atlanta, Boston, Charlotte, Chicago, Houston, London, Los Angeles, and San Jose.

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