




HR GUMBO

a vibrant conference centered around how HR, AAP, Inclusion, and Pay Equity intersect to create a beautifully balanced work culture.



Performing Diagnostics: How to Run Health Checks on Compensation Systems



Agenda

1. Reasons to Run Analysis

2. Approaches to Measure Pay Equity

3. Steps of Running a Pay Equity Analysis

4. Types of Remediation

5. Best Practices

Speaker



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Benefits of Fair Pay :

- Proactive Systems check – ensures pay factors are being applied to compensation in a consistent manner
- Promote fair and equal opportunities regarding employee compensation
- Employee moral/retention
- Identify and address imbalances within similarly situated employee groups regardless of race/gender



Why Run Pay Equity Analyses?



Why Run Pay Equity Analyses?

- **Ensure employees are paid fairly** – see slide 5
- OFCCP regulatory requirement – 41 C.F.R. § 60-2.17(b)(3)
- Determine how best to present itemized listing response in OFCCP desk audit submission
- Avoid negative findings in OFCCP compliance reviews
- Mitigating exposure to litigation under federal and state equal pay laws
- Meet expectations of organization's shareholders, board, or customers



Approaches to Pay Equity

Cohort Review

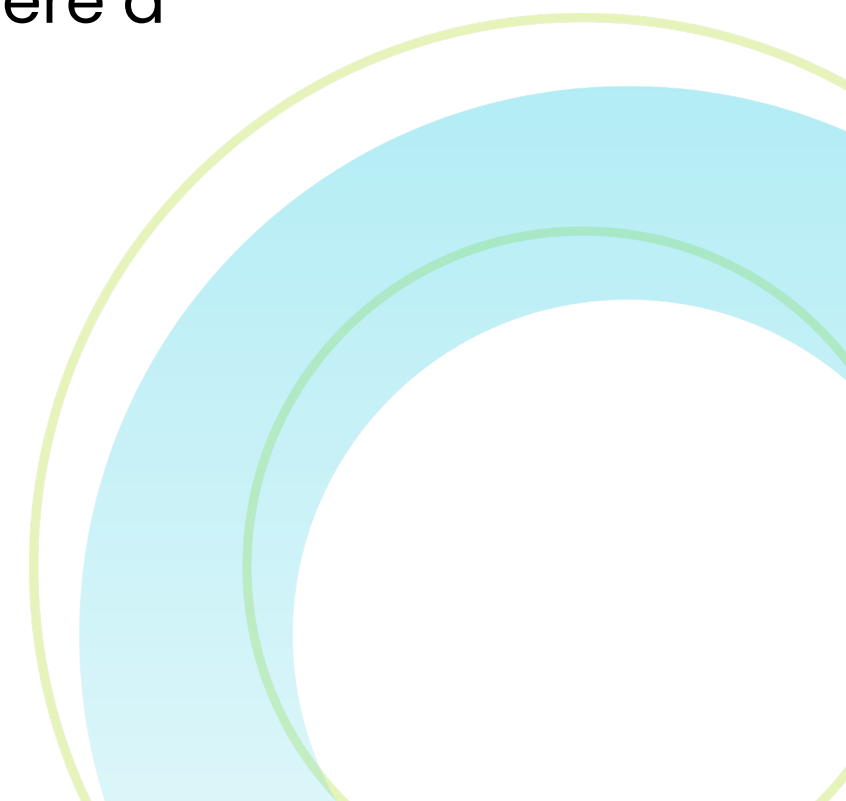
- “Eyeball Test” = non-statistical review of peer employees
- Only option for when groupings are too small for statistical analysis
- Manual investigation looking at individual employee comparisons to make sure there is data/documentation explaining pay differences
- Usually review involves factors like experience, education, certifications..





T-Test/ANOVA Test

- Basic tool that determines the statistical significance of differences between race & gender groups
- Factors in overall variance of pay regardless of race/gender & also sample size
- If analysis shows race/gender differences with a greater than 1.96 standard deviation, we can safely say that a further investigation is warranted between the analysis groups
- Answers the question: Is the annualized difference happening randomly? Or is there a pattern that is statistically significant?



Multiple Linear Regression Analyses

- “Gold Standard” of pay equity analyses
- Mathematically controls for the factors that should matter in compensation
- Produces an “adjusted pay gap” that compares pay between gender and race groups as if all other pay factors were exactly the same
- OFCCP runs this type of analysis in an audit situation to check for potential discrimination



Steps of Regression Analyses



1. Define Groups

- Pay Analysis Groups/Similarly Situated Employee Groups/Compensation Analysis Groups
- Groupings of jobs for which the factors that determine pay are similar and have similar impact
- Job Titles/Lines of Progression/Job Families
- 30 employee minimum per group (min. 5 males & 5 females)
- Usually built on organizational structure and data fields that they employer maintains regularly
- Any organizational variable not used as a grouping mechanism can be controlled for in the model itself



30 Employee Job Title

Job Titles with 30 or more employees carry the most risk in a OFCCP audit situation



2. Identify Pay Factors

- Types of Pay Factors:
 - Organizational – job family, department, unit, cost center, location
 - Experience – time in job, time with company, experience outside company
 - Salary Structure – pay grade
 - Performance
 - Job type – functional area
 - Hierarchical – job level
- Avoiding Collinear Predictors
 - Example: time in job + total time with company
- Interaction Variables





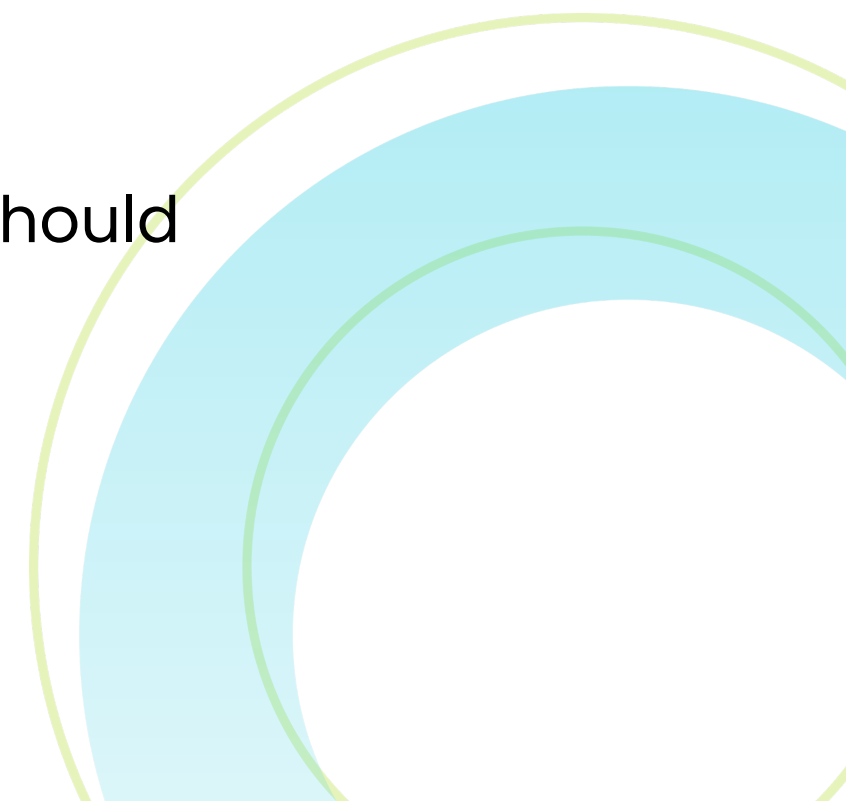
3. Reviewing Models

- Adjusted R-squared -- Strong vs. Weak models – are the variables predicting employee pay accurately?
- Adjusted Pay Gap/coefficient – what is the gap in pay after controlling for the factors in the model?
- Statistical Significance – Is the standard deviation of the race/gender variable greater than 1.96?
- Identifying which model to use – which model has the highest Adjusted R-squared?
- Additional variables – Is there anything outside the model that we can add that help explain pay more?



4. Follow-Up

- Sub-group regressions
 - Breaking down flagged group further into more similarly situated employee groups to narrow scope and identify exactly where flags exist
- Cohort Review
 - Identifying which job titles mirror the regression flag found in the Pay Analysis Group and investigating those difference individually
- Post-estimations/Outlier identification
 - Using the regression model to predict pay for employees and comparing that predicted pay to what they are actually making
 - The employees with the largest difference between actual and predicted pay should be prioritized





5. Corrective Measures

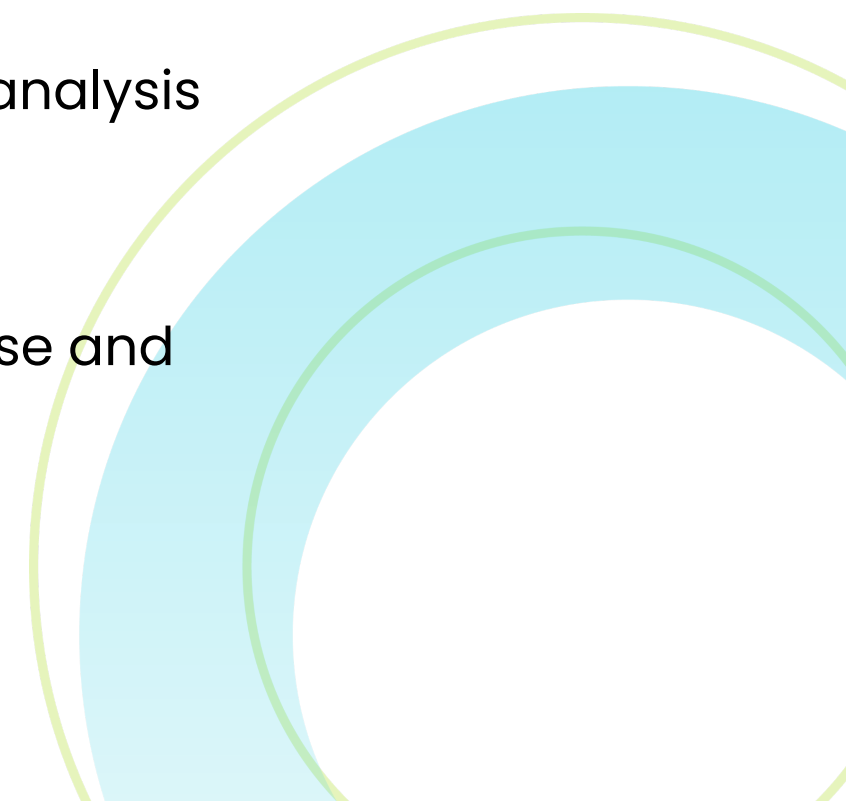
- Individual
 - Employer reviews cohorts and/or statistical outliers and then makes pay adjustments to employees who it deems are underpaid relative to their peers
 - Subjective evaluation based on employer's determination of what employee's pay should be compared to comparable employees
- Formulaic
 - Use output from regression analysis to make pay corrections
 - Two different approaches
 - Use differences between pay predicted by regression model and employee's actual pay to determine employee's corrected pay
 - Use overall regression model gender/race coefficient and apply that percentage correction to every employee of gender/race that is unrepaired according to the model
- Hybrid
 - Use regression coefficient to determine overall budget for pay adjustments
 - Then allocate that budget amount based on postestimations and employer's individual review of each employee's pay

How to Prepare for Regressions



Preparing

- Project objective
 - Determine employer's purpose or goal for running the analysis
 - Approach for running the analysis and making correction should flow from predetermined purpose of project
- Stakeholder communication
 - Make sure to involve those familiar with how compensation is determined
 - Make sure to involve those how what relevant data is maintained by the employer and how to access/pull the data
 - Make sure to involve decisionmakers and employee representatives whose advance buy-in is essential for project success
- Budget considerations
 - Get pre-approval of budget for any pay corrections that may be required depending on what analysis identifies
- Data validation
 - Critical to ensure that you have accurate data before running the analysis
 - Regression is mathematically precise; any data input to the analysis likewise needs to be precise and accurate





Best Practices

- Analysis informed by project objective
- How often should you run the analysis
- Timing of project
 - Analysis
 - Pay adjustments
- Attorney-client privilege
- Communication of Results
 - Stakeholders
 - Employees



Questions





Your Name

Other contact info

Other contact info

Other contact info



Replace QR code
with your own

