

Video Transcript: Gender Pay Discussions in the Boardroom

- Dan: Welcome back to Executive Insights. I'm Dan Daly and today we're discussing all types of compensation and the issues related to that with Melissa Means. She is a partner with the executive compensation firm, Pearl Meyer, here in Boston. In our first session, Melissa did a wonderful job as we expected, talking about the CEO Pay Ratio. And now we're going to shift to something that's not quite as well defined: pay, parity, and gender equality, all these things. Melissa, you're an expert on it. Maybe we should start with definition. Okay. Let's do that and then you can tell me what you're hearing and what you're seeing. But I think our viewers would appreciate just a definition of the terms that are involved in this particular, very important subject.
- Melissa: This is a great opportunity to really help people understand-
- Dan: Starting with me. Starting with me.
- Melissa: And there are terms that are being bantered about and used in the media and the press. And so we want to make sure we give a little bit more clarity to it.
- Dan: Great. Let's start there Melissa. That's be great.
- Melissa: So when I think about terms, there's pay gap and then there's pay equity. So let's start with pay gap. Pay gap is really that concept around women making 80 cents on the dollar to men.
- Dan: Quoted all the time, in every media story regarding compensation, yes.
- Melissa: All around the world. Not even-
- Dan: What does that mean? Help me.
- Melissa: What that means is, it's basically kind of like the median of all pay for women, as compared to the median of all pay for men.
- Dan: Okay.
- Melissa: So it's not job by job, it's not responsibility-
- Dan: Company by company, it's just men, women, you're working, what are you making? And the median. Okay.



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Melissa: That's exactly right-

Dan: All right. Continue on, please. I think that's critically important.

Melissa: And it came up this year as part of the UK legislation, if everybody's familiar with the-

Dan: I'm not-

Melissa: Disclosure-

Dan: No, no.

Melissa: So, the UK came forward and said, "You need to disclose on this particular issue." They were required for reporting in April of 2018. And companies were coming forward reporting 20 cents, 15 cents pay gap difference. And they were doing exactly that, median pay for all women compared to median pay for all men.

Melissa: The reality-

Dan: Now is it presented that way, would you say? And this is the pay gap? Is that how it's presented in the media, or is it something different?

Melissa: It's not so precise-

Dan: Okay. All right.

Melissa: They're using different terms-

Dan: So this is good. All right. So it's important that we, as directors and senior executives understand what the people are talking about is the pay gap?

Melissa: Correct.

Dan: Okay.

Melissa: That's exactly right-

Dan: And that is what you're talking about. Okay.

Melissa: Anytime there is something more than two to three cents of a difference, it's usually a pay gap analysis. And you know, doing a pay gap analysis is important to understand. But it's a little bit less about the compensation. So

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compensation does play a part of that, but it's really more around the reason why that pay gap exists is because there aren't a lot of women, when you do all jobs together, in management or senior leadership. But yet, on the flip-side, you have a lot of men all the way up through the ranks. So, what a pay gap really also shines a huge light on is a social issue around upward mobility and opportunity.

Melissa: Now, there's multitude of background-

Dan: No I understand that-

Melissa: issues on that-

Dan: But I mean, a social issue that is directly related to upward mobility in the work environment.

Melissa: Mm-hmm (affirmative).

Dan: Great. We'll come back to that, but that is terrific. Okay, so, I've got it. Or is it something else I should know about pay gap, please.

Melissa: The one other thing I have to say about pay gap is, if I'm a board member or if I'm in the HR department and I'm asking myself and scratching my head, do I really need to know what our pay gap is? And what I would say there is, if you're a company that has a UK operation, you do. Because you now have to legally report it. But also, there is activism around this particular topic. So, is it possible that your organization could get an activist who wants to push forward a shareholder vote and so it's important to take a look at and understand what your internal policies and practices are, especially around upward mobility and opportunity.

Dan: All right. So let me interrupt you there for a second.

Dan: So, I'm a board member. Perhaps I'm on the comp committee. I should know what our pay gap is because an activist or the media may focus in on that and part of my response is not to deny it, but, "Let me tell you about our policies that will correct that over time. And specifically, it's training, it's upward mobility, etc." So, rather than go on a tear and try to attack that number, I'm better off saying, "Yes, but let me tell you what we're doing about it." I'm jumping ahead to get strategy. But a lot of times the board doesn't deal with strategy. But this is so important, that as a board member or the comp committee, I want to know how senior executives and HR is dealing with this. "Oh, we ignore that." Well you really can't, okay?

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- Melissa: That's exactly right. And what I would say is no board likes surprises. So, be on the front end of it. It doesn't mean that you have to decide fully that you want to communicate externally what your practices are just yet. But if you're working with the HR team and you're able to understand what's happening internally, from a pay gap perspective, and you know what your policies are, then you're going to be better prepared should something come up which forces your hand to have to react and respond externally. And you-
- Dan: So, capsulize for a second. Pay gap is required to be reported by a company in the UK, not currently in the U.S.
- Melissa: That's correct.
- Dan: Okay, fine. Thank you.
- Melissa: And then you also have proxy advisors kind of pushing on the edge of pay gap, too. So there's good reason-
- Dan: It's an easy one to sound like I'm very intelligent and a hero. You know, "It's 78 cents or 81." It's kind of easy.
- Dan: All right, let's go to the other definition.
- Melissa: The other way to look at it is what we call pay equity, or pay parity, really. And that is really around equal pay for equal work. And there are ...
- Dan: That's the school that I was brought up with..
- Melissa: Yes.
- Dan: That, to me, is critically important.
- Melissa: And there are state laws around equal pay for equal work.
- Dan: Absolutely.
- Melissa: In almost every state that I think ... two, quite frankly at this point. And then, we have Massachusetts, New Jersey, and California have stepped even further into that. And they've implemented relatively new laws around what we call equal pay for comparable work.
- Melissa: So, in equal pay for equal work, I would compare a female accountant to a male accountant. In equal pay for comparable work, I could compare a janitor

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to a cafeteria worker; so, a male janitor to, let's say, a female cafeteria worker.

Dan: So you get over into the more subjective rather than the quantitative, which is always tricky.

Melissa: That's right.

Dan: Accountant to accountant, I'm saying that's quantitative. Cafeteria to janitor, oh, we start to get qualitative and subjective, okay.

Melissa: Well, we're looking for equal type of skill sets, essentially, kind of a thing. And going into pay equity are things like how long have you been in the job, how well are you performing the job, and the level of the job within the organization. All those types of things, in addition to others, become very important in that assessment. And if you were to read the newspapers lately, there are very large U.S. organizations like Facebook and Apple, and Amazon and what-not, Starbucks, who have reported a pay equity number that says women are making 98 cents on the dollar to men, at a dollar. So it's a very different number than the pay gap piece of it. And it's important to know that piece as well.

Dan: Okay. So, as a member of the comp committee, I talk with HR ... not necessarily at a board meeting, but let's say when we meet with them, whatever the timeframe is, I should bring up equal pay for equal work. How do we stand on that, okay? And then perhaps bring up, "Are we dealing at all with equal pay for comparable work?" and use your definition, which I like, the cafeteria and the janitor. So I would like to know how we're dealing with this equal pay. Whether it is for equal jobs clearly defined, or is it for comparable jobs not quite as clearly defined. I'd like to know that. I'm not going to dictate, as a member of the comp committee, what we do. But I'd like to know where we stand on that.

Melissa: Well, again, it goes to being prepared.

Dan: Okay, good.

Melissa: There are state laws, as we just talked about a minute ago, on all of those types of things. So not only as a company and as a HR department-

Dan: And here in the East we're very conservative, as you know-

Melissa: We're very conservative. So, one, you have to comply with your state laws, wherever you're operating. And, two, you kind of want to be prepared, again, as I always say, no surprises. In case there's a lawsuit that comes up. Look,

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as we read in the newspaper today about different lawsuits that have come up—whether it's at Microsoft around equal pay, I think something just came up recently at Nike—so this issue is coming forward even more so. And so, being prepared and asking your HR team to just share back, "Where are we and how are handling it? Do we have an issue? Have we had any complaints?" Board members and comp committee members may not even know if there was a complaint in the past.

Dan: You're a consultant with Pearl Meyer. Is this the type of discussion that you would recommend that a board member or a compensation committee member have with someone like yourself? Not that you have the specific answers of the custodian versus the cafeteria, but you can help that board member what they should be asking of their HR. So you're not dealing with HR. You're dealing with senior management and the board. But you can be helpful telling them what they should be asking of HR. I mean, there's an executive and board education component here which is where it starts. I am never going to be able to sit down with HR and say, "Let's have a good, robust discussion on compensation for the custodian versus the ..." That's really not where I'm at. But I should be able to have, with guidance from someone like yourself, a discussion of "What are the questions I should be asking HR. Do we just do accountant for accountant, or do we do comparable?" Is that a reasonable role for someone like yourself to take on?

Melissa: Yes. Absolutely. And I'll give you just a smidge of history. Typically, in a compensation committee, the charter is really for the senior-most level executives.

Dan: Yes, it is.

Melissa: And so, for the first time, again, all these social issues are coming forward. This is an issue as it relates to all levels within the organization. Which is not naturally something that would've come back and been communicated to the compensation committee, historically. Now, we're in a time where you've got so many people pushing on this exact topic. Whether it's pay gap or pay equity, it's proxy advisory firms, it's activists, or if it's coming up-

Dan: And let's be honest. That is not going to go away.

Melissa: It's not going to go away. Which is why, to your point a minute ago, as board members, it's good to ask these questions. Again, you're not going to know what the answer is and HR may have not done any work around it yet. But it's good to ask them to start looking at it now to be prepared.

Dan: But I'll have a feel for where my company is on these issues and say, "To my fellow board ... I'm not totally comfortable where we are on this pay equity

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thing. I think we're talking about it, but it doesn't sound like to me like we're doing too much on it." Okay. Let's switch gears a bit and go back to why some of these things come about. And you alluded to it or brought it up specifically. It's upward mobility, okay? What should a company be doing broad-brush, in terms of upward mobility? And what should their philosophy or their culture be, and how does that impact on compensation? That's a little vague and forgive me, but you lost me a bit. Okay.

Melissa: It's a broad question, and honestly, a broad topic. And some companies do it well and others do not. It takes a real focus on that particular topic to consider, "Are we doing the right things from an upward-mobility perspective?" Honestly, no matter what race and background employees are, to take into account, "How do you get people up?" I mean, there are so many issues, right?

Dan: Right.

Melissa: Especially as it relates to women. It's not just giving them the opportunity to step into those roles and giving them the right education to do so. It also-

Dan: They've got to be qualified, no matter who they are. Or it's going to come-

Melissa: They should be qualified-

Dan: ... around and catch them.

Melissa: It won't work, ultimately, if they're not qualified or it's too early for it. We have some women who take themselves out of the workforce for families and a multitude of different reasons. They might be caregivers to elderly family members. You know, making sure that if they come back into the workforce, they're coming back in at a level from which they're qualified for, I was speaking on a panel the other day with a CEO of a biotech start-up and she said, "I have a lot of women who stepped out of the workforce and have come back, and they came back to interview to be an admin assistant and yet, their education and background are amazing to do Chief Scientist work or to be a very senior-level accountant, or to be our CFO." But they were even coming back in not thinking they could interview at that level. So there's so many aspects of this that a company can help. But even taking the time to take a step back and say as an organization, "Are we trying to make sure we've got the right opportunities for everybody to move forward?" and "How are we doing with that?" is a great place to just simply start.

Dan: This is a very tough question. What is the board's role in ensuring that takes place? Is it, getting an update from HR? I know it's a cultural thing and it's got to start at the top. But we're talking the CEO, and then we're talking the

board. That's something the board doesn't have to be intimately involved in, but they certainly have to be committed to it. Otherwise, it's not going to work.

Melissa: No, you're absolutely right. And you brought up the word culture, which is extremely important in this particular situation. And honestly, in this day and age, because culture is so important, where we've watched some situations where it didn't work as well or we needed to change culture, I honestly feel like board members are going to be stuck in the boardroom for 24 hours a day, 7 days a week, 52 weeks a year to talk about this issue. Because quite frankly, boards do have oversight for culture. But how do you get your arms around truly understanding the culture, as a board member? And that, sometimes, is not always easy. But you can ask those questions to try to understand where companies are at.

Dan: You and I have discussed it in the past, and with our directors. I think a lot of this comes down that the director has to be willing to ask the tough questions. And be willing to eat a little humble pie. "I don't really understand that. Could you help and explain it to me?" And that also applies to someone like Pearl Meyer, "Melissa, I really don't understand the pay gap. Could you help me? Not in a board meeting, but could we meet sometime, or stay after for a cup of coffee?" I have to be willing to be somewhat humble and ask those questions of my fellow board members, of the senior management, and outside people. If you just assume "We're on top of this issue; I know we are" then "Well, how do you know that, Dan?" "Well, I just do." And the answer is, you probably are not on top of it or I'm not on top of it, but Bob and Betty, they're on top of it. Well, Bob and Betty may think that Dan is on top of it. And I'm not. So, a lot of it gets down to raising your hand and say, "I'm not sure I really understand this." And I have used a lot ... I've raised my hand and said, "I'm sorry. If the rest of the people understand this, I can do it offline. But I have a question and I really don't understand that." And a lot of times, someone says to me, "I'm so glad you asked that question." Well, why do I always have to look like the dumbo? But I do it quite well.

Dan: So, advice there is, you don't have to be a compensation expert, but as a board member, you've got to know some of these differences. The major one is pay gap versus equal pay. And from equal pay, equal pay for equal task. And now that's being a little bit expanded to comparable tasks. You've got to be aware of that. You've got to ensure that as a director, you're asking senior management and HR, "What are we doing about this? Do we have a problem and if so, what are we doing about it?" before somebody comes knocking on the door.

Dan: Okay. Melissa, great counsel starting off exactly where I wanted. Not all the answers, which I didn't expect. But you've given me a lot of material for the questions and our viewers, too. Let's stop here and we'll come back in a

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minute. And if you're willing, I'd like to go down the road of ESG. All right?
Good. Melissa Means, Pearl Meyer, here in Boston. We'll be back shortly.

