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How to Create a Culture of Fair Pay

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Pay equity and the question of fairness in pay practices remain in the public eye. This ongoing, keen interest implies that companies are not doing enough, despite the fact that many organizations have invested years of efforts to create fair pay practices.

Yet the needle on inclusion and diversity at the highest levels has not moved significantly. Employers are fielding questions from their employees about pay fairness, and shareholders are introducing proxy proposals requiring more disclosure about corporate pay practices.

Legislators worldwide have also actively tried to effect change. In the United States, legislation has been in effect since the 1960s, and states continue to put new laws in place. Many countries outside the U.S. are adopting even more aggressive laws.

How to Measure Up

Organizations' progress on pay fairness is all over the map: Some are doing an excellent job, and others have far to go and are at a loss as to how to make real gains. So how can companies determine how they measure up? Although it's a complicated effort, some essential steps and a compelling and straightforward presentation of the findings can clarify where you stand and actions that are needed.

1. **Conduct an equal pay analysis.** A robust pay equity analysis (sometimes referenced as an "adjusted" pay gap analysis using multivariate regression) will uncover the extent your organization is paying equally for equal or substantially similar work. Establishing comparability is key: Each employee must be examined through this lens, no matter the job title, with the focus on the work performed, the manner in which it is performed, and the skills required to perform it.

This analysis determines what drives pay most — whether desirable factors like job level and/or performance rating, or undesirable factors like race, gender, and/or age. It will reveal important data such as which employees are not paid as we would expect, whether there are supportable reasons for those differences, and whether there are pay patterns across different segments of employees. Finally, the analysis is a good starting place to investigate unintended pay differences which can help mitigate significant legal or turnover risk. It helps to quantify the adjustments that may be required to correct inequities.

2. **Figure out what caused pay differences in the first place.** Despite their complexity, pay equity analyses only help to identify the employee pay and opportunity gaps that exist; they don't dig into the deeper causes of those gaps.

   Further, the employee results of a pay equity analysis are only one element of what is needed to adjust salaries and ensure fair pay that reflects an organization's compensation philosophy. Other compensation management tools used to guide compensation decisions, such as salary structures, are also needed.

   Employers must conduct pay and talent management analytics (such as calculating the "unadjusted" pay gap between employee segments or forecasting the anticipated gender mix across career levels.). These analyses support organizations in understanding both the nature and origin of pay or talent differences and where potential systemic gaps exist so they can be corrected. Analyses include examining:

- The distribution of different employee segments across the levels of an organization
  - Are different segments of employees represented equitably throughout the organization, especially in core business areas: senior positions, feeder roles for leadership and high potential programs?
- The highest-paid and lowest-paid in each grade across functions and departments
  - Are the highest-paid always a member of one group and the lowest-paid another? Are the gaps defensible?
- The results of calculating the median average pay by employee segment, by salary grade, by function, and more
  - What does it reveal about overall trends in salaries and job opportunities across different employee segments?
- How employees are promoted and the trajectory of the careers of different segments of the population
  - Is it the same across different groups of employees? Do the differences appropriately reflect differences in the nature of the job functions (i.e. some promotion patterns will have longer periods between steps than others)?
- Employee engagement survey analytics to uncover how different segments of employees experience their employment
  - Does everyone feel similarly about career and opportunities, rewards, performance, their sense of belonging? Or are certain populations feeling underappreciated, causing greater risks to the organization such as lost productivity, higher turnover and potential reputational risks?
- Composition of the workforce over time
  - If we continue to hire and move employees around the organization in the same way we've always done, will the composition of our workforce change in three years? In five years? And if not, what levers can we pull now to affect future change?

3. **Take action with full leadership support and monitor progress.** Unless leaders are committed to changing how talent is managed, analytics may fall short. Change can only happen with commitment at every level to ensure fairness, consistent communication and inclusive talent management practices. Commitment means the willingness to change what isn't working, try new programs and processes, set new goals and see them through. This includes a commitment to monitor progress against goals with a regular schedule of analyses, communication, and change leadership.

   Effective action may include:

- Pay adjustments guided by the pay equity analysis formula results with additional guidelines influenced by the employee's position in range, time in position and other compensation management factors
- Refinement of criteria for promotion to key roles with less emphasis on years of experience and more emphasis on demonstrated successes, work experiences and competencies
- More prescriptive hiring salary guidelines that emphasize market competitiveness and consistency across candidates
- A review of promotional increases so that more emphasis is placed on the salary for the new role and less emphasis on the candidate's current salary
- The creation of analytics dashboards so that leaders can more easily monitor progress against goals and take action, such as more support for and growth of a diverse talent pipeline or sponsorship/mentorship of employees in specific segments
- Steps to identify unconscious bias in the performance management process (as it relates directly to pay decisions).

A Shared Ownership
Without question, it is a challenge for organizations to conduct fair pay analyses and take action, especially when one area of the organization — often human resources or legal — is considered the "owner" of fair pay. Leading organizations recognize that everyone owns this: Leaders that drive these efforts recognize their strategic value and how critical they are to the sustained success of the business. It is only by investing the time and resources to conduct these analyses in a holistic manner and take action across the employee experience that employers are able to ensure they are rewarding and treating employees fairly.

For more information on this topic, see "Why limited gender diversity and pay equity among named executive officers should concern you," *Executive Pay Matters*, Jan. 17, 2019.)

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