CAHRS Working Group
Pay Equity

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Participating Organizations:

Accenture
American Express
Aon Hewitt
Boehringer Ingelheim
Boston Scientific
Bristol-Myers Squibb
CDW
Cigna
CIT Group
Caterpillar
Colgate Palmolive
Cornell University
Ecolab
Ingersoll Rand
Mastercard
MetLife
UnitedHealth Group
Verizon

Key Takeaways:

1. In determining pay equity, it's important to look within equivalent job types and thoroughly understand and control for expected drivers of pay differences between individuals (e.g., experience, past performance, education) in order to understand if there is a pay equity gap.
2. After closing the pay equity gap, it's necessary to be vigilant and take corrective action on other HR practices that may contribute to the gap reemerging over time (e.g., hiring practices, salary negotiations).
3. Be clear on how to communicate with managers and employees on corrections to pay equity gaps — there is no best practice on whether and how to communicate (seems to be driven by company culture) except that communication should be consistent across levels and divisions within larger organizations.
4. Offer long-term solutions to ensure pay equity and eventually, pay equality will come from a combined effort and solutions across HR business partners and all of the Centers of Excellence and can't simply be just the actions of the compensation team.

The working group on Pay Equity produced some very interesting conversations that were wide ranging in scope, reflective of both the increasing interest across companies from different industries, increased regulation and reporting expectations, and challenges in accurately assessing and mitigating potential gaps in pay equity. While the group covered many topics, much of the discussion centered around four main themes:
(1) defining pay equity and practices for determining potential gaps in pay equity;
(2) challenges and best practices in closing potential gaps in pay equity;
(3) communication strategies; and
(4) challenges and best practices in maintaining pay equity.

Definition of Pay Equity

While there were small differences in definitions across participating companies, all of the participants generally defined pay equity as a means of eliminating sex and race discrimination in the wage-setting system or alternatively as ensuring fairness in pay within similar jobs such that there is equal pay for work of equal value. Given that the bulk of participating companies were large multi-national companies, we focused the majority of our conversation on pay equity between male and female employees within similar jobs. Further, participants generally agreed that pay equity should assess total compensation and needs to account for potential individual differences between employees that reflect the compensation philosophy of the organization (differences in experience, performance, education, location, etc.).

Processes/Activities to Assess Potential Pay Equity Gaps

While the definition of pay equity seems relatively straight forward, there are quite a number of complexities in terms of data and calculations to assess pay equity. The first challenge noted by many of the participants was to create clarity on underlying individual difference factors that were expected to lead to differences in pay for individuals but not groups (i.e., women) that are driven by pay philosophy or market factors (e.g., pay for performance, experience, identifiable differences in measurable skills or education, location or regional market pay differences). A second challenge that was identified was to identify/determine similar jobs based on value or impact of the work/tasks associated with the roles. A third challenge noted by many companies is creating clean and comparable data sets across all employees within like jobs. This has often been complicated in the past by having a mix of different HR systems, inaccurate or out of date records on employee differences, and different data being stored in different systems that aren't easily connected. Many participants noted that a key step in this process was to merge and validate all of the required information.

Once these steps are completed, then the compensation team is ready to run initial analyses to determine if there are potential pay equity gaps within comparable roles. Most companies mentioned using regression analysis as an analytical tool. Further, most companies did more analyses with additional data to determine if there may be particular factors (other than the initial controls) that may significantly explain differences in pay across men and women in comparable roles that may impact pay equity. Some participants noted that they worked with compensation consultants or their internal analytics team for additional help on methodology and techniques for analyzing data. Further, multiple participants noted that they were calculating pay gap after annual merit pay calculations. Some participants noted that they were assessing pay gap issues once or twice a year depending on compensation cycles, but a few noted that they were doing so on a less frequent basis. Quite a few noted that they were also drawing heavily on information from compensation consultants or other sources of market data to make sure that external factors were also relevantly reflected in calculations of pay equity.

Contrast to Definition of Pay Equality

In contrast to pay equity, pay equality looks at the average pay of women to the average pay of men in a company. Calculations of pay equality can be distorted by concentrations of women or men in different types of roles (e.g., in a hospital setting more men working as doctors while more women work as lower paid nurses). Participants in the work group session noted that the goal of achieving pay equity is an important step towards moving to pay equality, but pay equality will also require balancing differences in gender representation in higher paying and higher skilled or valued roles – this will require concerted effort across the HR function (e.g., talent acquisition, learning and development, succession planning) as well as partnerships with universities and schools to develop deeper female talent pipelines.

Solutions For Pay Equity Gaps

The group had a robust discussion on approaches to closing and/or eliminating pay equity gaps. One relatively common solution was for companies to offer one-time or multi-year pay increases to build up the pay of women who were identified as being out of range based on analyses. The choice in one-time versus multiple year plans seemed to depend on the size of the gap and availability of budgets. Multiple participants noted that their companies held back a portion of the annual merit pay budget to create a pool of money to help close pay equity gaps so that budget constraints would not be a factor in closing pay gaps and didn't impact decisions on how to distribute the merit pool.

Longer-term solutions to achieving and maintaining pay equity need to involve talent acquisition and pay guidelines on initial starting salaries; internal talent movement and negotiations and decisions around pay and equity tied to promotions; internal succession and talent planning; investments in diversity, inclusion, and unconscious bias training; internal and external development and learning opportunities; performance management; and actions and decisions of line leaders and HR business partners.

Multiple participants noted that it was important for the compensation team to work with individual HR business partners. Often underlying reasons for pay equity issues may differ across job types, locations, or divisions so localized evaluations and actions may have better impact than a one-size-fits-all solution from the centralized compensation team.

Challenges in Maintaining Pay Equity

While a number of participants noted that their companies have been on the pay equity journey for several years, they also noticed that similar pay equity issues often resurfaced year after year within particular jobs or groups of jobs. One-time corrections of pay equity gaps may only solve the problem when the compensation team works with other Centers of Excellence and HR business partners to identify and change factors that may lead to reemergence of pay equity gaps. For example, participants noted that they have moved to change practices in salary negotiations for new external hires or internal promotions, as differences in motivation or ability to negotiate may impact pay equity. Further, some participants noted the importance of working with the Talent COE to identify potential issues in succession planning, performance management, etc., that may create systemic differences between male and female employees, which exacerbate pay equity issues over time. Other participants noted the importance of working with the Diversity and Inclusion and Talent COEs to develop unconscious bias training to reduce the likelihood that managers are unknowingly making choices in merit pay allocations, bonus decisions, etc., that may be impacting pay equity.

The long-term sustainability of pay equity seems to be dependent on this becoming a broader set of activities across the HR function rather than simply managed by the compensation team. Further, embedding representative metrics or pay equity into leaders' performance metrics may also help to ensure long-term focus and sustainability.

Communications Around Pay Equality

Who, what, and how were all key questions that were raised regarding pay equity. Clearly participants felt it was important to develop a clear communications strategy around pay equity as there are a growing number of constituents interested in this information and there are potential legal and reputation risks tied to information about pay equity in companies.

Key Constituents

- Board of Directors – increasingly the compensation committee of the board and potentially the full board are looking for updates on pay equity and pay equality.

- Employees – employees increasingly want to understand the company's position on pay equity as both men and women (particularly in younger generations) want to work for a company that is doing the right things when it comes to fairness in pay and opportunities. In addition, female employees will clearly want to understand the implications for their own individual pay, potential pay equity gaps in their role or part of the organization, and how the company is addressing pay equity gaps.
- Leaders – as noted above, leaders play a critical role in maintaining pay equity so it is critical for them to understand pay equity challenges, know the company's philosophy and approaches to pay equity, and be able to have conversations with their direct reports about these topics.
- Corporate social responsibility statements – multiple participants noted that they are adding information on pay equity, pay equity philosophy, etc., to their corporate social responsibility statements.
- Contingent workforce providers and sub-contractors – it is critical to make sure that sub-contractors and contingent workforce providers are clear on the company's pay equity philosophy and have their own pay equity plan and guidelines as many consumers and potential investors may not distinguish between the company and their sub-contractors on this issue.
- Government entities – increasingly local, regional, and national governments are requiring reporting on pay equity and pay equality so companies need to stay on top of government reporting requirements.

Key Challenges

One of the key challenges is what to communicate to employees who are receiving pay increases based on prior pay equity gaps that were identified during pay equity analyses. Several participants noted that their companies have taken a total transparency approach to communicating with employees on this issue and have noted that employees perceive this in a positive way. Others noted that they are worried that this could lead to employees challenging past pay and seeking compensation for prior discrimination and, therefore, don't openly communicate the reason for the pay increase. The choice here seems to be dependent on company culture and risk tolerance.

This Summary Report was prepared by Chris Collins for use by participants of the Pay Equity Working Group.

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