

## Journey to the Center of Pay Equity: Using Technology to Improve Transparency

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*This article, first published in WorldatWork's Workspan magazine, dives into the complexities around the issue of pay equity and how organizations can move toward more transparency.*

In the past, employees were discouraged from discussing their salaries and compensation. It was considered unseemly. Today, that discretion is harder to maintain as a new generation of tools — and workers — is providing increased transparency. As a result, employers are pressured to shift their focus to fulfilling the demands of the educated worker and providing more information around pay and opportunities. For example, crowdsourced compensation data is easily found online and has substantially increased in volume over the past three years.

By no means is it a perfect resource to determine competitive pay — largely due to inherent quality concerns with self-reported salary data.

Still, in part due to these newer technology platforms, younger employees are more likely to share pay details with their colleagues and peers. This has fostered a new environment where talking about pay at work is not uncommon. The topic of pay equity is widely covered in the press, which can also contribute to more honest and open conversations around pay.

Obviously, there are legal considerations around pay transparency as well. The increase in pay equity laws at the state and local level now include Oregon, Massachusetts and New York City, where the regulations limit the ability of employers to keep pay levels secret. California takes it a step further: Employers in that state are now required to “provide the pay scale for a position to an applicant applying for employment [...] upon reasonable request.”

It isn't just new employees or potential candidates who are using the technological tools available to determine their worth in the workplace. Long-time employees are also looking at where they stand in the marketplace and what kind of pay equity exists within their firms. So, what is an organization to do to address these changes and this move toward more transparency?

### **Getting to the Core**

At Aon, over the past 24 months alone, we have conducted nearly 100 pay equity projects for our clients. Where these engagements were once driven by compliance, today these conversations revolve around connecting job architecture transformation with pay equity — and vice versa — to establish fair pay for everyone. Some companies have instituted more rigid, tighter pay practices that avoid the continuous practice of individual pay adjustments. At those companies, the solution lies in addressing the root causes of pay inequity rather than doing one-off adjustments that result in uneven pay bands.

We are finding a few practices that are consistent across those organizations that are “getting it right.” First, the largest organizations with robust job architectures in place have smaller gender pay gaps than smaller organizations that don’t have those architectures. Putting the work in to develop a clear, transparent job architecture is the first and perhaps most important step to ensuring pay equity. Second, tightening guidelines and limiting hiring manager discretion when setting starting pay is often key.

In addition to tighter guidelines, pay transparency requires employers to “walk the talk” — aligning what is said by management with the day-to-day business of determining compensation. When employees start comparing pay with one another, they may create their own definitions of value based on what they’ve heard from management or based on their own fairness perceptions. Employee retention and satisfaction will suffer once employees see a disconnect between their pay and what they think or heard should be their fair share.

Again, it is important for employers to understand that employees share information both face-to-face and across social media with friends around the country. There is no hiding this data, and we have seen that trying to do so only makes your employees — and potential recruits — less likely to trust you.

### **Retrieve Data, Analyze, Repeat**

With all of this as a backdrop, what should organizations be doing today to be fair and open and create an environment where pay equity is the norm?

- **Research and data is one place to start.** We have seen many mid- to large-size businesses that have implemented systems that help monitor pay fairness and conduct multiple regression-based pay equity analyses. This information is then used to build a structure that works for both the employer and the employee — and goes far beyond compliance requirements and annual pay adjustments.
- **Find out what you are actually paying for.** You should revisit your multiple regression-based internal pay equity analysis and run it with a broader focus rather than just probing for pay gaps by gender and/or ethnicity. **A better** understanding of the very factors that drive pay and compensation is at the core of better pay equity. Test your own hypotheses and see if they ring true: Do you really pay for performance? Does the pay data back up your claims around tenure? Are you communicating often and openly about how you make pay decisions? *You* want to be the one driving the pay equity story — not a disgruntled employee.
- **Identify opportunities to better align *fact* (what you are paying for) with *fiction* (what you think you should be paying for).** If the organization has taken action after an internal pay equity analysis, don’t stop at point-in-time pay adjustments. Use this opportunity to implement longer-term changes that will drive strategic value for the business. For example, if you learn that international assignments do not result in lasting pay advantages for employees, but you know your organization benefits greatly from such assignments, then put policies in place that reward employees who spend time away from headquarters. Seek out strategically aligned behaviors and tasks that should be rewarded and then ask how you can change policies and compensation programs to migrate from the status quo to where you want to be in the future.
- **Communicate. Communicate. Communicate.** Once you’ve uncovered the facts and developed a strategy to respond to your internal pay equity analysis, you’ll need to communicate to employees. This includes messaging your rewards strategy around the employee value proposition. It might be necessary to grant supplemental merit increases and make sure that pay reality meets up with pay strategy for everyone. Again, the more aligned your rhetoric is with your reality, the more your employees will appreciate your transparency.
- **Perform ongoing maintenance and take advantage of new technological tools.** In this era of pay transparency, managers need data and require guidance to make pay decisions that go beyond annual merit matrices. For new hires, companies need to know what the market pay rates are and compare those with internal metrics, taking into consideration a specific job, its location and an employee’s

experience. The same is true for merit increases, promotions and out-of-cycle pay updates. The good news is that the very same technology that provides pay transparency also gives employers better measurement data and tools. For both internal and external equity assessments, there are processes and tools available that help estimate pay levels while considering multiple characteristics of an organization — and employees — such as location or job requirements. Basic augmentations to these tools can add strategic alignment and drive organization-essential employee behaviors that may not currently be rewarded, including experience, performance or in-demand skills. As part of ongoing maintenance, it is critical to update your pay equity analysis annually. If done right, annual adjustments will become smaller over time as other pay processes address misalignment in real time when decisions are being made.

While technology and information-sharing have changed the landscape around pay equity, these basic steps can address issues before they arise. It is crucial to recognize that pay equity is a complicated issue that touches on emotions, values and worth, and is specific to every organization, as well as every employee or potential candidate. Aligning your commitment to pay equity with your communications to your employees is one key element. And, by getting ahead of the curve by using pay equity analysis tools, employers can help build a new breed of workers who are both fairly compensated and truly committed.

To learn more about how Aon can support your organization as you navigate pay equity and pay transparency issues, please write to [rewards-solutions@aon.com](mailto:rewards-solutions@aon.com).

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