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The State of Pay Equity 2023-24

Ensure pay equity to maximize organizational performance

JULY 2023

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Executive Summary

Pay equity has been a critical but too-often taboo topic for years now. However, social and legislative changes in 2023 have brought the topic front and center for many organizations, and our latest research reflects that.

Over a third (34%) say it is among the top five priorities for top leaders in their organizations. Despite this, however, relatively few organizations feel they've fully "solved" the issue of pay equity. In fact, only 31% give themselves high ratings in this area. Moreover, almost half rate their organizations 6 or below (on a 10-point scale) when it comes to pay equity.

With recent legislation around pay transparency, the issue of pay equity has become a business imperative. For many organizations doing business in the U.S. pay equity is not just the "right thing to do" anymore. Not complying with regulations could have serious implications. From compensating affected employees for the deprived wages (plus interest and litigation costs), to being charged with a misdemeanor, consequences of non-compliance could lead to loss of money, time, and brand image. Equitable pay, on the other hand, is often associated with higher productivity and reduced turnover.

Of course, pay equity is often not a standalone problem and determining what an employee should be paid is not always straightforward. What a person makes is influenced by labor market supply and demand, individual negotiation skills, and whatever factors and skills the organization perceives to be important for its success. Further, pay equity is often a part of the broader problem of unequal representation of women and people of color in the highest-paying jobs in management and leadership.

About this Survey

The State of Pay Equity survey ran from April to June 2023. We gathered 235 complete and partial responses from HR professionals in virtually every industry vertical. Respondents are located all over the world, but most of them reside in North America, especially the United States.

The participants represent a broad cross section of employers by number of employees, ranging from small businesses with fewer than 100 employees to enterprises with 20,000+ employees. One-fifth of responses were from organizations with over 1000 employees.

For the purpose of this study, we define **pay equity**, or equitable pay, as the practice of compensating employees the same way for the same work, regardless of factors such as gender, race, disability, or religion. It may also be viewed as comparable pay for similar jobs within the same organization.

In this era of a shift towards greater pay equity and transparency, this research delves deeper into the state of pay equity today. Below are some of the major findings of this study:

Major Finding **1**

A majority (7 in 10) rate their organizations mediocre or below in the area of pay equity but the same proportion believe their organization will become more equitable over the next two years.

- When asked to rate their organizations on a scale of 1 (very poor) to 10 (excellent), with regards to pay equity:
  - under a third of respondents rate their organizations 8 or above
  - almost half (47%) rate their organizations 6 or below
- When asked to describe the stage of development of pay equity in their organizations:
  - over a third (37%) are at the intermediate stage
  - about two-fifths (38%) are at the beginning or undeveloped stage
  - a quarter say their organization is at the advanced (18%) or expert (7%) stage
- More equitable organizations (rated 8 or above) are significantly more likely to say they are at the expert and advanced stage than less equitable (rated 6 or below) organizations.

Major Finding **2**

Pay equity is an organizational priority of varying importance in almost 8 in 10 organizations.

- In more than a third of organizations, pay equity is among the top five priorities (27%) or the top priority (7%)
- More than two-fifths say it is one of many competing priorities but not near the top
- Under a quarter (23%) believe pay equity is not an organizational priority
- More equitable organizations are more than 2.5 times more likely to say pay equity is the top/among the top five priorities
- Top reasons to focus on pay equity include:
  - retaining the right talent (63%)
  - ensuring fairness (60%)

Major Finding 3

A majority of organizations struggle with pay transparency, and just two-fifths post salary ranges in all job postings.

- When it comes to pay transparency, just one-third rate themselves as excellent (12%) or above average (22%).
- More equitable organizations are five times more likely to rate themselves above average or excellent in pay transparency than less equitable organizations.
- Just over two-fifths of respondents say their organizations include salary ranges for all job postings.
- More equitable organizations are 1.5 times more likely to include salary ranges for all job postings (58% vs. 35%).
- Organizations that operate in a single U.S. state are more likely to include salary ranges for all job postings (66%) compared to organizations that operate in multiple U.S. states (43%) and those that operate in multiple countries including the U.S. (32%).

Major Finding 4

External market analysis is the most popular method for developing salary ranges.

- Common methods to develop salary ranges include:
  - external market analysis (71%)
  - internal review (56%)
  - internal market analysis (48%)

- Factors influencing pay decisions when making hiring offers include:
  - compensation levels of others holding the same job within the organization (69%)
  - years of relevant experience (68%)
  - compensation levels of others holding comparable jobs within the organization (57%)
  - market compensation studies for benchmarking purposes (53%)

Major Finding 5

Just half the organizations actively leverage data to improve pay equity and largely rely on a couple of demographics and job-related factors for analysis.

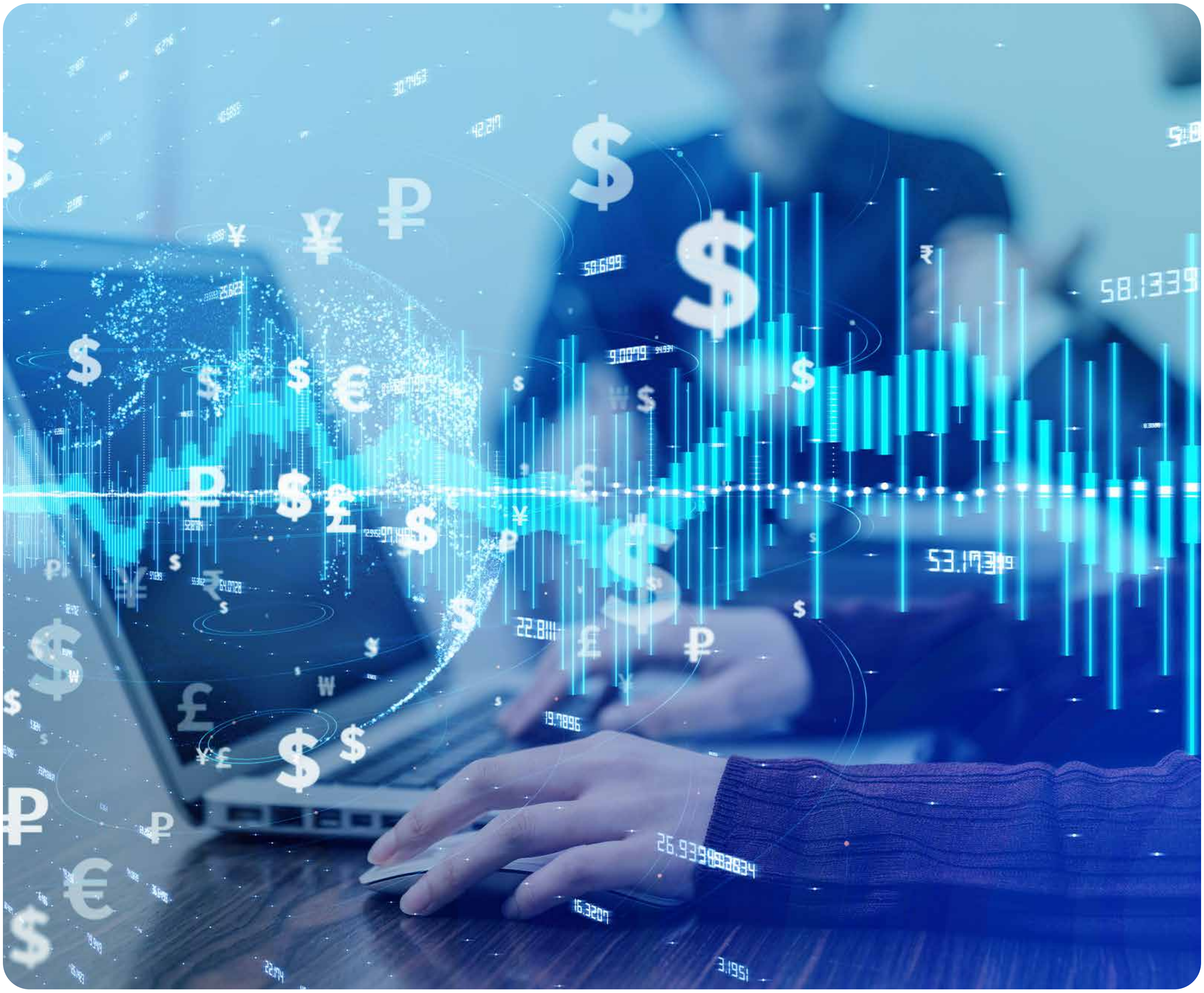
- Just over half agree (33%) or strongly agree (20%) that their organization analyzes and leverages data in an effort to improve pay equity.
- More equitable organizations are three times more likely to analyze and leverage data to improve pay equity.
- Common methods to measure and determine pay equity include:
  - comparisons of pay among comparable jobs (77%).
  - comparisons within pay bands (70%).
- Top demographic characteristics examined as part of pay equity analysis are:
  - gender identity (81%)
  - race/ethnicity (71%)
- Top job-related factors examined as part of pay equity analysis are:
  - role (77%)
  - performance (69%)

Major Finding 6

While organizations employ a number of techniques to ensure pay equity, under half are looking to close pay gaps at all levels.

- When asked about specific pay equity-related practices:
  - majority (8 in 10) believe their organization takes action to close pay gaps if inequities are found
  - two-thirds have plans to achieve sustainable pay equity
  - three-fifths have strategies in place to detect pay equity gaps
  - just over half (53%) utilize pay equity information to modify recruitment policies and practices
- More equitable organizations are significantly more likely to have utilized all listed practices to improve pay equity to a greater extent than less equitable organizations.
- Specific actions organizations take to achieve pay equity include:
  - making hiring offers based on factors other than past salary history (72%)
  - increasing salary for underpaid employees (68%)
  - increasing hiring from a diverse applicant pool (49%)
  - ensuring pay transparency (e.g., pay bands are clearly defined) (47%)

Please note that the findings and recommendations contained in this report are informational only. Nothing in this report should be construed as constituting legal opinions or advice. Please consult an attorney if you have questions about the legal requirements, rules, or regulations associated with any content discussed in this report.



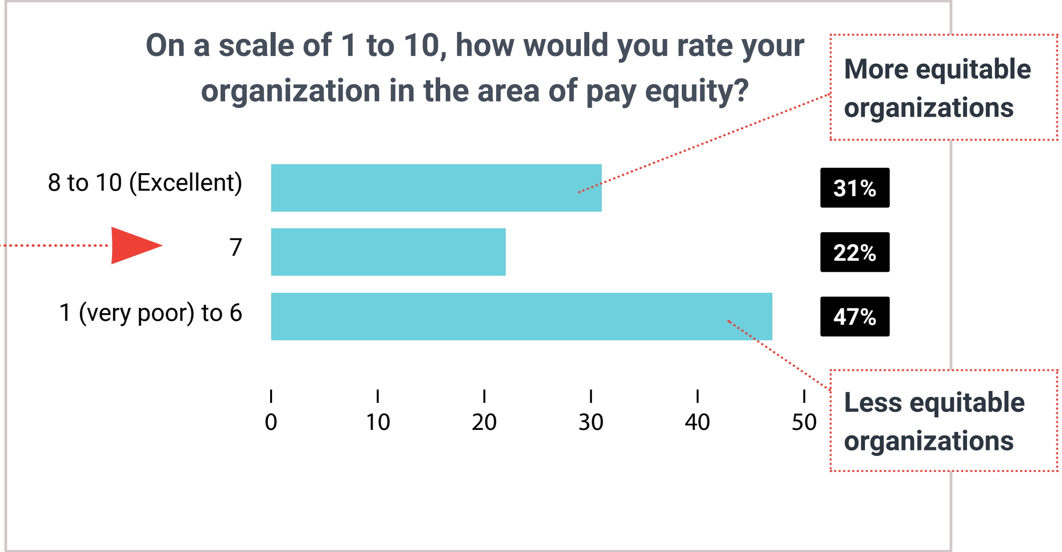
Reality of Pay Equity Today

Finding: Only 31% of respondents rate their organization 8 or above in pay equity

To gauge effectiveness of pay equity in organizations, respondents were asked to rate their organization's pay equity on a scale of 1 to 10. Almost half (47%) rate their organization 6 or below in the area of pay equity. Another one-fifth (22%) rate their organization 7 on a 10-point scale.

This leaves just under a third (31%) who rate their organization 8 or above. If these ratings were considered to be grades earned by organizations in the area of pay equity, the majority would have earned a C grade or below. This leads us to believe that there are significant areas for improvement when it comes to pay equity in organizations.

7 in 10 respondents rate their organizations 7 or below in terms of pay equity.

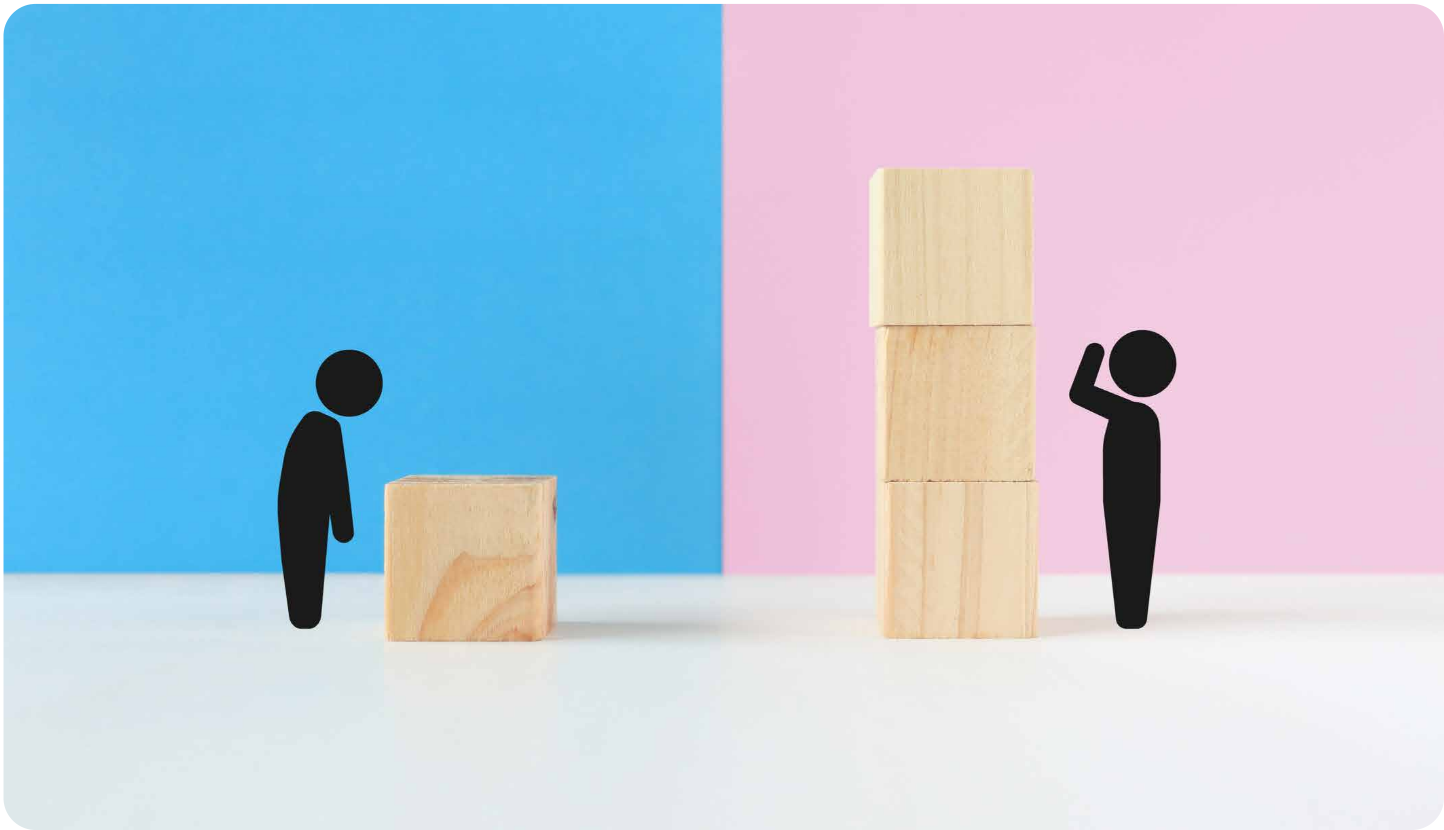


Editor's Note: In the original data, 2% of respondents stated that they "don't know." We removed those responses and recalculated, so this only shows percentages for those who answered the question.

Throughout the report, we discuss differences between more and less equitable organizations. In order to examine these differences, we divided our sample into two cohorts:

- **More equitable organizations:** Those answering the statement, "On a scale of 1 to 10, how would you rate your organization in the area of pay equity?" with 8 or above.
- **Less equitable organizations:** Those answering 6 or below to the same question.

Of course, correlation is not the same as causation. While we cannot state that any particular practice will definitely lead to better pay equity, we do see intriguing relationships that may, if used judiciously, result in greater success.



Finding: Just a quarter of respondents believe their organization is at the expert or advanced stage of pay equity

We asked respondents to identify at what level of development the pay equity is in their organization. A detailed description of each level is given below. About two-fifths (37%) of respondents believe their organization is at the intermediate level. Almost the same proportion say their organization is only at the beginning or undeveloped stage. Under a quarter are confident that their organization is at the advanced (18%) or expert (7%) level of pay equity.

Pay equity levels:

Undeveloped: Little or nothing has been done to increase pay equity or integrate pay equity goals with organizational goals. To the extent that there is a focus, it is on compliance only.

Beginning: We try to maintain compliance but have made a few efforts at increasing pay equity and are thinking about how pay equity helps to position our organization in the marketplace.

Intermediate: We have deployed several different pay equity initiatives piecemeal. It is viewed as moderately important, but we do not spend a lot of time measuring success.

Advanced: We have a strategic framework that has multiple pillars aligned with the organizational goals. Our pay equity efforts include metrics and setting annual goals for improvement, and we closely follow pay equity at all levels.

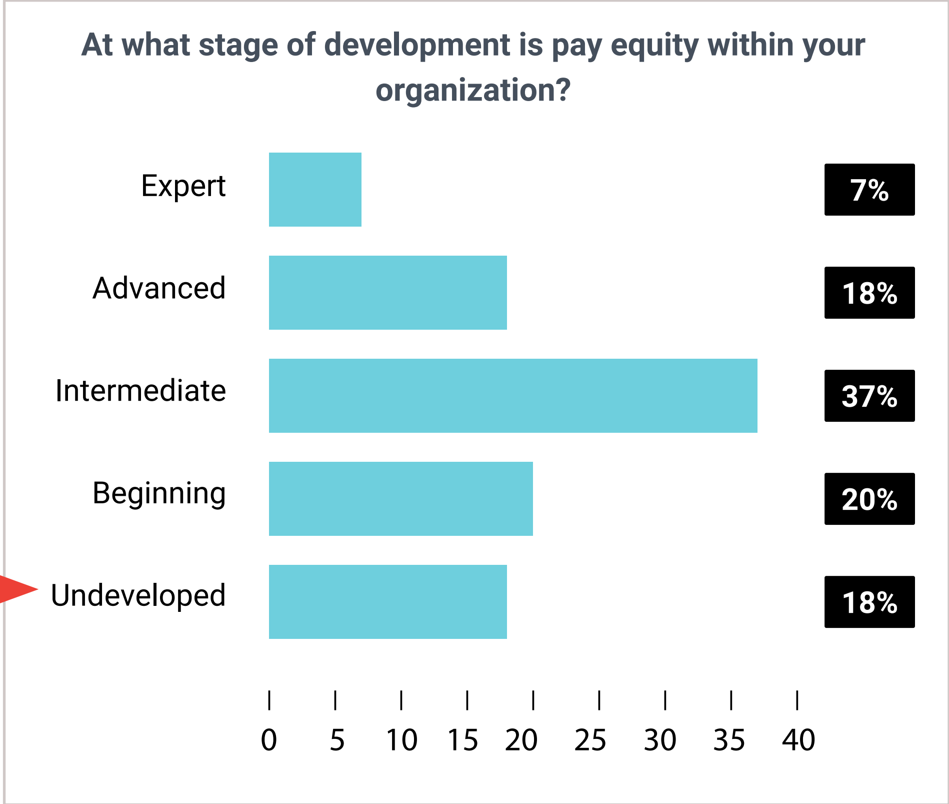
Expert: Pay equity is embedded in our culture and our CEO and Board members make it a priority. Ownership of pay equity initiatives is at the senior leadership level. We use analytics and have a dedicated budget to address pay-equity-related recruiting, succession planning and other talent-related issues, and our managers are assessed based on pay equity goals. Pay equity initiatives are strategic and contribute to the achievement of organizational goals.

For the purpose of this report, large organizations have 1,000 or more employees, mid-sized organizations have 100 to 999 employees, and small organizations have 99 or fewer employees.

Differences based on size of organization

As organizations grow in size, they are less likely to be at the undeveloped or beginning stage. Over a quarter of small organizations (28%) are at the undeveloped stage and one-third are at the beginning stage. In contrast, under a fifth of mid-size organizations are at the undeveloped and beginning stage (18% for both) while just 14% and 10% of large organizations are at the undeveloped and beginning stage stages respectively.

About one-fifth believe pay equity in their organization is undeveloped



Finding: Just over one-third of respondents believe pay equity is a top five organizational priority

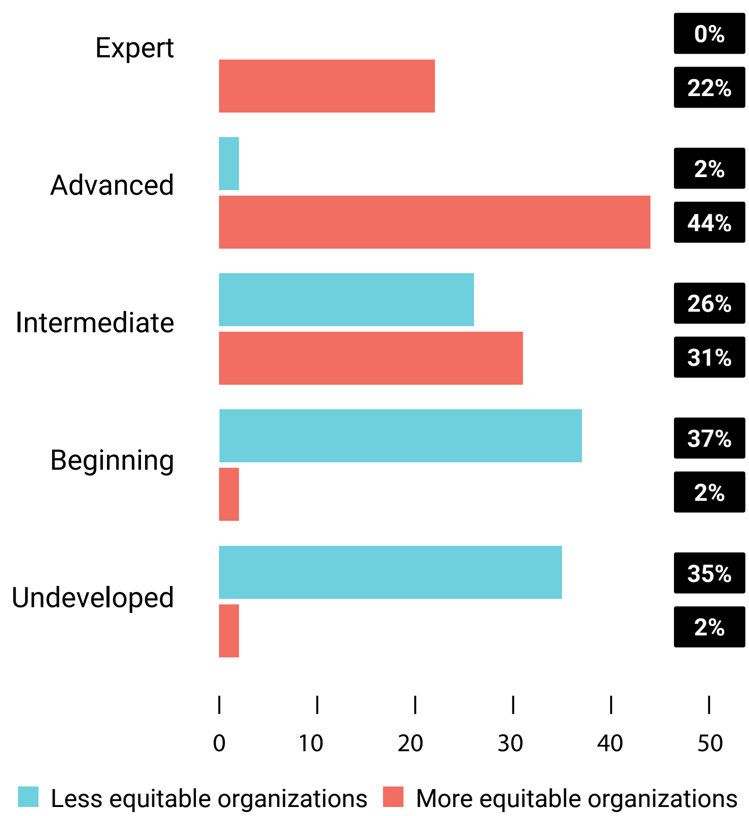
More equitable organizations are likely to be at a higher level of development when it comes to pay equity compared to less equitable organizations. More than a fifth of more equitable organizations are at the expert level of pay equity compared to none of the less equitable organizations. More equitable organizations are also more than 20 times more likely to be at the advanced level than less equitable organizations (44% vs. 2%). In fact, about two-fifths of less equitable organizations identify themselves to be at the beginning stage of pay equity, 19 times more likely to do so than equity leaders.

Results of Chi-square Test

A chi-square test of independence shows that more equitable organizations are significantly more likely to say they are at the expert and advanced stage of pay equity development than less equitable organizations.

More than a third of less equitable organizations are at the undeveloped stage of pay equity.

At what stage of development is pay equity within your organization?



Finding: Just over one-third of respondents believe pay equity is a top five organizational priority

Most HR initiatives depend on leadership support. In the case of pay equity, such leadership buy-in is even more crucial. Making pay equity an organizational priority requires leadership to take a more proactive role in uncovering pay equity gaps (such as through pay equity analysis), dedicating budget to closing these gaps, and initiating a cultural shift towards a more equitable and transparent pay system in the organization.

Pay equity is the top priority in under one-tenth (7%) of organizations.

However, almost a quarter of respondents (23%) believe pay equity is not viewed as an organizational priority. Over two-fifths say it is one of many competing priorities but not near the top. Encouragingly, in over a third of organizations, it is among the top five priorities (27%) or it is the top priority (7%).

Editor's Note: In the original data, 6% of respondents stated that they "don't know." We removed those responses and recalculated, so this only shows percentages for those who answered the question.

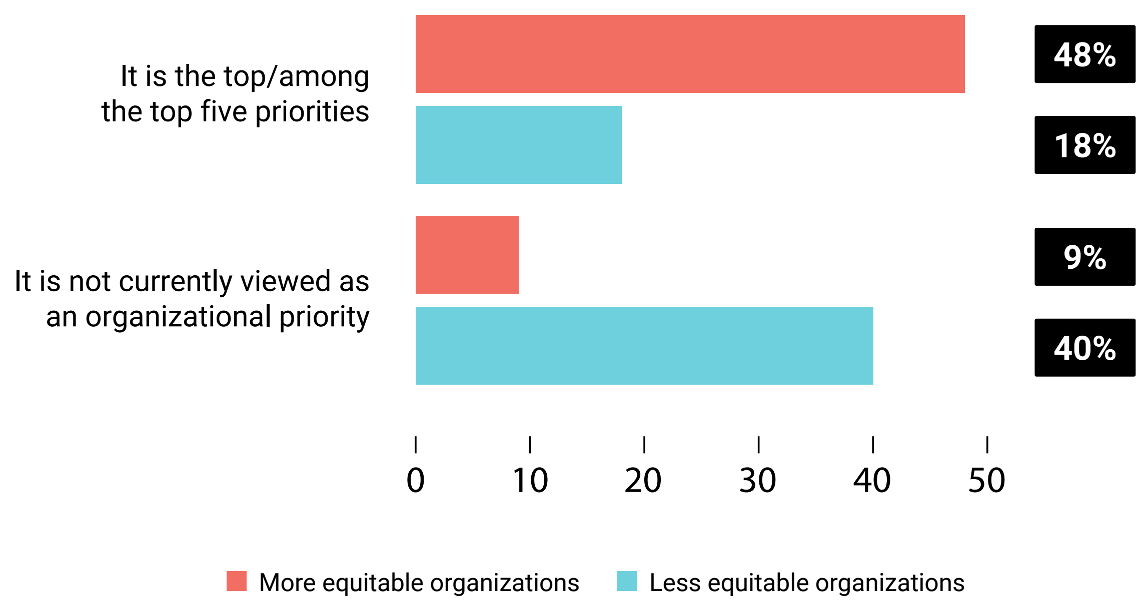
Finding: About half of more equitable organizations place pay equity as a top five priority

More equitable organizations are significantly more likely to prioritize pay equity to a much greater extent than less equitable organizations. In fact, two-fifths of less equitable organizations say pay equity is not currently viewed as an organizational priority.

Results of Chi-square Test

A chi-square test of independence shows that more equitable organizations are significantly more likely to say pay equity is the top or among the top five priorities in their organization than less equitable organizations.

Among top leadership in your organization, how high a priority is pay equity? (select the one that best applies)



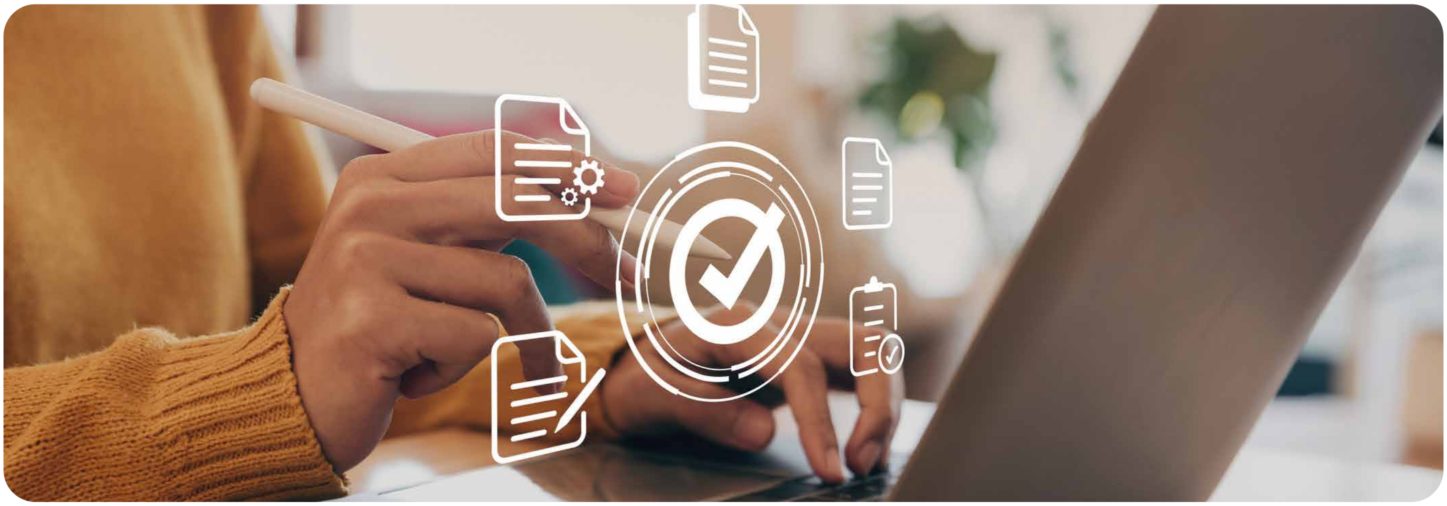
Finding: 7 in 10 respondents believe their organization will improve the pay equity situation over the next two years

Pay equity has been in discussion for well over a decade. However, progress on this issue has remained slow. There have been reports of recent improvements in the number of organizations taking action on improving pay equity, perhaps due to stricter legislation surrounding the issue.

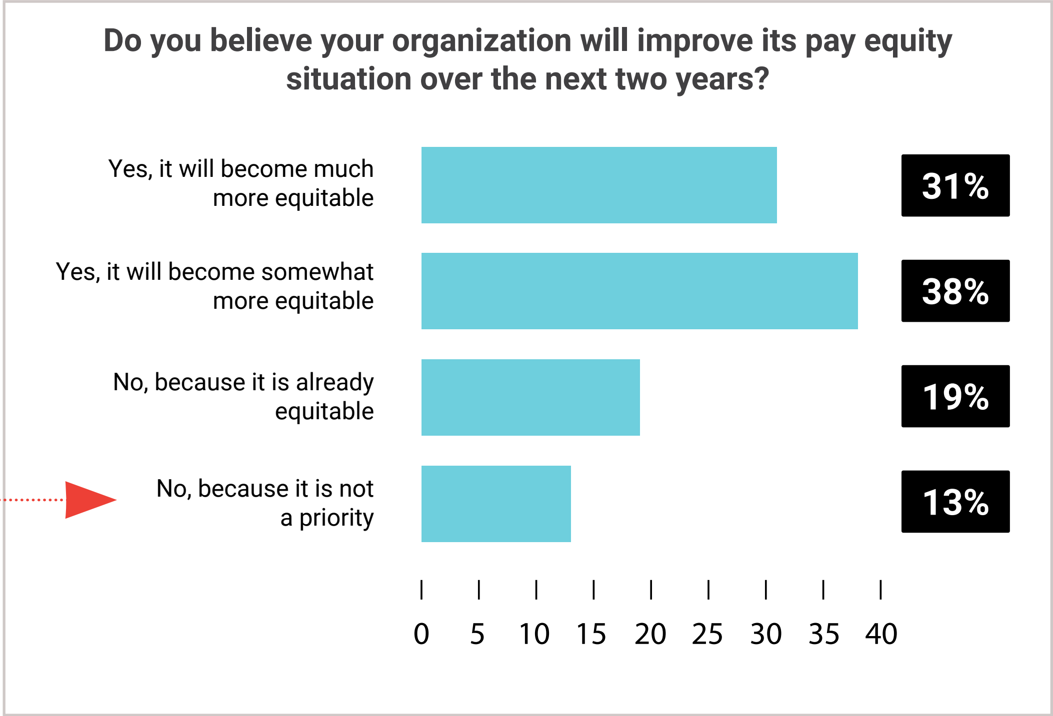
> **"Given all the legislation that's going around the world, organizations are being pushed into compliance with regards to equity. Pay equity is no longer 'nice to have', you 'must do it.' Otherwise, the consequences could be severe.**
>
> **Robert Sheen, CEO, Trusaic**

Results of this survey also indicate that about a third of respondents believe their organization will become much more equitable over the next two years while another two-fifths (37%) believe their organization will become somewhat more equitable. Cumulatively, this accounts for about 7 in 10 respondents saying the pay equity situation in their organization will improve to some degree.

Interestingly, one-fifth of respondents say the pay equity situation will not change since their organization is already equitable. This is certainly true of some organizations that have taken a proactive approach to reducing pay gaps. However, one in ten say such a change in pay equity will not happen because pay equity is not a priority in their organization. Pay equity has demonstrable linkages to employee turnover, productivity, and commitment. Ignoring such an issue could prove detrimental to the overall success of the organization.



Over one in ten respondents believe pay equity is not a priority in their organization.



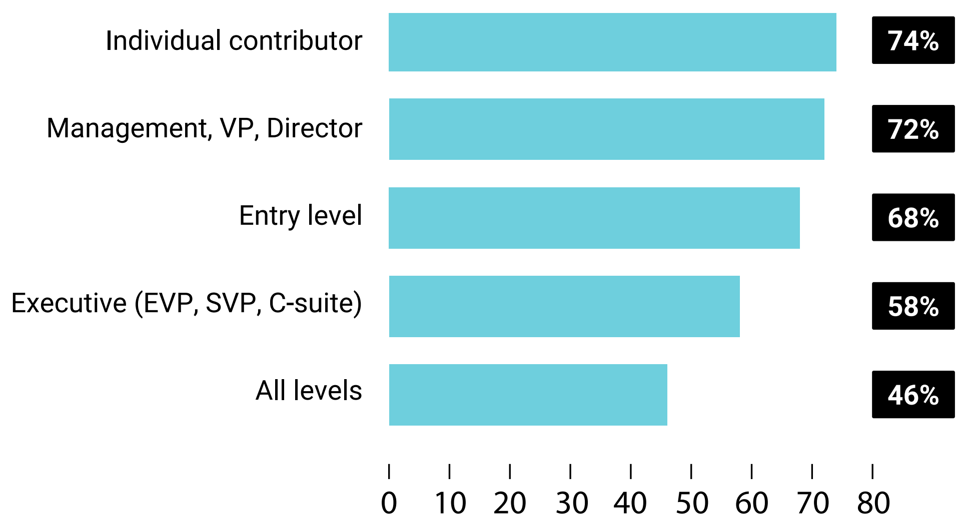
Editor's Note: In the original data, 12% of respondents stated that they "don't know." We removed those responses and recalculated, so this only shows percentages for those who answered the question.

Finding: Under half (45%) of organizations are focusing on closing pay gaps for all levels of employees

Are organizations looking to close pay gaps across the board or are they focused on specific employee levels? About three-fourths (74%) focus on closing pay gaps for individual contributors and about the same proportion (72%) look to close gaps at the management, VP, and Director levels. Pay gaps at higher levels may be more visible and can be a source of contention if publicized.

7 in 10 organizations are focused on the root of the problem by looking to close pay gaps at the entry-level. However, under half (45%) are focused on closing pay gaps at all levels.

On which types of jobs is your organization focusing in order to close pay gaps? (select all that apply)



Factors and People Determining Focus of Pay Equity

Finding: Over three-fifths of organizations focus on pay equity to retain the right talent

> "So, when I joined four teammates in filing a wage-discrimination complaint against U.S. Soccer late last month, it had nothing to do with how much I love to play for my country. It had everything to do with what's right and what's *fair*, and with upholding a fundamental American concept: equal pay for equal play."
>
> Carli Lloyd (U.S. Soccer), *The New York Times*.

When it comes to the reasons why organizations are focusing on pay equity, the primary focus seems to be on retaining the right talent (63%). With rising demand for key talent, employees who are not paid fairly do not hesitate to look for other opportunities. This leads to the next popular reason – ensuring fairness (60%).

About half the organizations are focused on ensuring compliance with laws and regulations (47%). Other goals are intertwined with DEIB such as removing bias in pay decisions (46%), recruiting the right talent (41%), and increasing DEIB (40%).

6 in 10 respondents say that their employer focuses on pay equity to ensure fairness

In your organization, what are the top five reasons for focusing on pay equity? (select up to five)

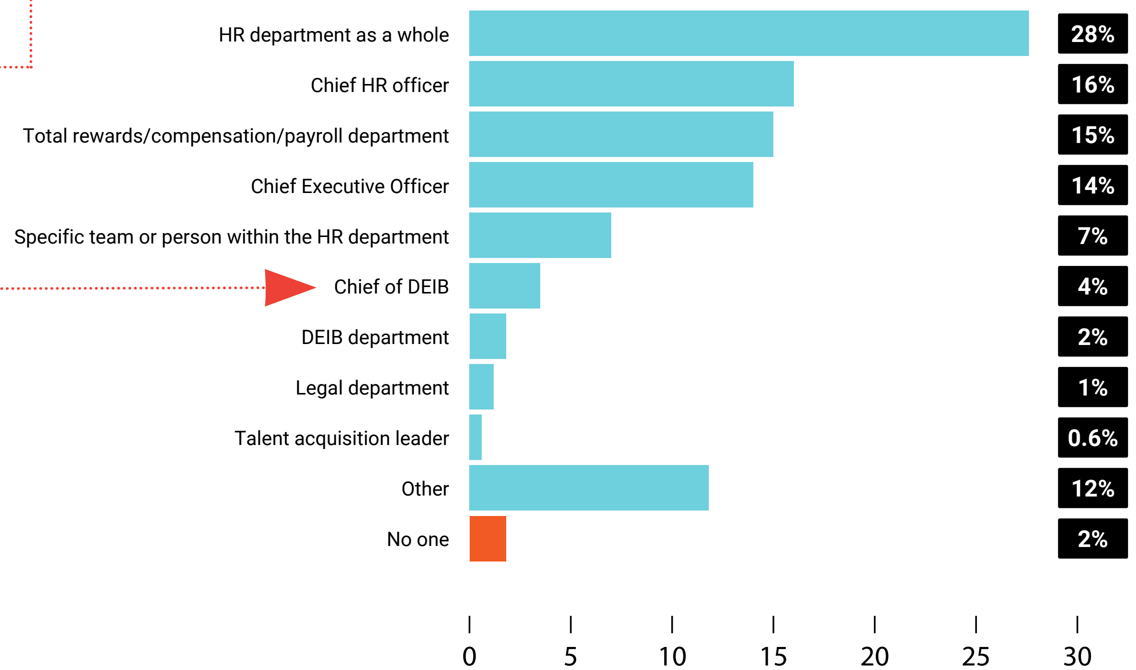
Editor's Note: In the original data, 4% of respondents stated that they "don't know." We removed those responses and recalculated, so this only shows percentages for those who answered the question.

Finding: Responsibility for pay equity and related issues rests with the HR department as a whole in over a quarter (28%) of organizations

Who takes primary responsibility for pay equity issues? There is not one clear group that takes this responsibility in the majority of organizations. In over a quarter of organizations (28%), the HR department as a whole takes the primary responsibility. This is understandable given the close ties of pay equity with major HR responsibilities such as employee experience, retention, and compensation. In some cases (17%) the Chief HR officer or CEO (13%) takes this responsibility, signaling greater top-leadership buy-in for pay equity issues. In other cases, the total rewards/compensation/payroll department (14%) might take this burden.

Chief of DEIB takes responsibility for pay equity in just 4% of organizations.

In your organization, who is primarily responsible for pay equity and related issues? (select the one that best applies)



Strategic Implications

Improving the maturity and effectiveness of pay equity depends in part on making pay equity a strategic priority and working towards sustainable pay equity. Refer to the 'key takeaways' section for more details on these actions.

Current State of Pay Transparency

For the purpose of this survey, we define **pay transparency** as organizations communicating with employees about how their pay is determined. For example, the parameters of pay bands are communicated so employees and/or prospective employees are fully aware of the job's pay range and how it is determined. Further, some U.S. states legally require job postings to include a salary range.

Finding: A third of respondents believe their organization is above average or excellent in the area of pay transparency

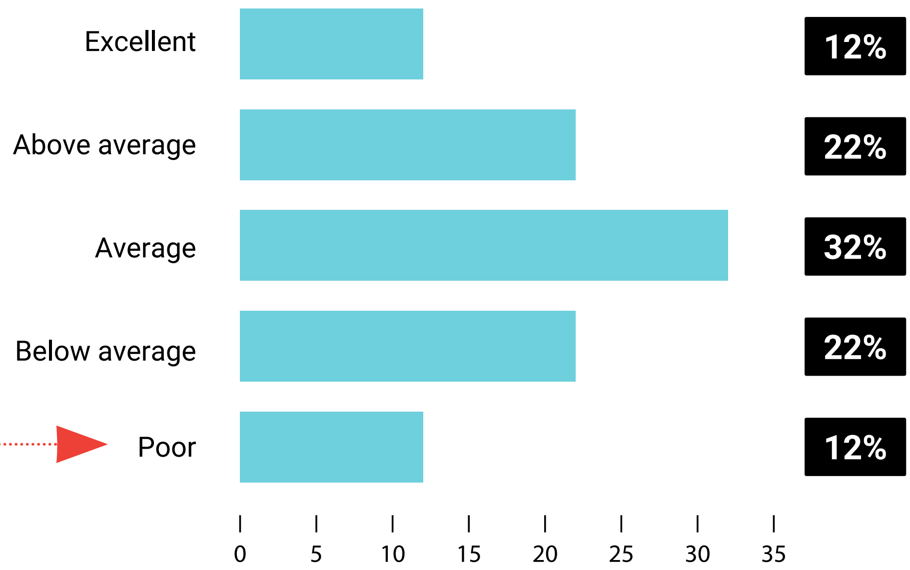
Pay transparency has been shown to reduce the wage gap by preventing the compounding effects of historical pay gaps. It can also empower marginalized employees to negotiate better salaries and uncovers discriminatory pay patterns. Further, there are now government regulations surrounding pay transparency.

Two-thirds of respondents believe their organizations are average or below when it comes to pay transparency. Just over one-tenth believe they are excellent (12%) and another one-fifth believe their organizations are above average (22%).

What causes most organizations to struggle with pay transparency? In addition to concerns about lowering morale and productivity among underpaid employees, organizations may resort to weakening performance-based incentives since they are often harder to justify than parameters such as seniority. This can bring down the overall performance of the organization.

One-third of respondents believe their organizations are below average or poor in pay transparency.

How would you rate your organization in the area of pay transparency?



Editor's Note: In the original data, 4% of respondents stated that they "don't know." We removed those responses and recalculated, so this only shows percentages for those who answered the question.

Finding: More equitable organizations are over five times more likely to rate themselves excellent at pay transparency than less equitable organizations

How much better do more equitable organizations fare at pay transparency? They are five times more likely to rate themselves excellent (27% vs. 5%) and above average (36% vs. 7%) than less equitable organizations. Half of the less equitable organizations rate themselves poor (18%) or below average (31%) when it comes to pay transparency, five times more likely than more equitable organizations.

Results of Chi-square Test

A chi-square test of independence shows that more equitable organizations are significantly more likely to rate themselves above average or excellent in the area of pay transparency than less equitable organizations.

Almost two-thirds of more equitable organizations are excellent or above average in pay transparency

Finding: Just over two-fifths of respondents say their organizations include salary ranges for all job postings

While discussing pay transparency, it is essential to recollect the pay disclosure requirements in the U.S. states. Results of our survey indicate that while over two-fifths of organizations include salary ranges for all job postings, a third do so only for some job postings (17%) or only where legally required (16%). About a quarter do not include salary ranges at present but one in ten of those are considering doing that in the future.

Differences based on areas where the organization operates

Respondents to the survey represented organizations operating from a variety of locations. A third of organizations operate in the U.S. (a single state only) and another third operate in multiple U.S. states. Under a quarter (23%) operate in multiple countries, including the US.

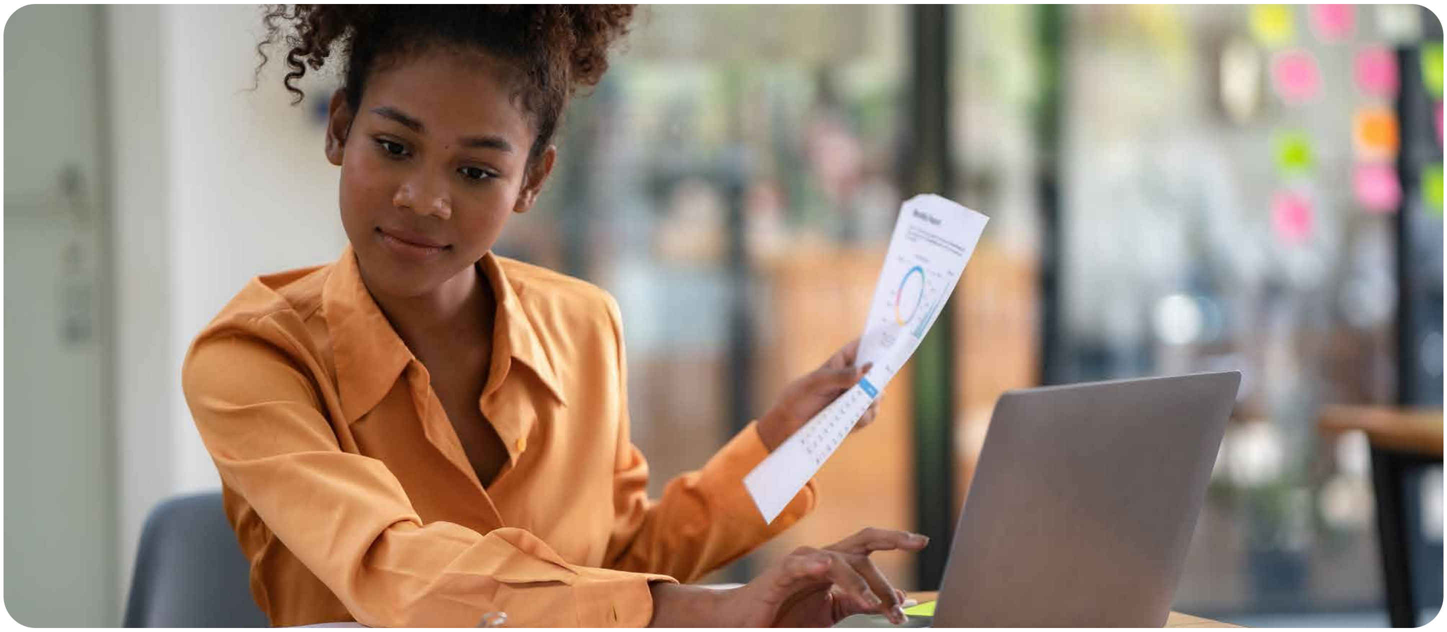
Organizations that operate in a single U.S. state are more likely to include salary ranges for all job postings (66%) compared to organizations that operate in multiple U.S. states (43%) and those that operate in multiple countries including the U.S. (32%). Perhaps the organizations that operate in single U.S. states are operating in states where posting salary ranges are mandated by law. Further, organizations that operate in multiple countries may hesitate to post salary ranges since they may have different salary structures in different countries leading to feelings of inequity among employees in different regions.

Differences based on size of organization

Smaller organizations are more likely to include salary ranges for all job postings (58%) compared to mid-size (45%) and large organizations (35%).

Close to one-fifth of organizations post salary ranges for job postings only where legally required (16%)

Editor's Note: In the original data, 3% of respondents stated that they "don't know." We removed those responses and recalculated, so this only shows percentages for those who answered the question.

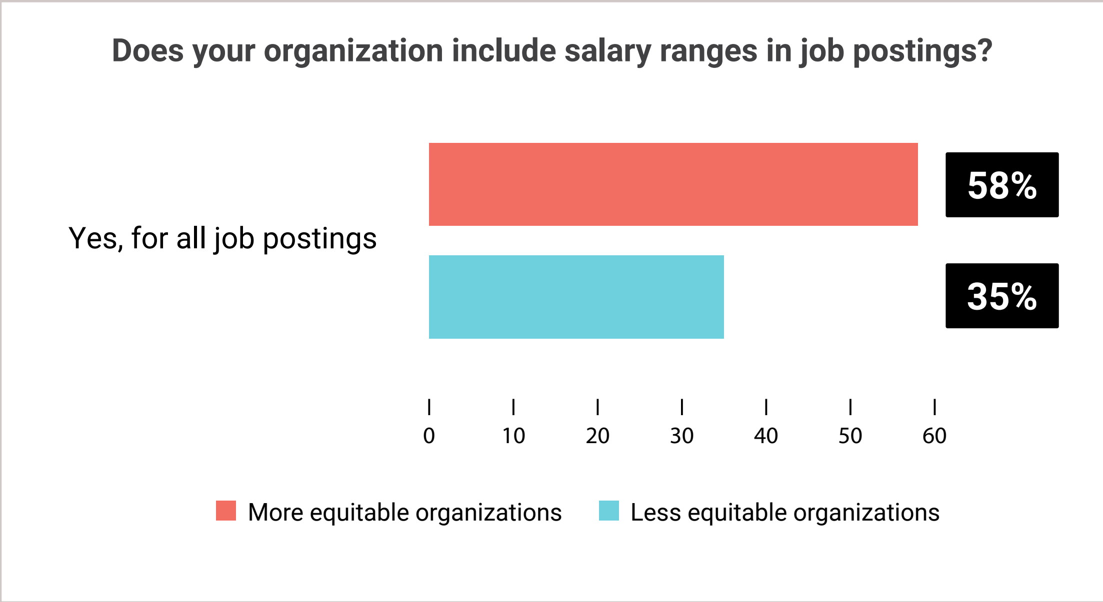


Finding: More equitable organizations are significantly more likely to include salary ranges for all job postings

More equitable organizations are close to 1.7 times more likely to include salary ranges for all job postings (58% vs. 35%). Research shows that including salary ranges in job posts influences a candidate's decision to apply and gives candidates a more positive impression of a company.

Results of Chi-square Test

A chi-square test of independence shows that more equitable organizations are significantly more likely to say they post salary ranges for all job postings than less equitable organizations.



Strategic Implications

Pay transparency can be challenging to implement. Organizations can begin by training managers on conducting discussions around pay and offering a total compensation statement.

How Organizations Make Pay Decisions

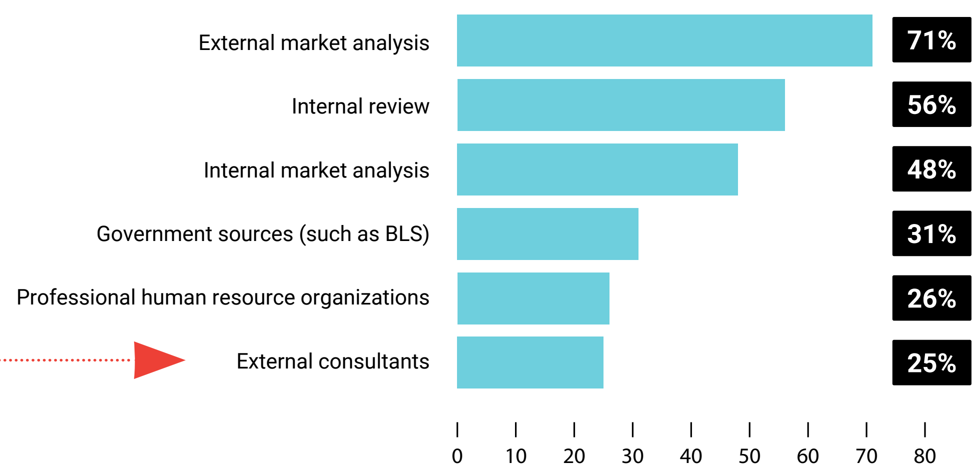
Finding: 7 in 10 organizations rely on external market analysis to develop salary ranges

Respondents who said their organizations post salary ranges, were asked to elaborate on how these salary ranges are developed. When developing salary ranges, the primary concern for most organizations seems to be if they are paying competitively compared to market ranges. 7 in 10 organizations engage in external market analysis to determine salary ranges. Over half also utilize internal reviews (56%) and internal market analysis (48%). This helps ensure internal equity within the organization.

Less than a third utilize government sources (such as BLS) and professional human resource organizations. These can be reliable sources of data available at economical prices. However, the use of external consultants (25%) may be warranted for situations where pay decisions are complicated and require a customized solution.

A quarter of organizations rely on external consultants to develop salary ranges.

Which of the following methods does your organization use to develop salary ranges? (select all that apply)



Finding: More equitable organizations utilize a variety of methods to develop salary ranges to a much higher extent compared to less equitable organizations

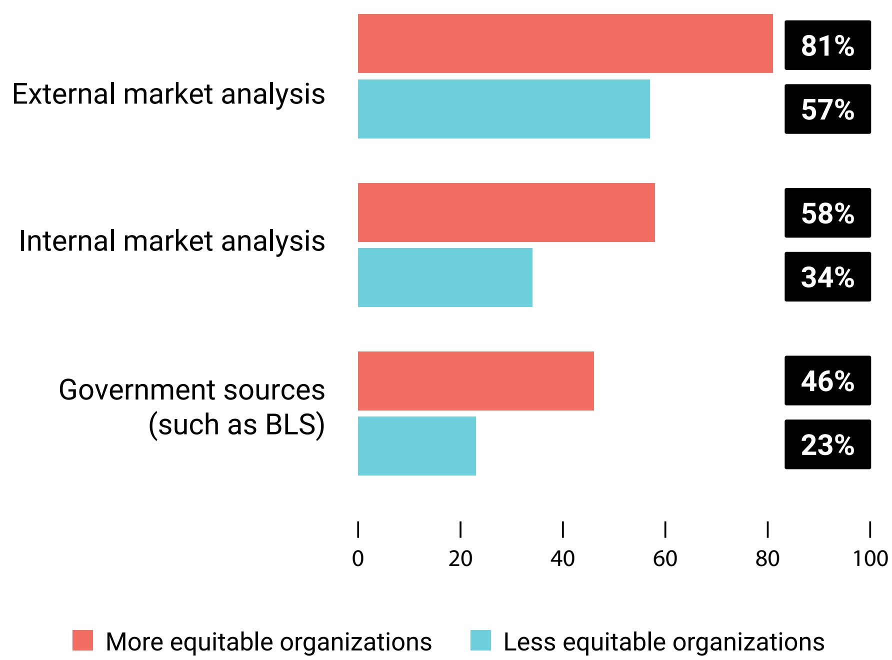
More equitable organizations rely on a variety of methods to develop salary ranges. For instance, they are almost 1.5 times more likely to use external market analysis (80% vs. 56%), 1.8 times more likely to use internal market analysis (61% vs. 34%) and twice as likely to use government sources (such as BLS) (46% vs. 23%).

Results of Chi-square Test

A chi-square test of independence shows that more equitable organizations are significantly more likely to rely on external market analysis and government sources to develop salary ranges than less equitable organizations.

8 in 10 more equitable organizations rely on external market analysis to develop salary ranges.

Which of the following methods does your organization use to develop salary ranges? (select all that apply)



Finding: Compensation levels of others holding the same jobs within the organization and years of relevant experience are most influential in pay decisions in 7 in 10 organizations

What factors influence pay decisions during hiring? Primarily, organizations rely on the compensation levels of others holding the same job within the organization (69%) and years of relevant experience (68%). Naturally, this results in internal equity within the organization. More than half also utilize compensation levels of others holding comparable jobs within the organization (57%) and market compensation studies for benchmarking purposes (53%). This helps determine if pay levels are competitive with the external market.

However, these methods do not deal with issues regarding lack of representation of equity-deserving groups at all levels of the organization. Salary levels may be inequitably impacted if some groups are not allowed to advance within the organization and thereby paid lesser. For every 100 men who are promoted from entry-level to manager, only 87 women are promoted, and only 82 women of color are promoted. As a result, men significantly outnumber women at the manager level, and women can never catch up. There are simply too few women to promote into senior leadership positions.

Further, historically, women have taken on care-giving responsibilities which cause them to exit careers at a greater rate than men. The recent pandemic is one such example where decades of underinvestment in social safety net policies like childcare and paid leave resulted in women losing their jobs at a much greater rate than men. Again, the intersectional effects of race and gender means that women of color had higher and more persistently elevated unemployment rates compared to other cohorts. This has consequences for pay equity when salary is based on factors such as years of experience or position within the organization.

More than two-fifths utilize information on degrees and/or relevant certifications while making pay decisions.

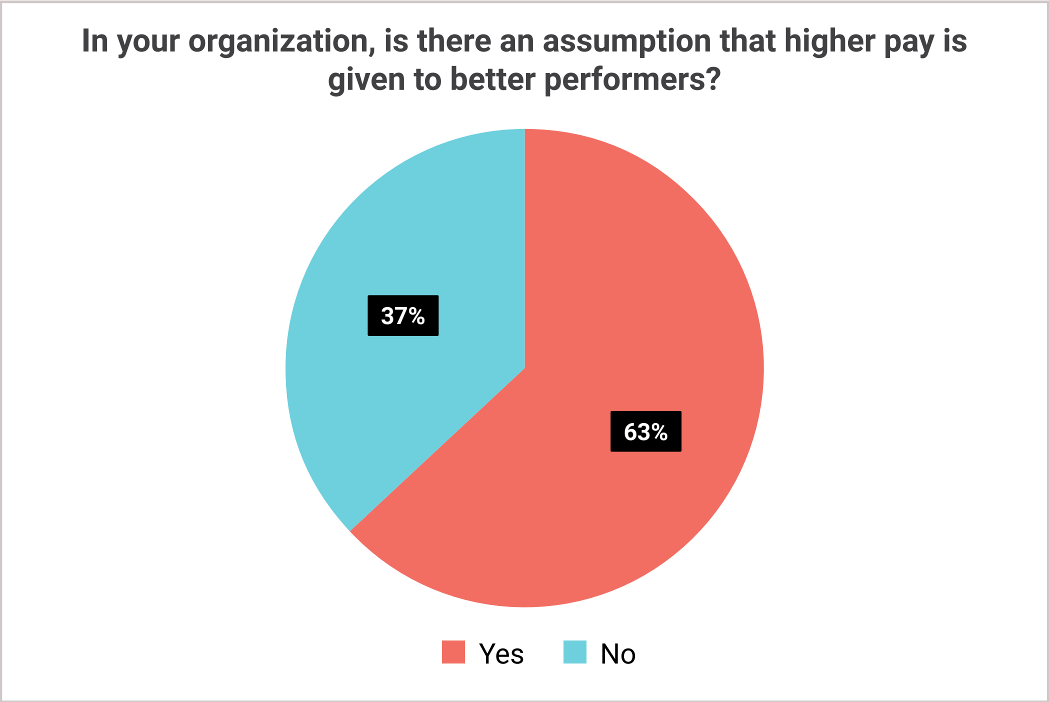
To what degree does your organization take the following factors into consideration for pay decisions when making hiring offers? (% responding high/very high degree)

Finding: Almost 7 in 10 respondents believe the assumption that higher pay is given to better performers is prevalent in their organization

The assumption that higher pay is given to better performers is highly prevalent in most organizations (68%). Despite a majority holding this belief, there are questions about how robust the connection is between pay and performance. While pay-for-performance is widely regarded as an effective means of incentivizing good work and improving overall organizational performance, the success of the initiative depends on establishing comprehensive performance metrics that are linked to organizational success and assessing performance fairly. From our survey on performance management in 2022, we found that only 34% of the organizations said their performance management process accurately portrays employee performance. This calls into question the validity of many pay-for-performance programs.

Differences based on size of organization

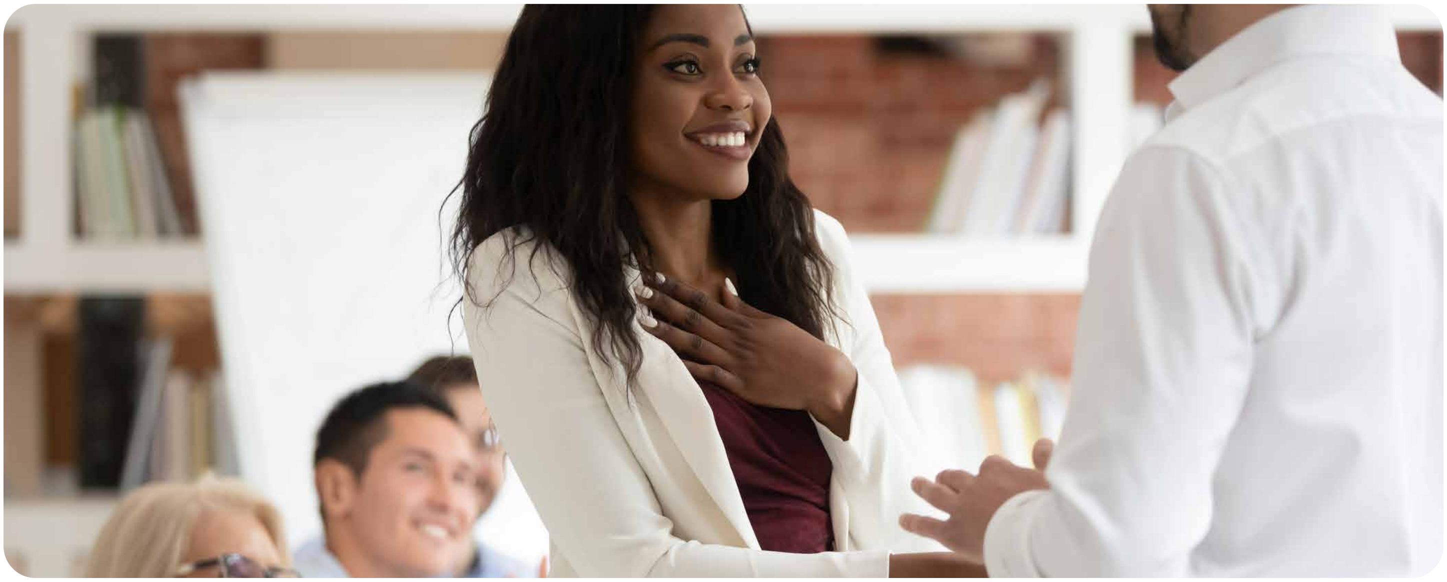
Respondents in large organizations are more likely to hold the assumption that higher pay is given to better performers (62%), compared to mid-size (56%) and smaller (45%) organizations.



Editor's Note: In the original data, 20% of respondents stated that they "don't know." We removed those responses and recalculated, so this only shows percentages for those who answered the question.

Strategic Implications

Decisions around salary ranges and pay offered to new hires must be free of bias. Organizations must be proactive in ensuring pay equity by making salary and pay decisions based on factors that determine success on the job. This requires making robust connections between pay and performance.



Role of Data in Pay Equity

Finding: Just over half of organizations analyze and leverage data to improve pay equity

Pay equity depends on the analysis of pay levels. It is therefore important to note that almost a fifth of respondents say they disagree (14%) or strongly disagree (5%) that their organization analyzes and leverages data to improve pay equity. This begs the question of how these organizations are planning to go about determining pay equity. Further, with growing legislation surrounding this issue, documenting, and gathering data on pay levels and equity may no longer be optional.

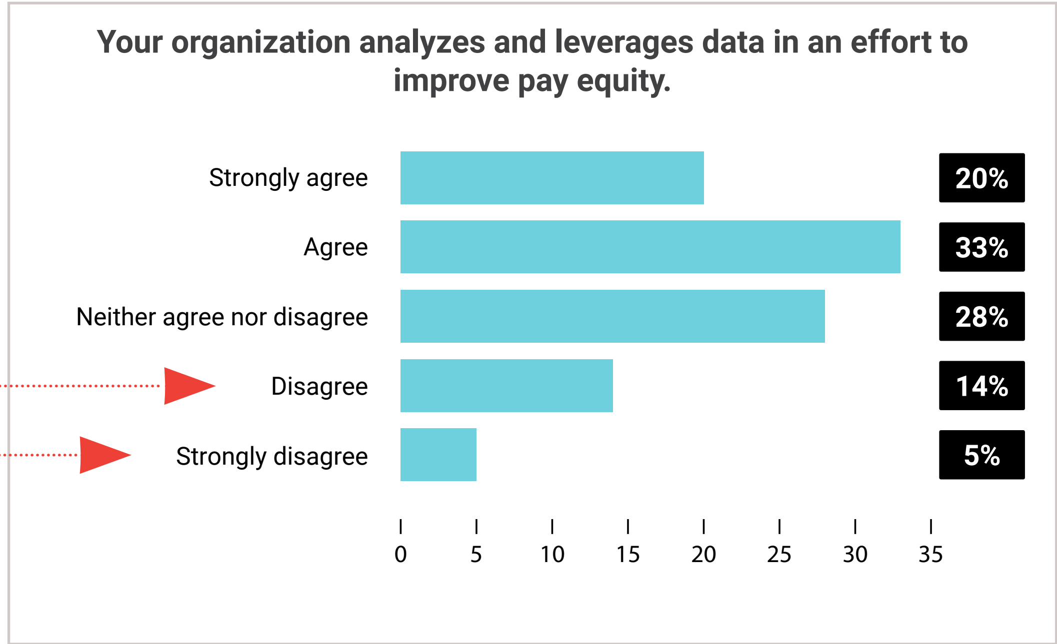
Just over half agree (33%) or strongly agree (20%) that they analyze and leverage data to improve pay equity. Just over a quarter (28%) are neutral about the use of data in improving pay equity in their organization.

> **There needs to be comprehensive data collection for pay equity analysis to be meaningful. This period of data collection can run a lot longer than people anticipate. This is one of the biggest challenges that organizations face with regards to pay equity analysis.**
>
> **Beth Ronnenburg, President, Berkshire Associates**

Differences based on size of organization

Respondents from large (56%) and mid-size (54%) organizations are more likely to agree/strongly agree that they analyze and leverage data to improve pay equity than small organizations (42%).

One-fifth of organizations do not analyze and leverage data to improve pay equity.



Editor's Note: In the original data, 20% of respondents stated that they "don't know." We removed those responses and recalculated, so this only shows percentages for those who answered the question.

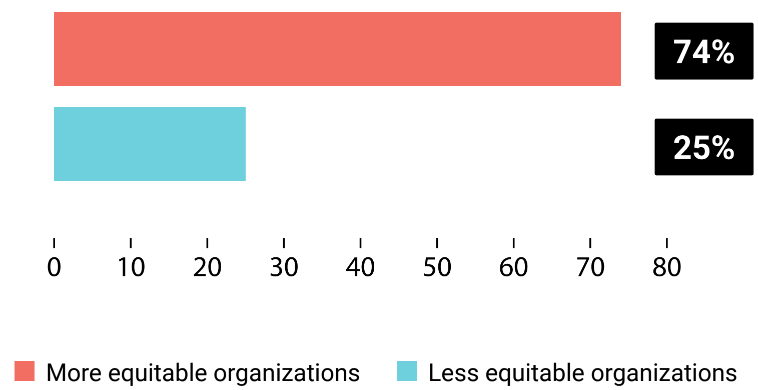
Finding: More equitable organizations are three times more likely to analyze and leverage data to improve pay equity

More equitable organizations largely (74%) analyze and leverage data to improve pay equity. However, just a quarter of less equitable organizations do so. This helps more equitable organizations make data and evidence-based decisions while improving pay equity.

Results of Chi-square Test

A chi-square test of independence shows that more equitable organizations are significantly more likely to say they leverage data in an effort to improve pay equity than less equitable organizations.

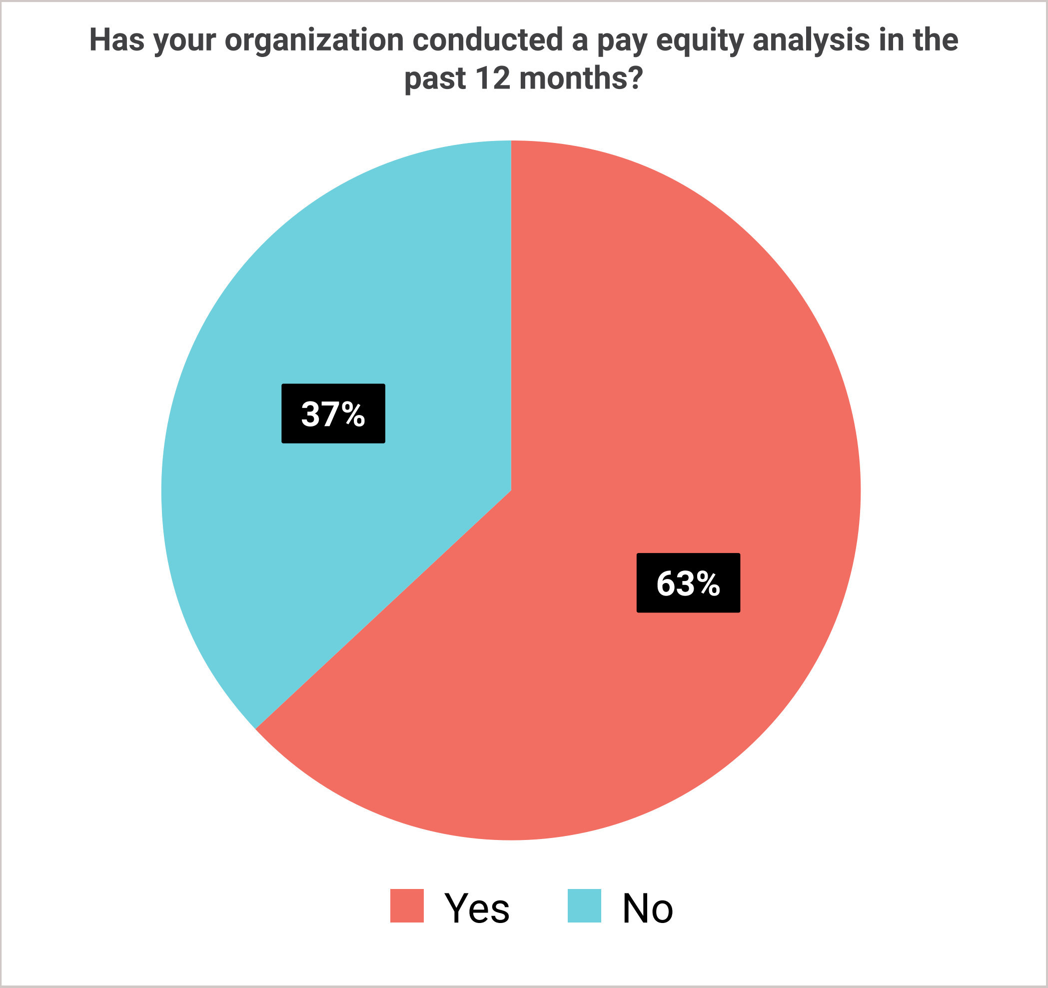
Your organization analyzes and leverages data in an effort to improve pay equity. (% responding agree/strongly agree)



Respondents who agree/strongly agree that their organization analyzes and leverages data to improve pay equity were asked how their organization measures and determines pay equity and which demographic characteristics are examined as part of pay equity analysis.

Finding: Over three-fifths of surveyed organizations have conducted a pay equity analysis in the past 12 months

Pay equity analysis needs to be conducted at regular intervals to keep up with changes in market rates, legislation, labor market trends. Over three-fifths (63%) of respondents say their organization has conducted a pay equity analysis over the past 12 months.



Note – In the question, pay equity analysis could mean using metrics, analytics and/or investigations to uncover any pay inequities and could be done with internal or external resources.

Editor's Note: In the original data, 10% of respondents stated that they "don't know." We removed those responses and recalculated them, so this only shows percentages for those who answered the question.

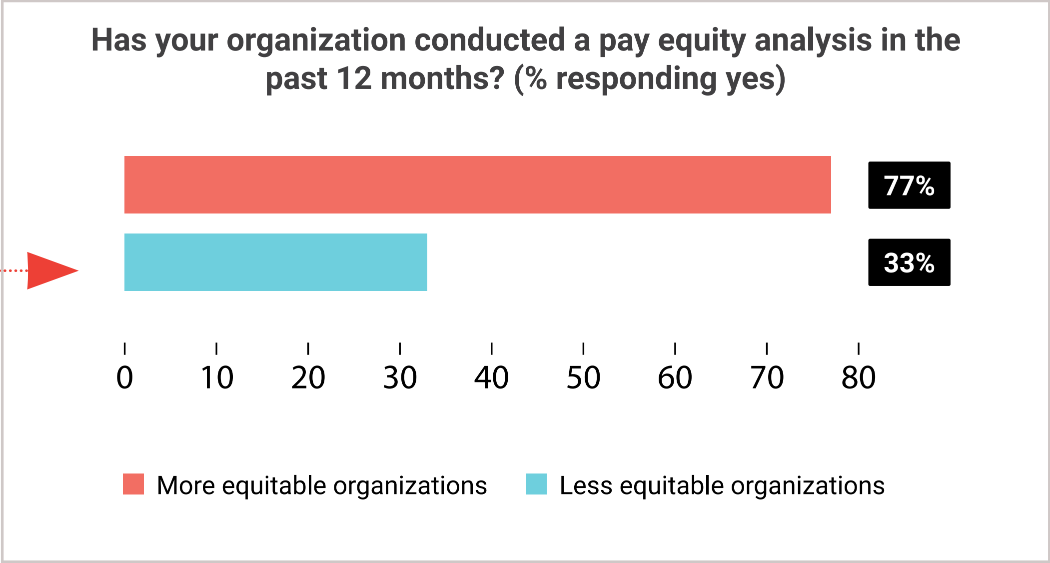
Finding: Over three-fourths of more equitable organizations have conducted a pay equity analysis in the past 12 months

More equitable organizations are 2.5 times more likely to have conducted pay equity analysis in the past 12 months compared to less equitable organizations (77% vs. 33%).

Results of Chi-square Test

A chi-square test of independence shows that more equitable organizations are significantly more likely than less equitable organizations to say they have conducted pay equity analysis in the past 12 months.

Just one-third of less equitable organizations have conducted pay equity analysis in the past 12 months.



Note: this could mean using metrics, analytics and/or investigations to uncover any pay inequities and could be done with internal or external resources.

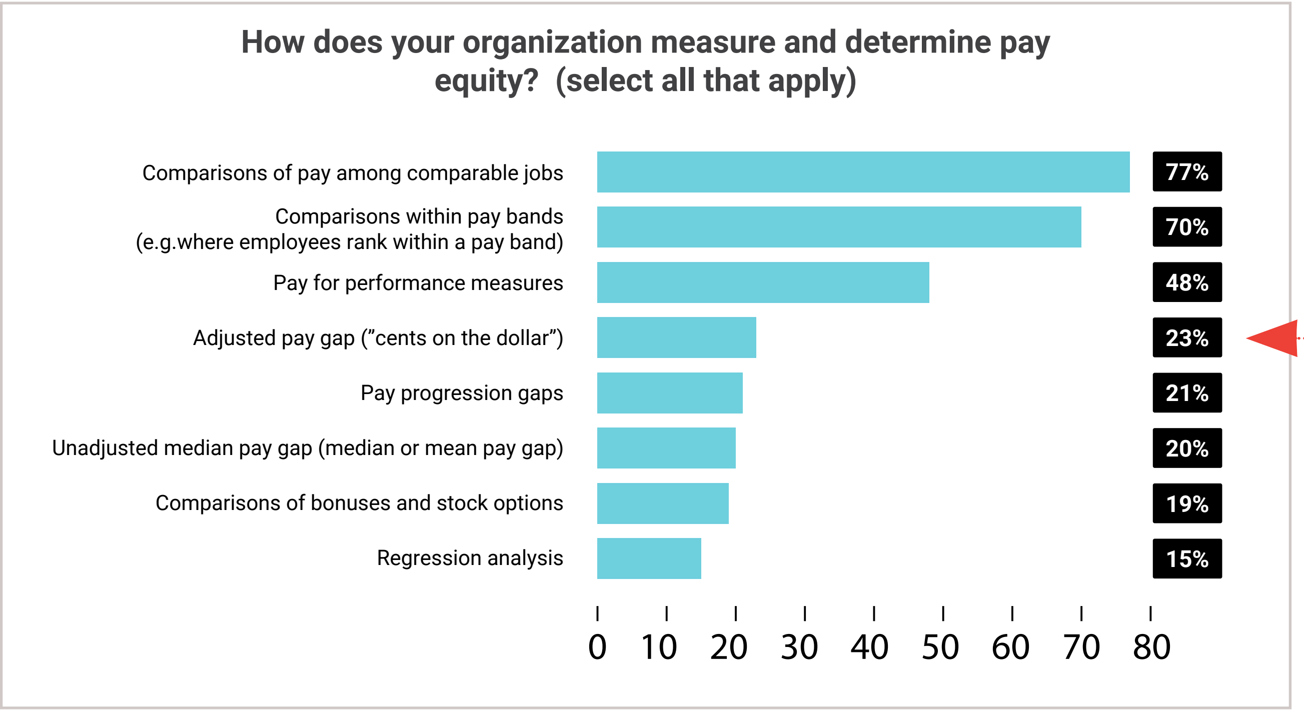
Means and Elements of Pay Equity Analysis

Finding: More than three-fourths of organizations compare pay among comparable jobs to measure and determine pay equity

A majority (77%) of organizations make comparisons of pay among comparable jobs and 7 in 10 also make comparisons within pay bands. About half (48%) utilize comparisons of pay for performance measures. While comparisons with comparable jobs and within pay bands may seem to increase internal equity within organizations and may also be legally compliant, we must question if it helps advance the issue of pay equity.

Women continue to occupy lower paying occupations at a much higher rate than men. A higher percentage of women work in informal sectors with lower pay and benefits and are plagued with precarious employment. This may be attributed to the fact that many women have care-giving responsibilities and cannot take up full-time work. However, it must be considered that female-dominated jobs tend to be underpaid (such as elementary school teachers), even when they involve the same level of skill as male-dominated jobs. In contrast, men dominate the highest corporate and institutional positions everywhere in the world.

It is interesting to note that the adjusted pay gap, which is a good representation of the gender pay ratio is utilized by just over a fifth of organizations. Similarly, pay progression gaps and unadjusted median pay gaps are largely underutilized (20%). It is our opinion that these calculations may offer organizations greater insight into the causes of pay inequity by encapsulating all ways that pay disparity is compounded within the organization. Further, regression analysis may help analyze various predictors of pay inequity so that remedying pay gaps becomes more data based.



Editor's Note: In the original data, 8% of respondents stated that they "don't know." We removed those responses and recalculated, so this only shows percentages for those who answered the question.

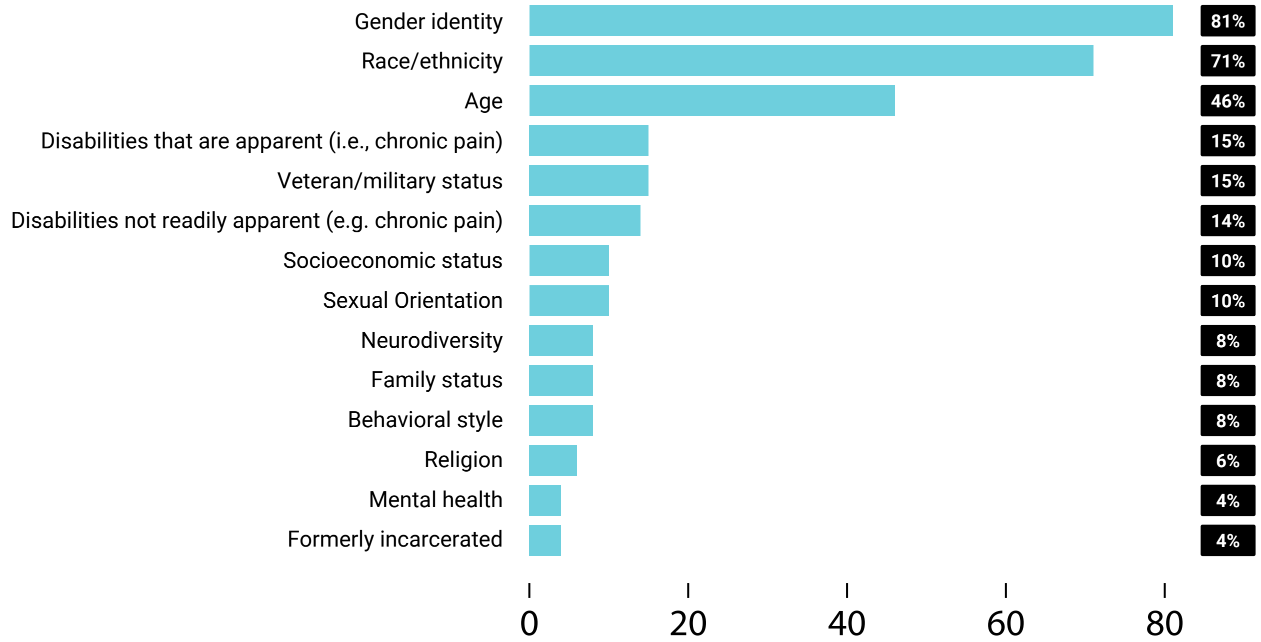
Under a quarter examine the adjusted pay gap to determine pay equity

Finding: 8 in 10 organizations primarily examine gender identity as part of the pay equity analysis

The most common demographic characteristics that are examined as part of the pay equity analysis are gender identity (81%) and race/ethnicity (71%). Almost half also examine age (46%) as a source of pay differences.

There is a big gap between the proportion of organizations examining gender identity and race compared to other demographic factors. While gender and race are largely influential in discussions surrounding pay equity, organizations must also take care to incorporate an intersectional lens to view pay equity issues. For instance, women of all races and ethnicities face a pay gap when compared with men of similar races and ethnicity, but women of color are affected because of both - their gender and race. Similar examination regarding disabilities, sexual orientation, and mental health may be necessary.

What demographic characteristics (where legally permissible) are examined as part of your pay equity analysis? (select all that apply)



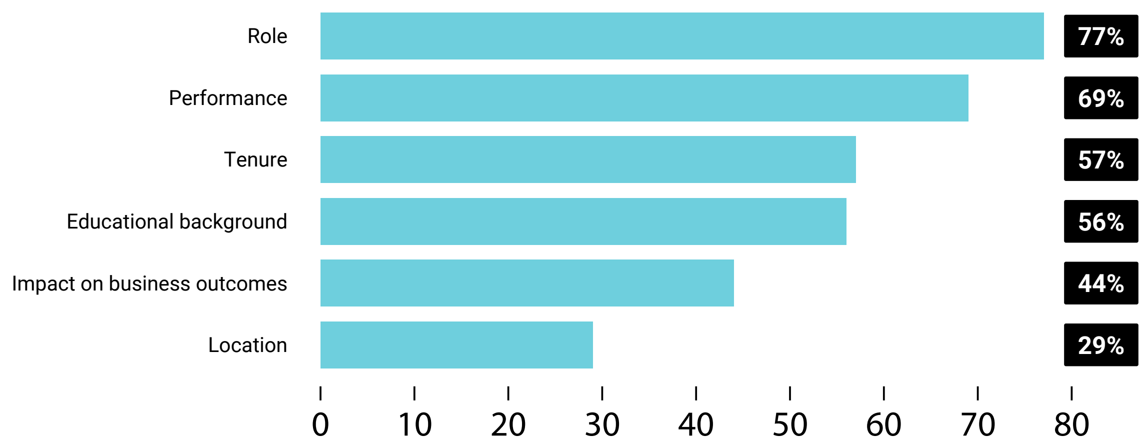
Editor's Note: In the original data, 38% of respondents chose the option 'none of these' and 7% stated that they "don't know." We removed those responses and recalculated, so this only shows percentages for those who answered the question.

Finding: Three-fourths of organizations examine job role as part of pay equity analysis

What are important job-related factors that are commonly examined as part of pay equity analysis? Over two-thirds examine job role (77%) and performance (69%). Over half also examine tenure (57%) and educational background (56%).

Over two-fifths (44%) examine the impact on business outcomes. This is likely to create a more performance-based pay system. With the prevalence of remote work, over a quarter (29%) also look at the location of the job while undertaking pay equity analysis.

What job-related factors are examined as part of your pay equity analysis? (select all that apply)



Editor's Note: In the original data, 8% of respondents chose "none of these" and 12% stated that they "don't know." We removed those responses and recalculated, so this only shows percentages for those who answered the question.

Strategic Implications

Effective pay equity analysis depends in part on the rigor of HR policies, procedures, and job classification systems. Check critical issues to consider while performing and understanding pay equity analysis in the 'key takeaways' section.

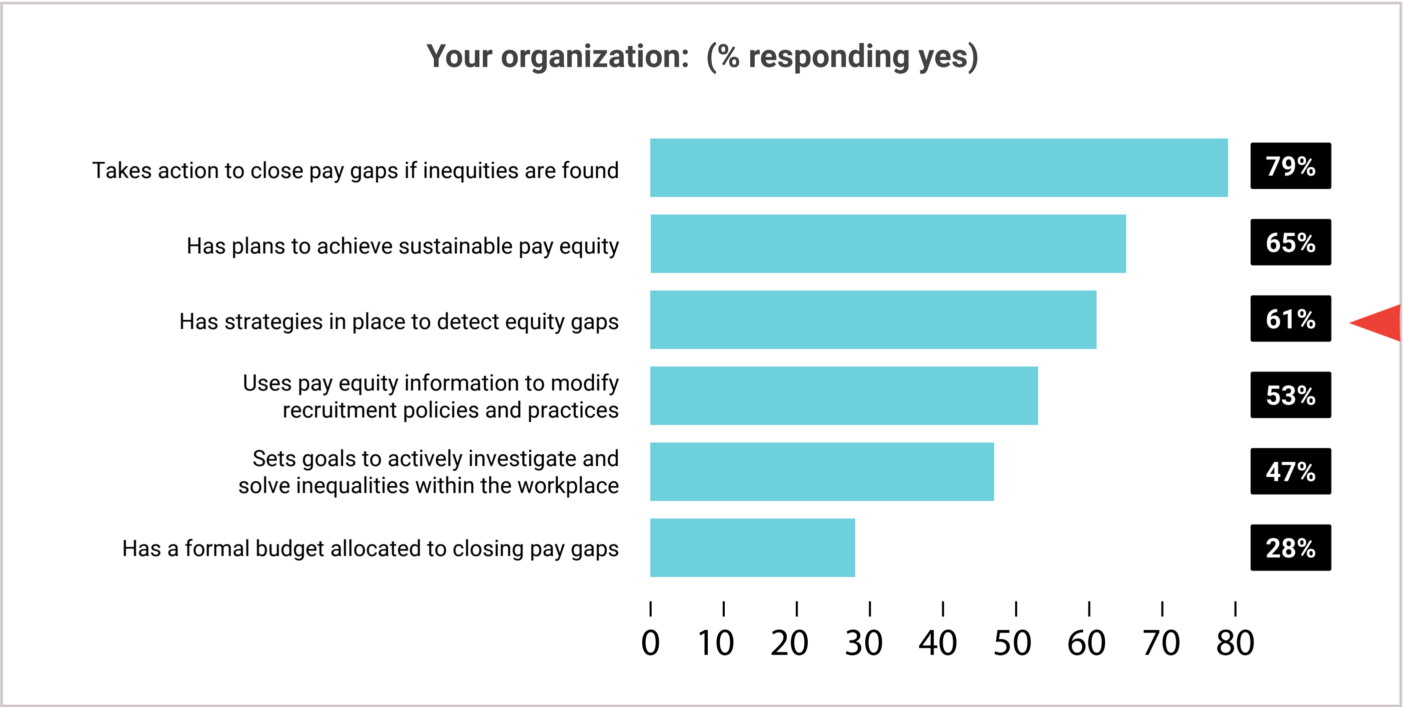
Organizations' Approaches and Actions Toward Pay Equity

Finding: 8 in 10 respondents believe their organization takes action to close pay gaps if inequities are found

When asked about specific practices related to resolving pay equity issues in organizations, the most common practice seems to be to take specific actions to close pay gaps if inequities are found. While 8 in 10 organizations claim to do this, it is remarkable that 20% of organizations take no action to close pay gaps even when inequities are found. With growing legislation surrounding this issue and the risk of potential lawsuits, this seems to be a risky stance to take. This could perhaps be linked to the low proportion of respondents (28%) saying there is a formal budget allocated to closing pay gaps.

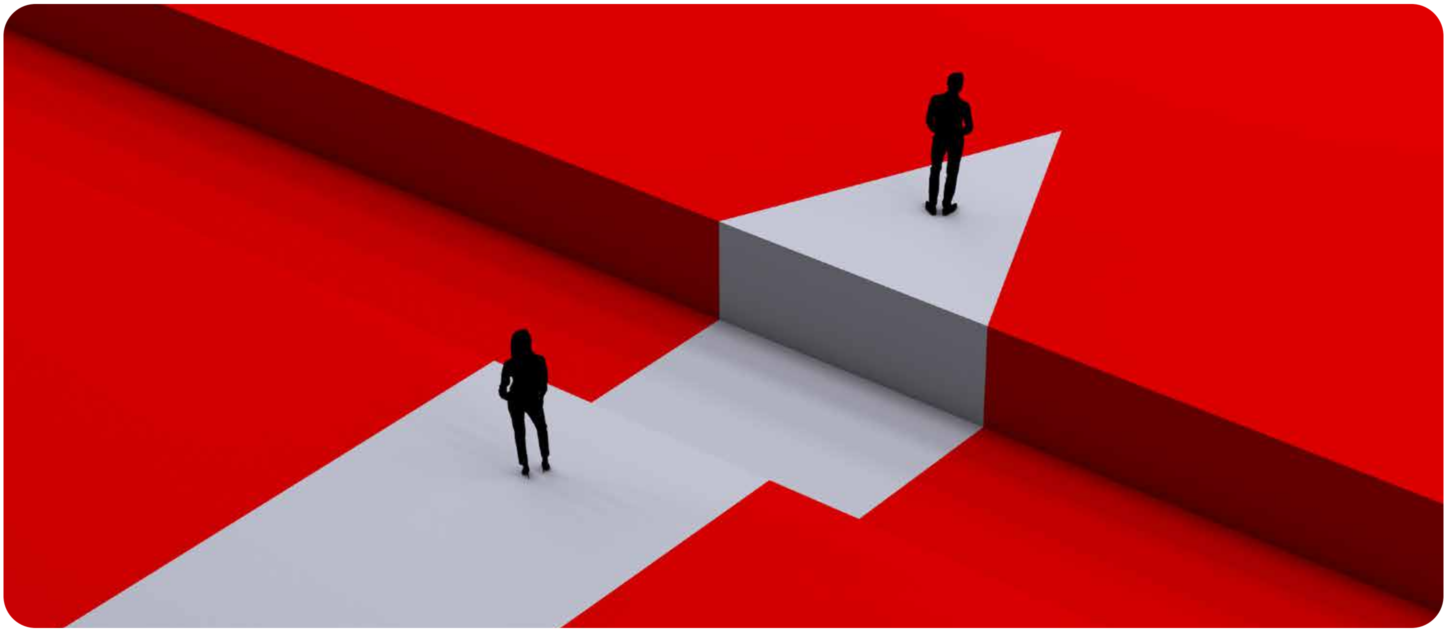
This leads to the issue of actually '*finding*' pay gaps. Just 6 in 10 respondents replied affirmatively that their organization has strategies in place to detect pay equity gaps and less than half (48%) sets goals to actively investigate and solve inequalities within the workplace.

Next is the issue of what is done with the information from pay equity analysis. Two-thirds (65%) of organizations have plans to achieve sustainable pay equity. However, just over half (53%) utilize pay equity information to modify recruitment policies and practices.



Editor's Note: In the original data, 10% to 22% of respondents stated that they "don't know" to each of the listed options. We removed those responses and recalculated, so this only shows percentages for those who answered the question.

Just 6 in 10 organizations have strategies in place to detect pay equity gaps.



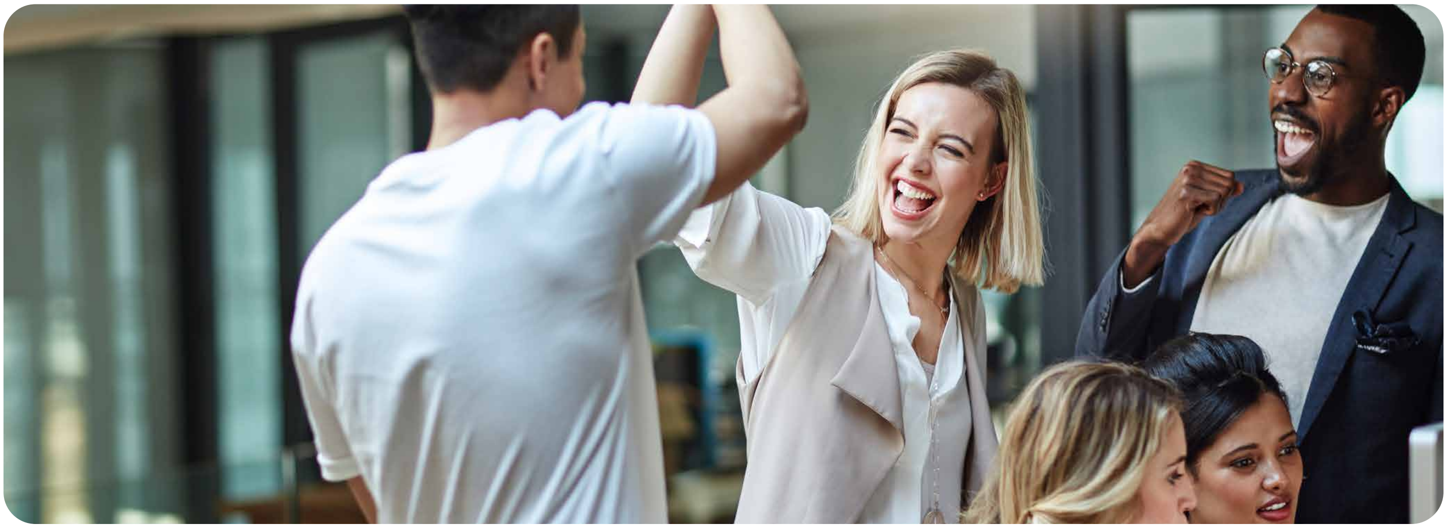
Finding: More equitable organizations are almost twice as likely to take action to close pay gaps if inequities are found than less equitable organizations

More equitable organizations are more likely to engage in specific practices to improve pay equity than less equitable organizations. Below is a comparison of how much more likely more equitable organizations are to take these actions when compared to less equitable organizations:

Results of Chi-square Test

A chi-square test of independence shows that more equitable organizations are significantly more likely to have utilized all listed practices to improve pay equity to a greater extent than less equitable organizations.

- closing pay gaps if inequities are found – 1.8 times more likely (88% vs. 49%)
- have strategies in place to detect equity gaps – 2.3 times more likely (73% vs. 32%)
- have plans to achieve sustainable pay equity – more than 2 times more likely (67% vs. 31%)
- set goals to actively investigate and solve inequalities within the workplace - more than 2 times more likely (58% vs. 26%)
- use pay equity information to modify recruitment policies and practices – almost 2.5 times more likely (64% vs. 25%)
- have a formal budget allocated to closing pay gaps - 2.5 times more likely (32% vs. 14%)



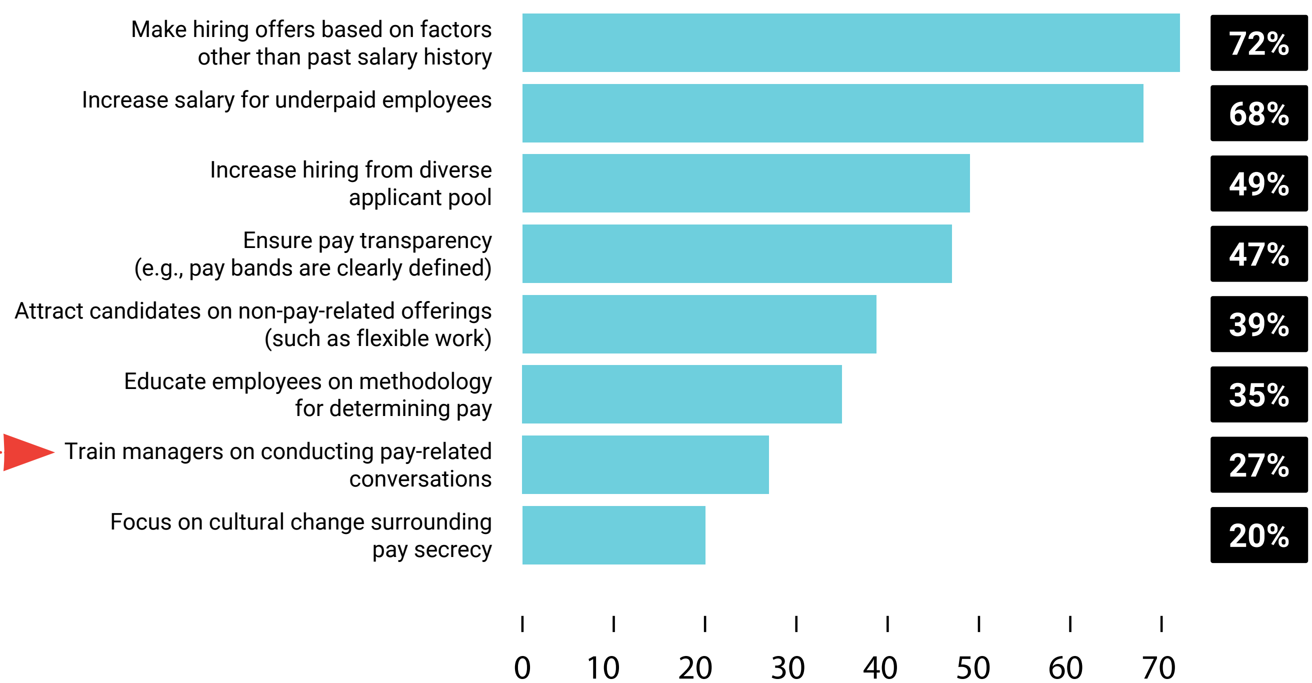
6 in 10 more equitable organizations utilize pay equity information to modify recruitment policies and practices.

Finding: 7 in 10 make hiring offers based on factors other than past salary history to achieve pay equity

What specific actions do organizations take to achieve pay equity? 7 in 10 organizations look to solve the problem at the source i.e., by making hiring offers based on factors other than past salary history. This is unlikely to perpetuate already existing pay inequities in the market. Almost the same proportion (68%) look to increase salaries for underpaid employees. This leaves about a third who do not close the pay gap by increasing the salaries of underpaid employees, perhaps due to the lack of budget identified above. About half (49%) look to solve pay inequities resulting from lack of representation by increasing hiring from a diverse applicant pool and almost half (47%) aim to achieve pay equity by ensuring pay transparency. About two-fifths (39%) look to attracting candidates on non-pay-related offerings.

Just over a quarter (27%) train managers on conducting pay-related conversations.

What actions does your organization take to achieve pay equity? (select all that apply)



Editor's Note: In the original data, 10% of respondents stated that they "are not trying to achieve pay equity." We removed those responses and recalculated them, so this only shows percentages for those who are working on achieving pay equity.

Finding: More equitable organizations are twice as likely to make hiring offers based on factors other than salary history to achieve pay equity than less equitable organizations

More equitable organizations use a variety of specific actions to achieve pay equity compared to less equitable organizations. For instance, they are twice as likely to make hiring offers based on factors other than past salary history (85% vs. 42%), almost 1.5 times more likely to increase salary for underpaid employees (73% vs. 50%), and more than twice as likely to ensure pay transparency (60% vs. 30%). These actions indicate the commitment that more equitable organizations have toward remedying pay inequity.

Results of Chi-square Test

A chi-square test of independence shows that more equitable organizations are significantly more likely to have utilized all listed practices to improve pay equity to a greater extent than less equitable organizations.

More equitable organizations are almost 3 times more likely to attract candidates on non-pay-related offerings (such as flexible work)

Taking proactive actions to ensure pay equity during recruitment and remedying pay gaps, relies on organizational support in the form of time and money. Further, pay equity issues are often intertwined with other HR functions such as hiring and career development. This requires making pay equity a strategic part of all HR functions.

Strategic Implications

Closing pay gaps effectively signals commitment to ensuring pay equity within organizations. This involves intervention early in the process by evaluating hiring tools and technologies for bias and closing gaps where they exist. Refer to the 'key takeaways' section on how gaps can be remedied for more information on this process.

Key Takeaways

Following are some suggestions for organizations seeking to make pay more equitable.

Key Takeaway 1

Make pay equity a strategic priority. With important linkages to DEIB, productivity and retention, pay equity needs to be more of a strategic priority among organizations. This would result in greater leadership buy-in for initiatives to reduce disparity. With greater strategic priority, organizations may be in a better position to dedicate resources and time towards uncovering root causes of pay equity, execute planned initiatives to address pay equity issues, and eliminate any pay disparities. Organizations may also look to getting third-party certifications to demonstrate their commitment to pay equity.

Key Takeaway 2

Ensure pay equity is sustainable. Creating sustainable pay equity within organizations requires continuous audits and policy reforms. Pay equity can be affected by promotions, bonus and incentive programs, and hiring and firing cycles. Therefore, pay equity audits and analyses may well need to be conducted regularly. This helps analyze pay processes and keep a check if inequities are creeping in. Most importantly, sustainable pay equity depends on creating a culture of equity and trust. Transparency can be a part of the organizational system and not just implemented in response to laws and regulations. It also requires understanding the interdependency of pay equity with other HR functions such as recruitment, career advancement, L&D, DEIB, etc.

Key Takeaway 3

Train managers on conducting discussions around pay. Managers are often the first people that employees approach for discussions around pay. In order to have these conversations, managers should be educated on how pay is structured in the organization. This may require meeting with HR to get concrete information on how pay decisions are made. This can help managers clarify why the pay of different employees may vary – such as differences in skill, education, or experience levels.

Key Takeaway 4

Consider offering a total compensation statement. An annual total compensation statement provides employees with a comprehensive account of all the ways the organization compensates for their work. In addition to the employee's base salary, such a statement includes any bonuses, premiums, or commissions earned by the employee. It also includes information on contributions made by the employer on behalf of the employee such as health insurance, dental insurance, life insurance, disability insurance, paid time off, and 401(k) plans. This helps employees make realistic market comparisons with others holding similar jobs taking into account all the ways they are compensated rather than just basing their decisions on base pay.

Key Takeaway 5

Evaluate hiring tools and technologies for bias. Algorithms used by hiring tools and technologies can be a source of bias resulting in pay inequity. Organizations using such tools must be mindful of these issues and think beyond minimum compliance requirements. Things to consider include checking if algorithms actually produce more equitable hiring outcomes, evaluating how subjective measures of success might adversely shape a tool's predictions over time, and monitoring the process from start to finish to detect places where latent biases exist.

Key Takeaway 6

Make robust connections between pay and performance. With the increase in pay transparency, employees are more likely to have increased information on which metrics are considered while making pay decisions. If linkages between pay and performance are not robust, organizations may be incentivizing certain performance goals over others. This leads to employees placing greater weightage on performance goals that are incentivized, to the detriment of other important goals, leading to an overall deterioration in organizational performance. Further, organizations must look to factors that inadvertently widen pay gaps between employees. For instance, in a hybrid work environment, women may opt for remote work options more often than men. Care must be taken that the 'work from home' stigma does not create negative perceptions toward employees who opt for these work arrangements. Such negative perceptions could affect career progression and associated salary raises etc.

Key Takeaway 7

Perform pay equity analyses. We believe the first step towards pay equity should be conducting an analysis of pay equity at present in organizations. This could be a simple comparison of the pay of employees doing similar/ same work while accounting for reasonable differences such as work experience, credentials, and job performance. This analysis could be led by HR professionals or specialized consulting firms. The objective of the analysis is to identify any causes of pay differences that cannot be justified. While this sounds simple, pay equity analysis requires accurate data that may need significant time and effort to create. For instance, job titles, job grades, and associated responsibilities must be accurate in order to make reasonable comparisons. This often depends on the quality of HR's job classification and record-keeping capabilities.

Key Takeaway **8**

Understand pay equity analyses. Organizations that conduct pay equity analysis may uncover organization-wide pay differences based on race or gender. However, when applying controls on attributes such as skills, job titles, and experience, these differences may shrink. While this may result in organizations believing they do not have any pay-related inequity, they may in fact have problems related to poor representation at the different levels of the organization. This may lead to the need for further analysis of the representation of equity-deserving groups at all levels of the organization and what impedes the growth of certain groups of employees. Therefore, it is important to consider that pay equity analysis works best when combined with other DEIB analyses rather than viewed as a stand-alone analysis. Questions to consider when looking at pay equity data - Are certain groups of employees disadvantaged during hiring? Are there disparities in the representation of different groups? Does your organization suffer higher attrition among certain groups of employees?

Key Takeaway **9**

Remedy gaps identified in pay equity analyses. Often organizations go into pay equity analysis expecting a glowing report card. However, they may be surprised to find inequities that may necessitate remediation. Depending on budget constraints, companies may raise an employee's salary incrementally over a couple of years until it achieves the target amount. It is important to understand the causes of pay inequity such as incorrect job classifications, unstandardized hiring processes that lead to differences in starting salaries, etc. HR should therefore understand the interdependencies with other HR functions that may result in pay inequity. Pay equity should be a part of the process and strategy of hiring, compensation, and promotion. Remedying pay gaps is a constant process that requires regular audits and checks to maintain equity.

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