ATLANTA AREA COMPENSATION ASSOCIATION (AACA)

PAY EQUITY: NEW PRESSURES, NEW STRATEGIES

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MAKE TOMORROW, TODAY   **MERCER**

DISCUSSION TOPICS

WHY IS PAY EQUITY TOP OF MIND?

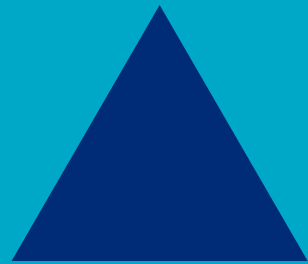**Support workforce diversity**

Protect brand & reputation

Investor pressure & shareholder activism

Reporting requirements & legislation

Leading companies are looking to conduct their own proactive analyses…and tell their unique stories

MEASURING PAY EQUITY

WE HEAR A LOT ABOUT THE PAY GAP...

"Women earned 80.5 cents to each dollar men earned in 2016"

Source:
http://fortune.com/2017/09/13/gender-pay-gap-2016/

"Google said female employees make 99.7 cents for every dollar a man makes"

Source:
https://www.nytimes.com/2017/09/08/technology/google-salaries-gender-disparity.html

"Black women have to work 7 months into 2017 to be paid the same as white men in 2016 "

Source:
https://www.epi.org/blog/black-women-have-to-work-7-months-into-2017-to-be-paid-the-same-as-white-men-in-2016/

"Citigroup reports virtually no gap in gender or racial pay"

Source:
http://money.cnn.com/2018/01/15/news/companies/citigroup-pay-gap/index.html

...BUT WHAT DO WE MEAN BY PAY EQUITY?

"RAW" PAY GAP = **"EXPLAINED" PAY GAP** + **"UNEXPLAINED" PAY GAP**

How average or median pay differs between women and men (or between whites and people of color)

How pay differs because men and women (and whites and people of color) are in different occupations and roles and have different education and labor market experience

Residual pay gap that cannot be explained and may be due to pay inequities; often referred to as the "adjusted" pay gap

RAW VS. ADJUSTED PAY GAPS

RAW PAY GAP

Important for understanding the *actual pay situation* of women and people of color

vs.

ADJUSTED PAY GAP

Important for understanding pay situation for women and people of color who are otherwise "similarly situated" to men and whites (i.e., helps to create an *apples-to-apples comparison* of pay to identify unexplained pay inequities)

↳ **WHAT WE MEAN BY PAY EQUITY**

CALCULATING THE ADJUSTED PAY GAP

■ Base Pay   **■ Total Compensation**

U.S. Gender Pay Gap, Before and After Adding Statistical Controls
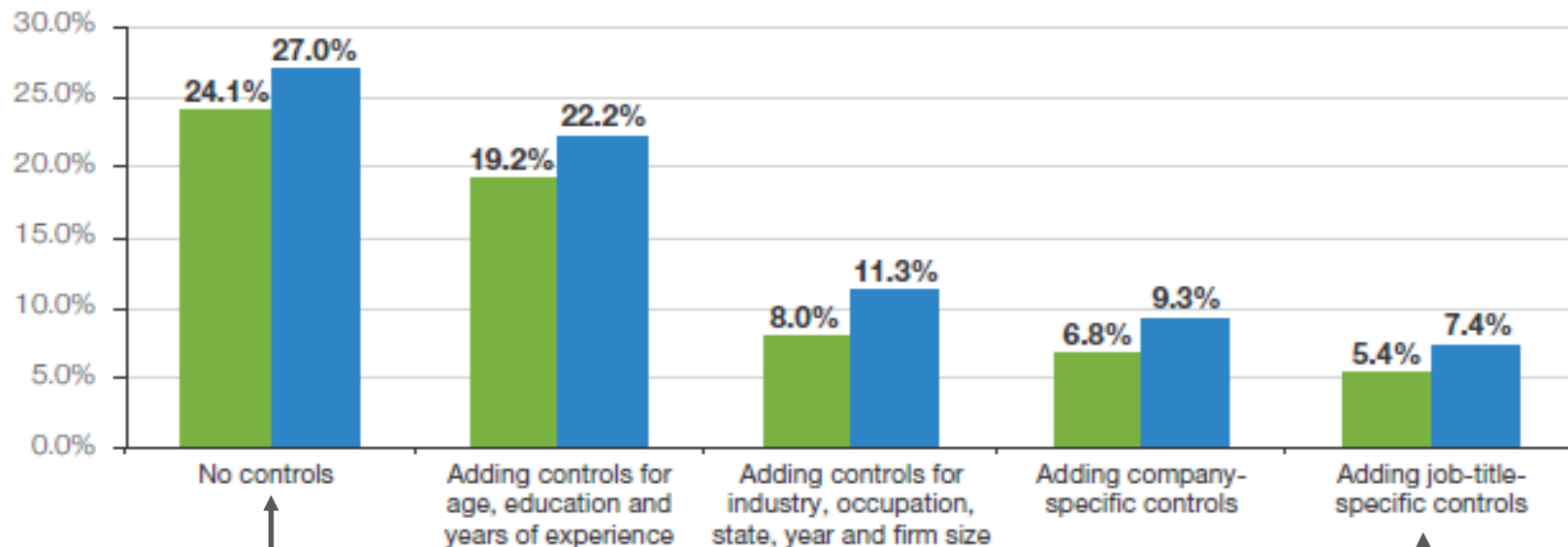
Controls	Base Pay	Total Compensation
No controls	24.1%	27.0%
Adding controls for age, education and years of experience	19.2%	22.2%
Adding controls for industry, occupation, state, year and firm size	8.0%	11.3%
Adding company-specific controls	6.8%	9.3%
Adding job-title-specific controls	5.4%	7.4%

Raw pay gap → (No controls)

Adjusted pay gap → (Adding job-title-specific controls)

Source: Glassdoor, *Demystifying the Gender Pay Gap, Evidence From Glassdoor Salary Data,* 2016.

U.S. ADJUSTED GENDER PAY GAPS
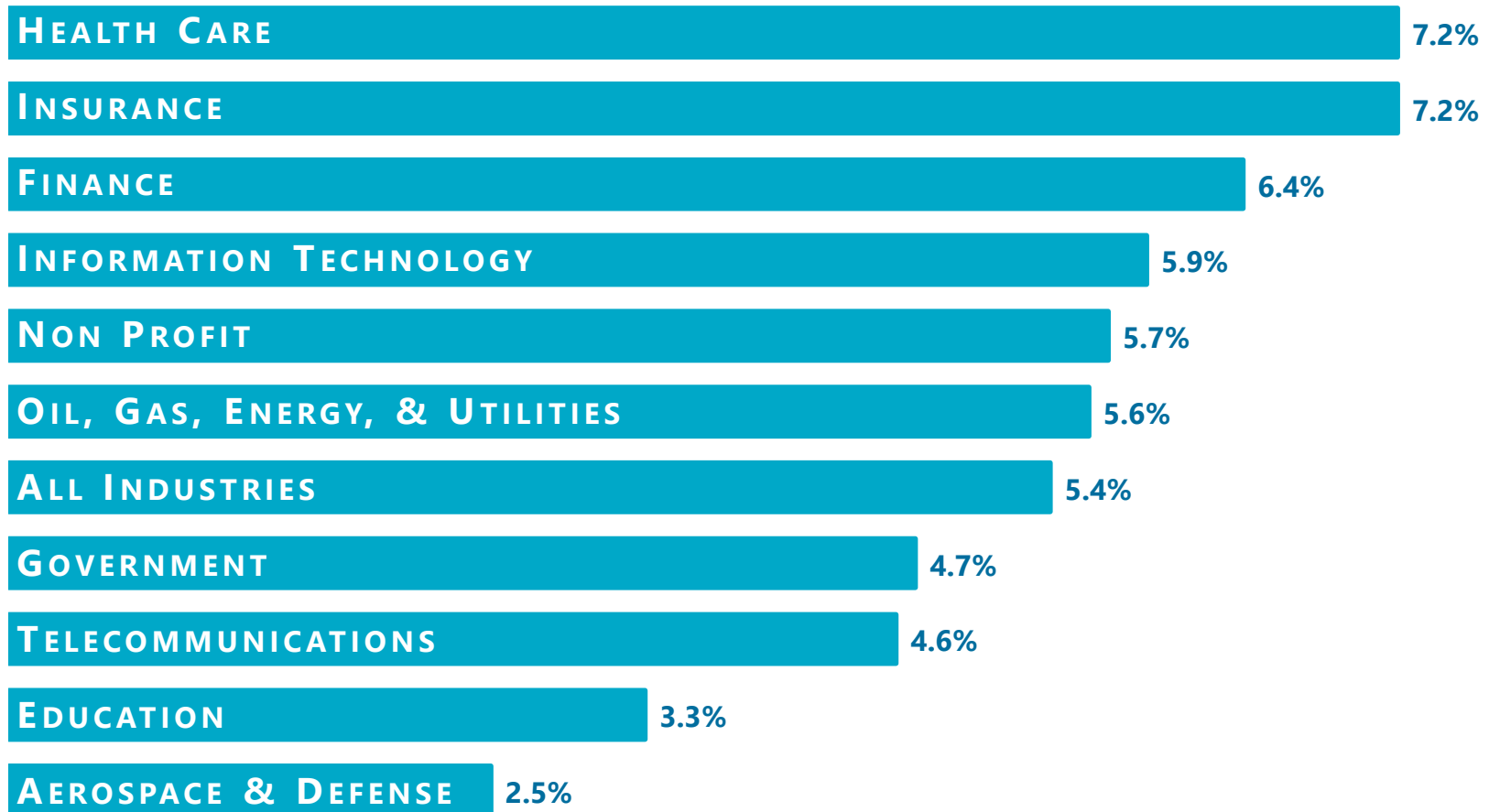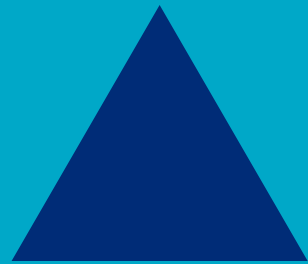
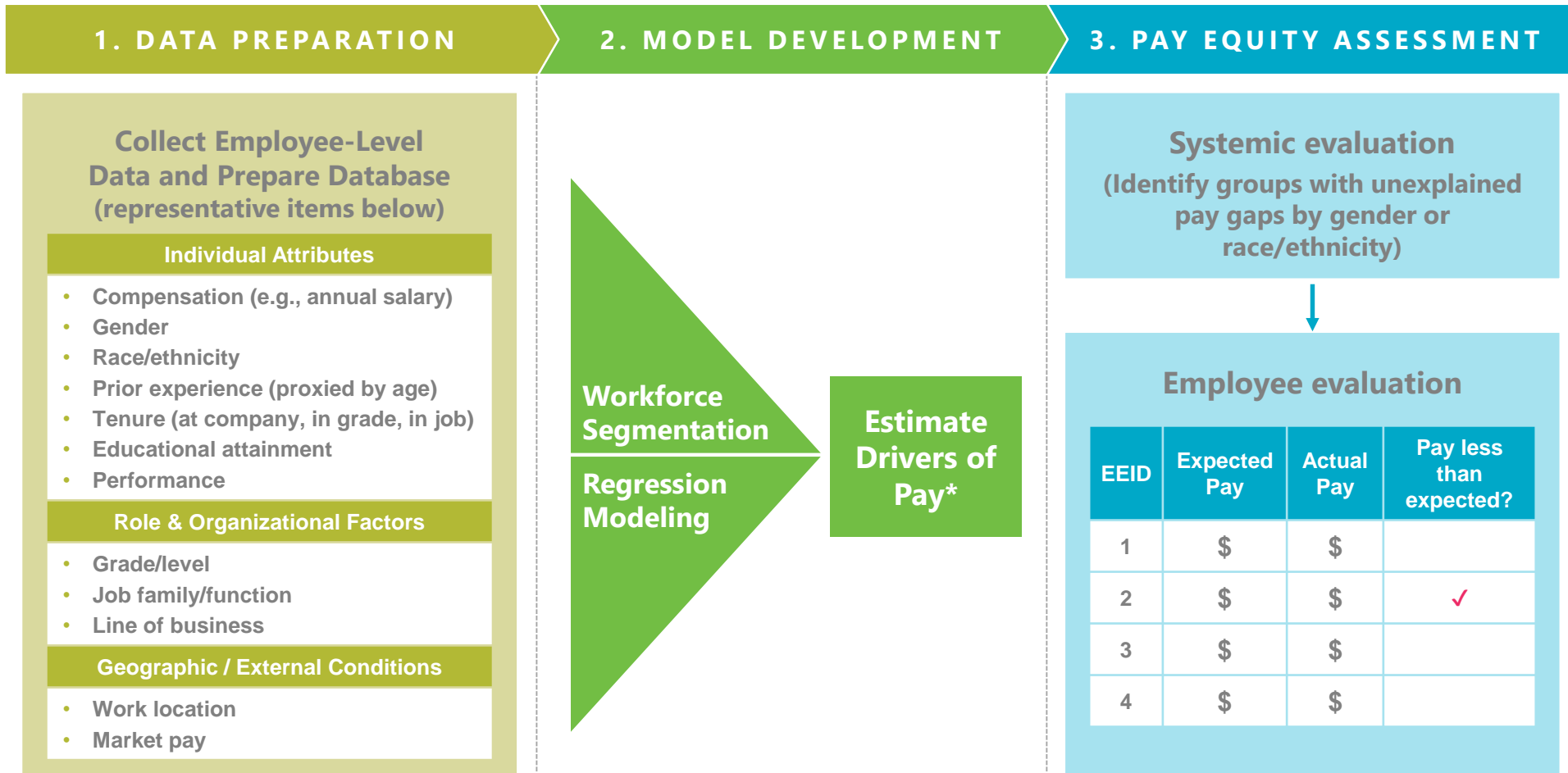| Industry	Gap
HEALTH CARE	**7.2%**
INSURANCE	**7.2%**
FINANCE	**6.4%**
INFORMATION TECHNOLOGY	**5.9%**
NON PROFIT	**5.7%**
OIL, GAS, ENERGY, & UTILITIES	**5.6%**
ALL INDUSTRIES	**5.4%**
GOVERNMENT	**4.7%**
TELECOMMUNICATIONS	**4.6%**
EDUCATION	**3.3%**
AEROSPACE & DEFENSE	**2.5%**

Source: Glassdoor, *Demystifying the Gender Pay Gap, Evidence From Glassdoor Salary Data,* 2016. Adjusted pay gap accounts for age, education, years of experience, industry, occupation, state, year, company size, company, and job title.
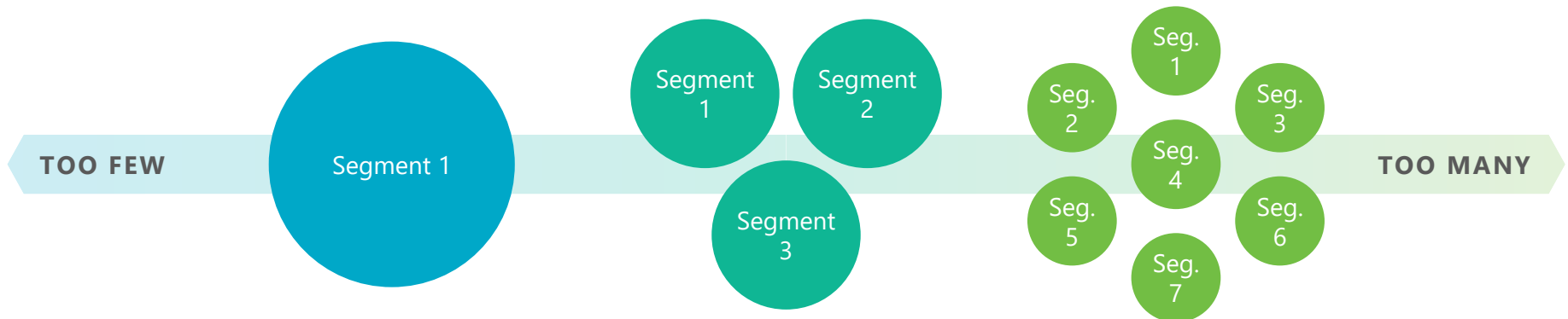
DRIVING PAY EQUITY

PROCESS STEPS FOR ASSESSING PAY EQUITY

| 1. DATA PREPARATION | 2. MODEL DEVELOPMENT | 3. PAY EQUITY ASSESSMENT |

1. DATA PREPARATION

Collect Employee-Level Data and Prepare Database (representative items below)

Individual Attributes

- Compensation (e.g., annual salary)
- Gender
- Race/ethnicity
- Prior experience (proxied by age)
- Tenure (at company, in grade, in job)
- Educational attainment
- Performance

Role & Organizational Factors

- Grade/level
- Job family/function
- Line of business

Geographic / External Conditions

- Work location
- Market pay

2. MODEL DEVELOPMENT

Workforce Segmentation

Regression Modeling

Estimate Drivers of Pay*

3. PAY EQUITY ASSESSMENT

Systemic evaluation
(Identify groups with unexplained pay gaps by gender or race/ethnicity)

Employee evaluation

EEID	Expected Pay	Actual Pay	Pay less than expected?
1	$	$	
2	$	$	✓
3	$	$	
4	$	$	

*Note: Gender and race/ethnicity are not considered legitimate drivers of pay and are analyzed in step 3 after legitimate pay drivers have been accounted for.
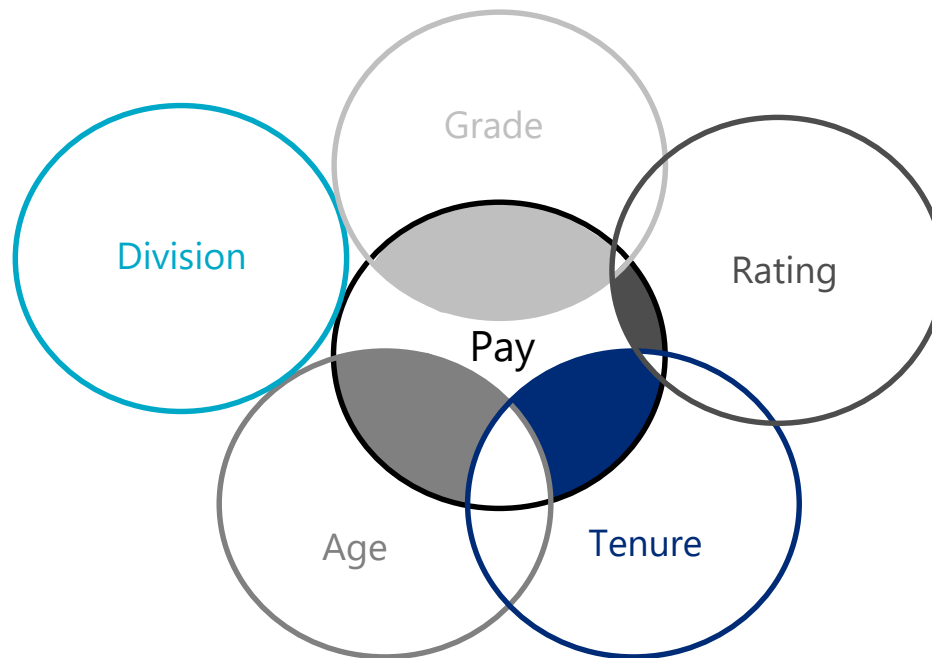
SEGMENTING EMPLOYEES

- Employees should be grouped into meaningful pools for comparison purposes—not too narrow and not too broad

- Differences in pay philosophies/practices should drive segmentation

- Segmentation needs to balance "differentiation" (to capture unique pay practices in different segments) and "pooling" (to improve statistical power)

TOO FEW

Segment 1

Segment 1

Segment 2

Segment 3

Seg. 1

Seg. 2

Seg. 3

Seg. 4
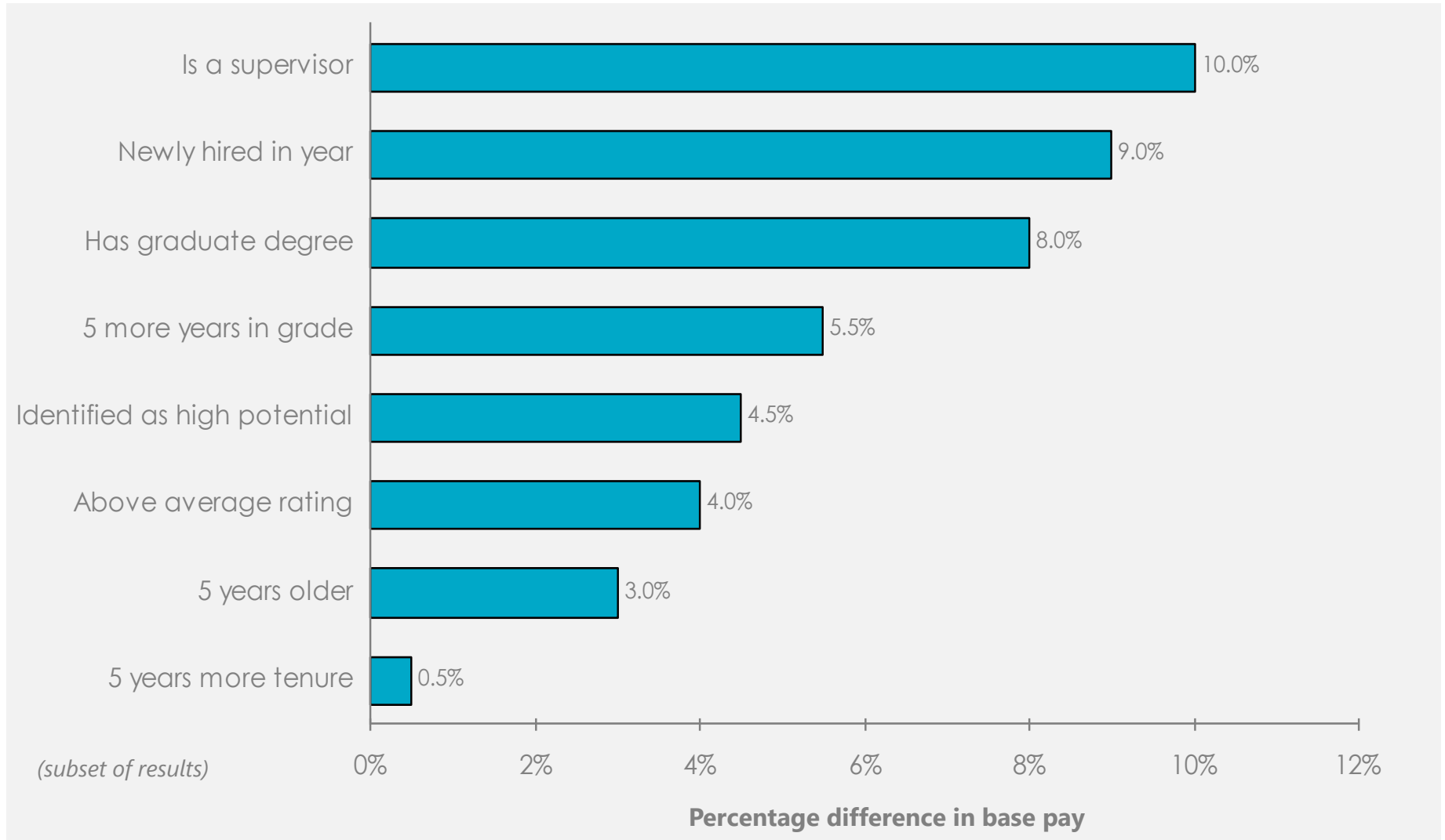
Seg. 5

Seg. 6

Seg. 7

TOO MANY

WHY USE MULTIPLE REGRESSION?

- Separates important from unimportant factors driving pay

- Isolates unique contribution of each factor ... "all else equal"

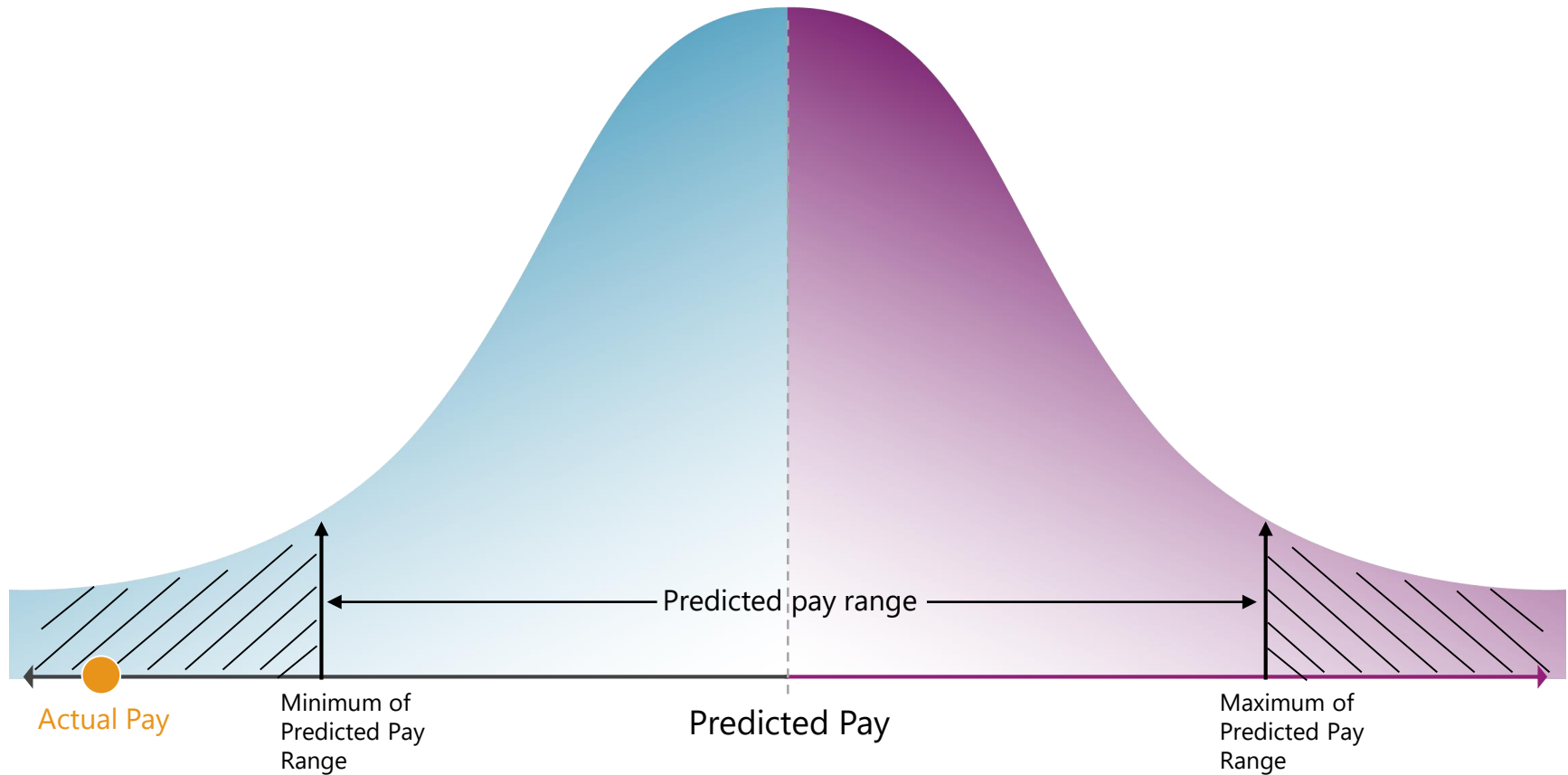- Explains large percentage of variation in pay

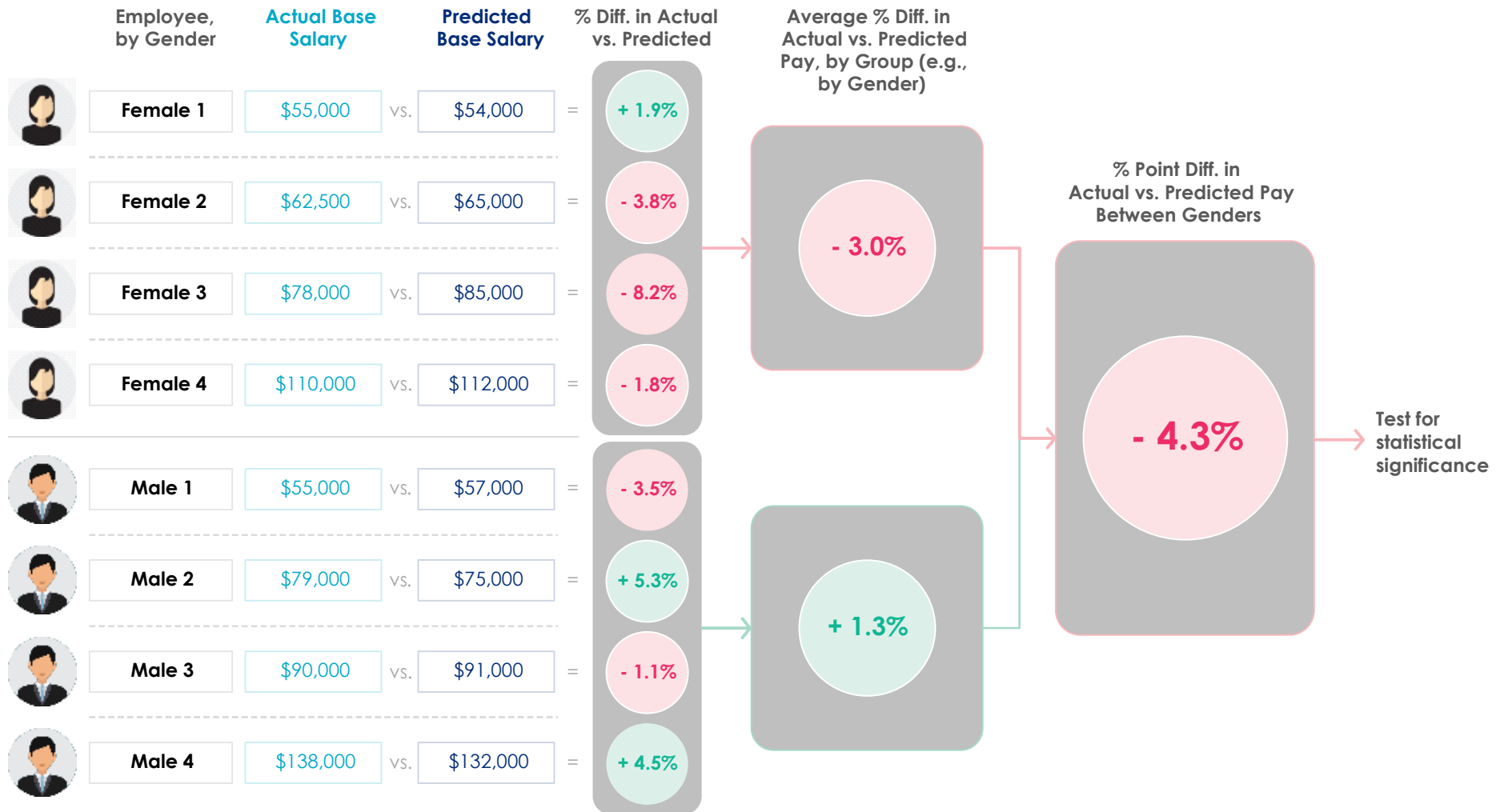# MODELS IDENTIFY LEGITIMATE DRIVERS OF PAY DIFFERENCES...

Is a supervisor	10.0%
Newly hired in year	9.0%
Has graduate degree	8.0%
5 more years in grade	5.5%
Identified as high potential	4.5%
Above average rating	4.0%
5 years older	3.0%
5 years more tenure	0.5%

(subset of results)

0%　2%　4%　6%　8%　10%　12%

Percentage difference in base pay

Disguised case example

...AND ARE USED TO CALCULATE PREDICTED PAY AND IDENTIFY PAY "OUTLIERS"

Actual Pay

Minimum of Predicted Pay Range

Predicted pay range

Predicted Pay

Maximum of Predicted Pay Range

CALCULATING ADJUSTED PAY GAPS

Employee, by Gender	Actual Base Salary		Predicted Base Salary	% Diff. in Actual vs. Predicted	Average % Diff. in Actual vs. Predicted Pay, by Group (e.g., by Gender)	% Point Diff. in Actual vs. Predicted Pay Between Genders
Female 1	$55,000	vs.	$54,000	+ 1.9%		
Female 2	$62,500	vs.	$65,000	- 3.8%		
Female 3	$78,000	vs.	$85,000	- 8.2%	- 3.0%	
Female 4	$110,000	vs.	$112,000	- 1.8%		- 4.3%
Male 1	$55,000	vs.	$57,000	- 3.5%		
Male 2	$79,000	vs.	$75,000	+ 5.3%		
Male 3	$90,000	vs.	$91,000	- 1.1%	+ 1.3%	
Male 4	$138,000	vs.	$132,000	+ 4.5%		

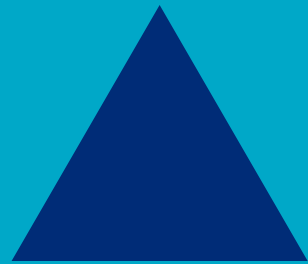Test for statistical significance

POTENTIAL ASSESSMENT PROCESS

- Identify groups with unexplained pay gaps by gender (or race/ethnicity)

- For each group, compile list of employees who are paid less than expectation (i.e., negative outliers) and are part of the underpaid class

- Investigate, engaging managers (e.g., is there an error in data used to predict pay? is there a reason that justifies employee's pay?)

- If no justifiable reason, make adjustment, applying standard criteria (e.g., no adjustments for poor performers; cap adjustments at top of relevant range; phase in large adjustments)

- Document explanations for making or not making an adjustment

- Identify additional adjustments needed to eradicate a group-level gap

- Make pay adjustments

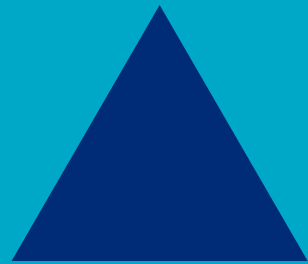**Mercer recommends working with counsel to determine an assessment process**

COMMUNICATING PAY EQUITY

COMMUNICATING ABOUT PAY EQUITY

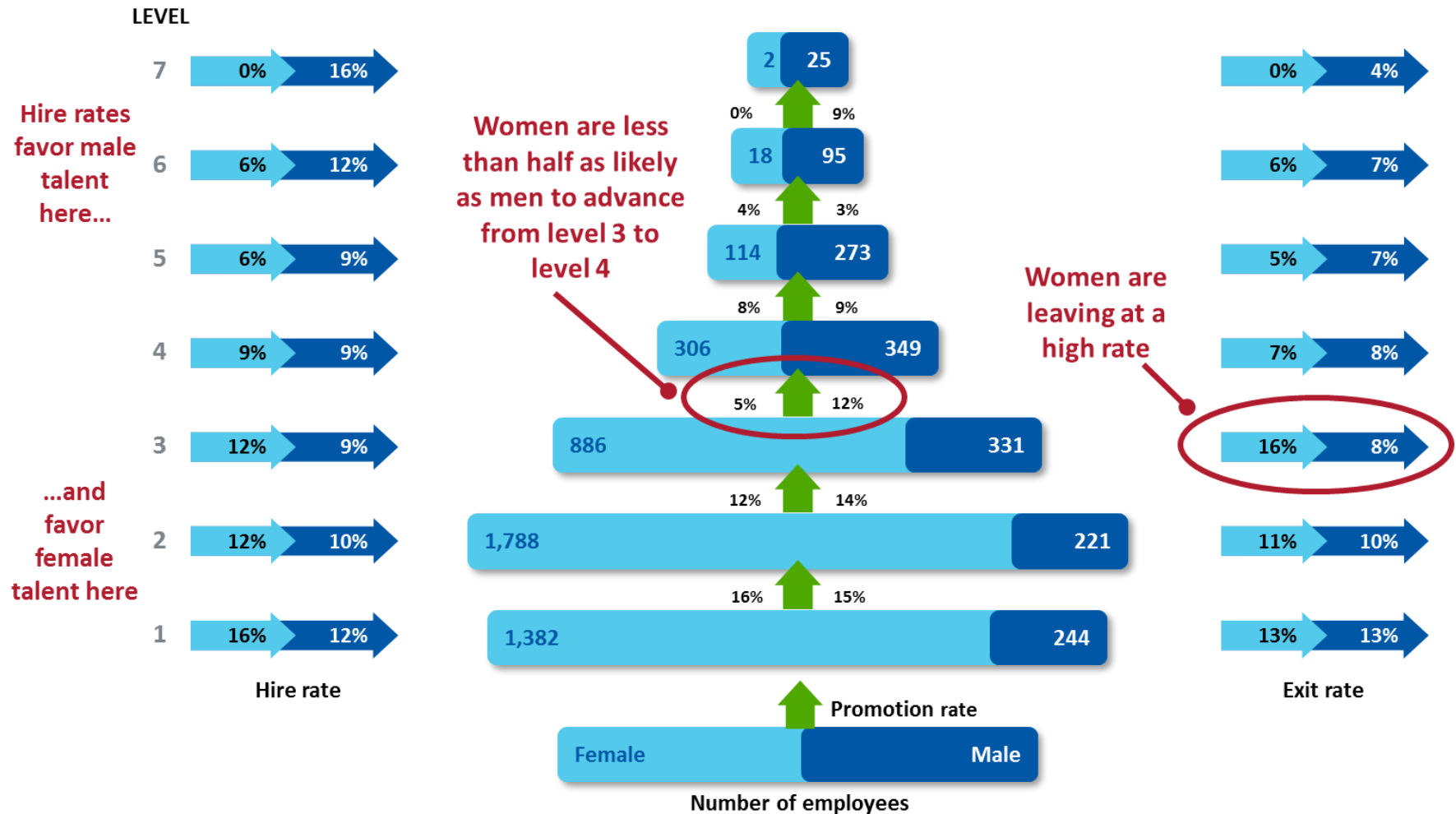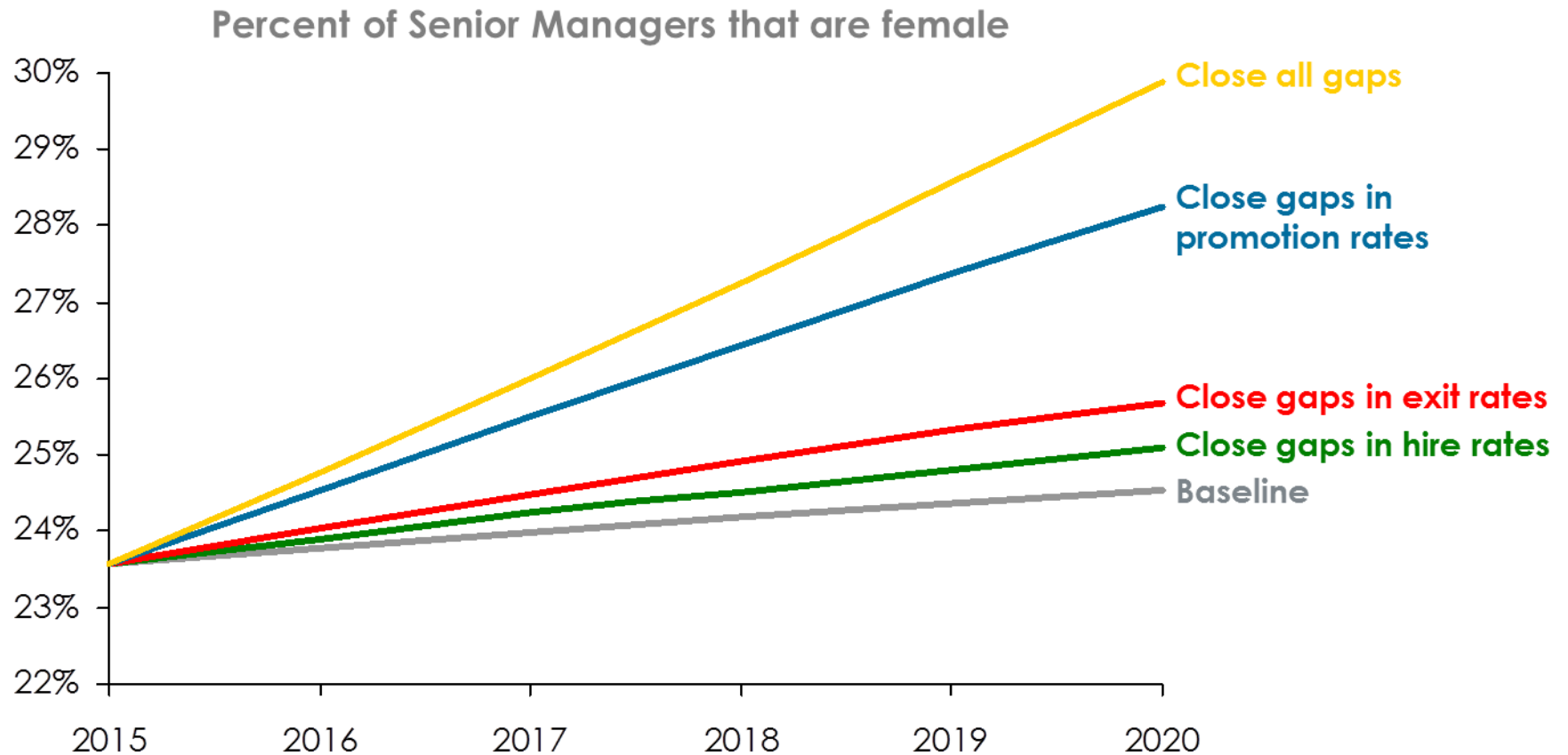| Affected Employee	Affected Manager	HR Business Partner	Public/ All Employees
• As **part of our commitment to fair, competitive, and performance-based pay**, we have made an adjustment to your compensation... • The adjustment **reflects our merit process, market comparisons, and/or our regular internal equity review**	• As **part of our regular due diligence** across the enterprise, we have moved forward on pay changes that go beyond your recommended merit adjustments... • ... related to **market and our internal equity review** • **Your support is critical**	• Our due diligence process... includes a **regular look** at differences in pay across the enterprise, leveraging a **rigorous statistical approach** • **We will not accept differences by gender or race/ethnicity, after accounting for differences in legitimate factors**	• The **organization is committed to fair and competitive pay and diversity** • Rigorous and regular focus on managing pay equity is itself **associated with better diversity** • We regularly review compensation outcomes using a **rigorous statistical approach...**

PREVENTING PAY GAPS

PREVENTING PAY GAPS

- Reduce reliance on salary history/expectation and negotiation in setting pay for new hires

- Ensure each job has a pay range associated with it. Where an individual is placed in that range should depend on a legitimate factor, such as relevant experience, educational attainment, certification, etc.

- Develop and enforce administrative guidelines that articulate how pay decisions should be handled in different employment situations (e.g., starting salaries, promotions, laterals, leaves of absence)

- Ensure that employees taking leave are not inadvertently penalized when they return to work

- Apply a broad lens. Adjusted pay gaps are dwarfed by differences in pay that occur as women and men (and people of color and whites) progress in organizations at different rates.
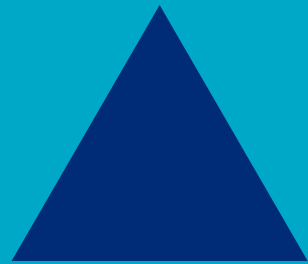
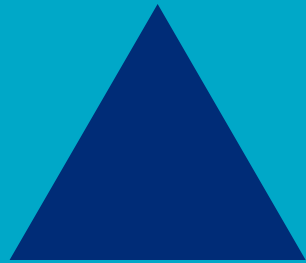# ADDRESS "EXPLAINED" PAY GAPS BY EXAMINING TALENT DYNAMICS

LEVEL

Hire rates favor male talent here…

…and favor female talent here

Women are less than half as likely as men to advance from level 3 to level 4

Women are leaving at a high rate

Level	Hire rate Female	Hire rate Male	Promotion Female	Promotion Male	Female employees	Male employees	Exit rate Female	Exit rate Male
7	0%	16%			2	25	0%	4%
			0%	9%				
6	6%	12%			18	95	6%	7%
			4%	3%				
5	6%	9%			114	273	5%	7%
			8%	9%				
4	9%	9%			306	349	7%	8%
			5%	12%				
3	12%	9%			886	331	16%	8%
			12%	14%				
2	12%	10%			1,788	221	11%	10%
			16%	15%				
1	16%	12%			1,382	244	13%	13%

Hire rate

Promotion rate

Exit rate

Female   Male

Number of employees

IDENTIFY AREAS OF OPPORTUNITY

Percent of Senior Managers that are female

- Close all gaps
- Close gaps in promotion rates
- Close gaps in exit rates
- Close gaps in hire rates
- Baseline

CORNING'S JOURNEY

APPENDIX:
PRINCIPLES FOR SUCCESS

1. SEEK THE TRUTH

- Knowing how your organization would fare in the event of litigation or government audit will allow you to address problems and mitigate risk

- Work to identify and fix issues, not present the organization in the most favorable light, which might obscure risks

- Account for factors that can legitimately lead to pay differences across employees

- Segment the workforce to reflect differences in pay philosophies

- Ensure workforce segments are large enough to have adequate statistical power

2. DON'T WAIT FOR DATA TO BE PERFECT

- If you wait until data is complete and free from error, you will wait forever

- Include all relevant data you have, for whomever you have it; partial data (e.g., education) is better than none

- Multiple regression is a starting point; results are suggestive and point to areas where action might be needed

- Following the analysis, conduct targeted research on specific employees potentially requiring an adjustment

- If assessment identifies important unaccounted for factors, consider collecting and incorporating into future analyses

3. SUPPORT YOUR PAY PHILOSOPHY

- Accounting for legitimate drivers of pay differences when assessing pay equity ensures that the process reinforces your pay philosophy

- Across-the-board pay changes based on membership (e.g., a 2% pay increase for all women) may unwittingly undermine your pay philosophy and may create inequities

- Use the results of a multiple regression analysis to review the alignment between the actual drivers of pay and your pay philosophy. If there are misalignments, consider changes to rewards policies to help bring the drivers of pay into alignment with your philosophy.

4. CONSIDER SYSTEMIC SOLUTIONS

- Improving long-term pay equity may require systemic solutions to ensure that issues do not arise again

- Do pay inequities by gender or race/ethnicity stem from the point of hire? (If so, target initial pay-setting processes for change)

- Are pay differences driven by fulltime status and/or past leaves of absence? (Because women are more likely to work part-time and to take leave)

- Do pay inequities arise from performance rating bias? (If so, train supervisors to ensure that ratings are fair and that reviews are thoroughly documented and checked)

5. SOLICIT BROAD SUPPORT

- **Senior leadership** wants to ensure brand integrity, limit financial risk, and enforce diversity and inclusion policies

- **Counsel** needs to be consulted to implement the process in a manner that minimizes potential exposure

- **HR/compensation** ensures workforce is appropriately segmented, models reflect rewards policies and practices, conduct assessment, and make pay change decisions

- **Employee relations/affirmative action** personnel ensure evaluation is consistent with compliance efforts

- **Diversity leaders** are responsible for programs to increase representation and inclusion; pay equity is a key condition for success

6. ENSURE NEUTRALITY AND CONSISTENCY

- Implement a review process that ensures broad workforce coverage in which all employees have an opportunity to have their pay levels reviewed

- Agree on the level of review in advance (e.g., by business, job family, and/or geography)

- Be consistent on employee-level pay change exceptions (e.g., no pay adjustments for poor performers to ensure clear rewards messaging; pay changes to be constrained by the official range for the pay grade)

7. KEEP IT UP!

- Your workforce is dynamic—with hires, exits, promotions, transfers, reorganizations, and pay changes—so pay equity needs to be an on-going process

- Changes to the workforce and related pay programs could easily disrupt and change a seemingly strong pay equity position

- An annual review is recommended

- Set aside budget annually (separate from merit pay budget!) to remediate issues identified

MERCER

MAKE TOMORROW, TODAY

GAIL GREENFIELD, PHD
PRINCIPAL

Gail is a Principal in Mercer's Workforce Strategy & Analytics practice in Washington, DC, specializing in diversity and inclusion analytics. Gail has more than 15 years of experience helping organizations identify interventions that will enable them to drive performance through improvements in the management of their talent and create diverse and inclusive workforces. Her insights on pay equity have been featured by leading publications and organizations such as the Washington Post and WorldatWork.

Gail has extensive experience conducting diversity-focused internal labor market analyses and pay equity analyses for organizations in a variety of industries, including financial services, insurance, wholesale, transportation, manufacturing, healthcare, technology, pharmaceuticals, and hospitality. Gail also directs the diversity survey of the US cable and communications industry that Mercer conducts on behalf of The National Association for Multi-ethnicity in Communications (NAMIC) and Women in Cable Telecommunications (WICT).

Prior to joining Mercer in 2000, Gail was an assistant professor of economics at The College of Wooster. More recently, Gail worked as a senior program officer for the National Research Council.

Gail received her PhD in economics from Claremont Graduate University and her bachelor's degree in business economics from the University of California, Santa Barbara.

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