



BOARDS NEED TO MAKE HEADWAY ON THE DIVERSITY OF THEIR EXECUTIVE TEAMS

January 2022

Among Canada's most prominent companies—as defined by the S&P/TSX 60—we found that less than 20% of the 600+ executives are female. This means that most large Canadian companies have a long way to go to achieve gender parity. This does not account for other forms of diversity, which are harder to track given limited disclosure. If we assume that two in every ten executives leave each year and that companies replace them with an equal mix of male and female executives, it will take close to 20 years to reach gender parity. This will not align with stakeholder expectations and is a business and societal imperative that needs to be addressed as a more immediate priority with a greater pace of change.

As we examined the data further by type of executive role, we found a wide disparity in results among more prominent executive roles with no female CEOs and only 8% female CFOs. In comparison, over 50% of human resource executives are female. More broadly, we found that operational/technical roles were primarily male, with female executives approaching parity in more administrative functions. This is no surprise, but it highlights some of the challenges that companies face in building diverse leadership teams with female CEOs and CFOs that have deep and broad business experiences.

Effective board leadership on this issue is needed to tackle this formidable challenge.

First, boards require a deeper understanding of the current state within their organizations. This must go beyond a superficial review of overall demographics and include an understanding of diversity by employee level and function. Boards need to see where gaps exist relative to the organization's overall target(s) to establish the right baseline and regularly monitor progress through the organization. This requires a deeper understanding of the underlying drivers of diversity through an employee's lifecycle, including hiring, promotions, time in role, training and development, and turnover. It also should include regular monitoring of discrimination and harassment claims. In our experience working with boards, this information is critical to uncovering potential issues hindering the company's overall progress.

Second, boards must review all people-related policies and practices in the spirit of supporting an inclusive culture. They need to understand where discretion or judgment can be applied and what controls should be in place to monitor managerial decisions that can potentially introduce biases. They also need to ensure that the right programs are offered and utilized, such as training in support of inclusivity. Boards need to ask questions about the basics. For example, boards spend a lot of time ensuring that compensation programs are market competitive. But, if the underlying market data are biased by gender, they may perpetuate gender-based gaps in how pay is determined for specific female-dominated roles. A gender pay review can highlight these gaps. Another example is knowing management's plan to improve diversity in hiring rates, including grassroots investing in school programs within key disciplines. When we have conducted these reviews in the past, we have often found unexpected findings.

Finally, boards must encourage management for a clear and robust succession plan, providing talented executives with the opportunity to move through the organization and into potentially non-traditional roles (e.g., operations) to gain experience for a wider variety of senior roles. This is an area where the status quo is not sufficient and will not support meaningful change in the near term. This involves holding the CEO and executive team accountable for making progress. It can also include tying a significant portion of the executive team's compensation to improve diversity outcomes relative to its overall target.

Southlea Group

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Boards set the tone from the top, and a focus on diversity establishes priorities that will cascade through the organization. This is not about stepping in beyond the board's role and into management's territory. Instead, it is about providing a strategic point of view that drives meaningful change, reinforces a culture of inclusion and diversity, and realizes the performance outcomes of more diverse teams.

ABOUT US

As a trusted independent advisor to boards and management teams, Southlea offers fresh insights and perspectives on people and pay programs to enhance business results. This means working collaboratively with boards and management teams using a proven approach to align pay outcomes with the achievement of an organization's strategy and performance objectives.

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