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Your Pay Equity Questions Answered

According to the Economic Policy Institute, men significantly out-earn women across all pay scales. A typical woman working full time is paid 80 cents for every dollar made by a full-time, working man, and can lose more than $530,000 over the course of her lifetime because of gender wage gaps. The average college-educated woman loses even more—nearly $800,000, as reported by the Institution for Women's Policy Research.

There is an undeniable, cyclical gap in equal pay that proves the old saying true — history repeats itself. It will continue to do so until change is implemented to halt this unjust recurrence in the history of compensation. Eliminating pay inequities based on gender, race, ethnicity, and other protected statuses is therefore quickly becoming a major topic of conversation throughout the industry. Based on new regulations across the globe, we are finding that many of our clients need insight into their pay equity risk and what they can do to respond quickly.

Here are some of the major questions firms are facing as pay equity continues to gain momentum. It's no longer just about simple pay assessments. Finding and fixing the root of the problem is crucial, as that's the only way to effectively drive systemic and sustainable change.

Why is pay equity important and why has it recently become a top of mind topic?

There are multiple reasons why pay equity is an issue that financial services firms can no longer ignore. In addition to maintaining compliance, employers have other motivators to integrate and properly reward women on their teams. Firms with greater gender diversity demonstrate improved business performance, better technology and infrastructure, economic opportunity, capability building, and positive brand reputation. According to Catalyst, there is a direct relationship between organizations with a diverse workforce and overall financial performance. Key financial metrics like ROI, ROS, and ROIC are impacted positively when there is a higher percentage of women representation at the board and senior levels. On average, companies with the highest percentages of female board directors outperform those with the lowest by 66% in respect to return on invested capital. Nurturing diversity and inclusion is a critical component of an organization's overall long-term success, as well as its entire talent lifecycle, from recruitment to engagement and identifying high potentials. This reality is rapidly becoming more evident as the workforce continues to change, leaning towards more open and transparent environments, where previously avoided topics are now brought to light.

As a result, increased regulation in financial services surrounding the very real problem of equal pay is sweeping across the globe. In the United States alone, California, Maryland, Massachusetts, New York, and Oregon are just some of the states that have already passed pay equity and discrimination laws. Pay transparency provisions and the prohibition of salary history inquiries, including NYC Mayor Bill DeBlasio's most recent signing of Intro. 1253-A, are two more legislative areas that are gaining momentum. European countries have seen heightened laws for mandatory pay gap reporting, and the Middle East and APAC are starting to take progressive steps towards joining the industry's growing fight for equality. Extending far beyond mere restriction, all enforced current and future bills are designed to correct pay equity concerns from their core by addressing the societal factors that may have caused them in the first place.

How should firms prepare for responding to pay equity regulations and understanding how they stand?

There are four key steps to take when preparing your firm to address unequal pay in the workforce.

1. The first is the discovery of your compensation philosophy, organizational structure, job roles, and basic employee information. This includes data collection of demographics, performance history, and promotions. What factors are impacting pay within your firm, and are they legitimate factors or driven by gender or ethnicity? During the information gathering phase, it is important to determine what exactly you wish to include in your pay equity analysis.

2. Next, visualize your organizational charts by clustering unique jobs into groups to ensure that similar roles are included in the equation for comparison.

3. Use this organization as a foundation for successful statistical and regression modeling, where tests are conducted across groups to detect significant differences and identify factors contributing to normalized pay. This is achieved by controlling variables to pinpoint both the positive and negative impacts on your firm's compensation.

4. Once these steps are complete, it's essential to develop useful recommendations based on research findings, and create scenarios for equalization as needed, adjusting to long term pay strategies while addressing broader talent challenges.

A slightly different approach is necessary for smaller firms with less than 250 EEs. In these cases, running the analysis for the entire organization as one group, in addition to clustering into 3-4 smaller groups, has proven to be successful. Smaller companies have less job families, making this kind of classification possible. While you may run the risk of excluding roles in such a scenario, conducting the analysis at the overall organizational level normally catches any missing pieces. During the regression analysis, it is also helpful to control for variables to determine which ones create the maximum impact in each of the clusters or job groups. These manual variables can then be used to further examine the employees who have possibly missed representation due to statistical sampling.

To ensure that all key analysis takeaways are addressed appropriately, senior leadership should be involved from day one. There should also be a multi-disciplinary team that not only includes compensation partners, but also the firm's legal team to stay up-to-date with current and future legislation, which is constantly changing. Pay equity analysis is an ongoing process that allows firms of all sizes to actively identify market practices, trends, jobs, and high-instance areas of concern. The more this is done, the more you will be able to pinpoint and address the issue.

What factors should be examined when looking at pay equity within firms?

Industry matters when contemplating pay. The pay gap is much higher in certain industries than others. That being said, firms should set the scene by using a smart legal lens to take note of where they stand before examining pay equity. Where is your talent from and what is the talent pool like? Such considerations are pivotal for addressing any local implications that may arise during your analysis.

Then, explore these three core factors throughout the process:

1. **The concern.** Discuss why your firm is conducting the pay equity analysis, what you will do with the results, how you will use them, and how you plan to communicate them to your employees prior to kick-starting the investigation.

2. **The approach.** Examine existing pay practices in your firm. What factors are used to determine starting salary? In many cases, this is the root of the problem. Verify if your firm uses a clear process for determining starting pay, or if previous salary is considered. Is there an opportunity to use prior experience and skills instead?

3. **The outcome.** Identify outliers across major employee groups, recognize key drivers that impacted pay discrepancies, and establish a task force to asses each of the effected variables including policy level changes**.**

Once the cause of the problem is revealed, firms must be proactive in establishing cross functional project teams to isolate the policies and practices that may have caused such discrepancies in the first place, strategically mending them once and for all.

How often should firms conduct these analyses and what tools do they need in place to ensure that inequities do not happen in the future?

Conducting a pay analysis at your firm should not be considered a one-time activity. The frequency of your firm's analysis may depend on the extent of your firm's pay gap and the current growth rate of your firm. Organizations with more pronounced pay gaps should consider running pay equity analysis on an annual basis to effectively study and reevaluate the measures they are taking to address the issues. Firms with high growth rates due to acquisitions, restructuring, and other rapid changes should also conduct analyses with more frequency than the average company — at least once per year, contrary to once every two to three years, which is the recommended amount for organizations with small pay gaps.

When we work with clients, it typically takes twelve weeks to complete a proper pay equity analysis. A strong analysis first requires an understanding of a firm's pay philosophy, followed by the collection of necessary compensation data, and identification of specific job groups to compare like for like positions.

How should firms approach communications about pay inequities?

While communication is important, in the case of pay equity less is more. Firms should develop a strategic plan to keep their employees informed without offering too much information. Here are some starting points to consider:

- Think of communication only in terms of the alterations that are being made to practices in a widespread effort to improve the openness and transparency of the work environment.
- Direct results of pay inequity should not be discussed with all employees.
- Results should instead be selectively communicated with business unit heads, where the problem is more pronounced.

It is, however, crucial to foster thorough educational conversations with HR and hiring managers using programs and training that delve into the rules behind newly implemented processes as a result of emerging pay equity regulations, such as the UK's mandatory pay gap reporting. In cases such as this, a communication strategy should be addressed at the starting gate. Determine your plan upfront—what are the reasons you are making the changes, how will you deliver your message, and who do you need to tell? Confirm whether to keep the communication within the firm, or if it is something you should share externally with your investors and stakeholders.

Finally, it is imperative to monitor all employee feedback once necessary updates are shared with your chosen audience. Leveraging this data will make your team feel valued, as well as help guide you through the transitional period as your firm adjusts to increased regulation and reporting.

How can McLagan help?

Our approach to pay equity is grounded in this basic understanding: measuring pay gaps and delivering pay in an equitable fashion are two fundamentally different concepts. It's one thing to look for differences in pay between groups of people, it's quite another to understand, mitigate, and fix the policies and biases that create those differences in the first place. To learn more about pay equity analysis, how you can purchase our data, and methods to best prepare your firm for current and future regulations, please **contact our team**. Additional pay equity information can be found **here**.

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