The state of pay equity in 2023

Employers continue commitment to pay equity in a turbulent year

2022 was a turbulent year, with labor market challenges, wage growth, a cost-of-living crisis, ongoing business transformation, and concerns of a possible economic downturn challenging traditional approaches to compensation management. Pay equity focus shifted as states began passing pay transparency laws and the Great Reevaluation fueled job moves and pay compression concerns.

payscale

This whitepaper provides the key facts and guidance you need to adopt a proactive stance on pay equity in order to close pay gaps and ensure that pay fairness is embedded across compensation management practices and handled in a sustainable way.

Executive Summary

In 2022, we saw how increasing unpredictability as well as the compounding challenges of the pandemic and economy have impacted compensation management. Concerns around pay equity remain high amongst stakeholders, as employees, investors, and consumers have all been affected. Against this landscape, there were some key developments in approaches to pay equity this year as revealed by our **2023 Compensation Best Practices Report.**

Wage growth dominated the first half of 2022

First, pay became more important in the context of a cost-of-living crisis. Employee sentiment surveys during 2022 **ranked pay as a primary concern,** and strong employee bargaining power led to wage growth. Employees' high expectations about pay made it difficult for employers to maintain pay equity in a fast-moving market and led to pay compression and pay inequity concerns.

Pay transparency dominated the second half of 2022

In the second half of the year, pay transparency became the hot topic as new legislation was passed or proposed to require the disclosure of pay ranges in job advertisements. Employers scrambled to take action, with some being called out for avoidance or exploitation of loopholes. However, smart business leaders were quick to realize the potential impact on brand reputation and urged their HR functions to act. The first movers were those who had already implemented fair and equitable job architecture and pay structures and could post pay ranges transparently for all jobs, irrespective of whether they were required by law to do so. These organizations recognized that pay transparency is not a risk for exposure but an opportunity to communicate their pay strategy and demonstrate their commitment to reducing bias and pay inequity.

There will be a shift from pay equity compliance toward equitable workplaces for all in 2023

Increasing pay transparency means that employees will not only see the pay ranges of their peers but also of positions higher and lower than them. As this happens, the uncontrolled pay gap will become a greater focus. Organizations need to understand the systemic issues that have led to the inequity of opportunity that drives pay gaps for women and people of color. We are seeing a slow shift in perspectives from a compliance-focused equal pay exercise to a desire to create an equitable workplace for all.

Now is not the time to deprioritize your commitment to closing pay gaps

We were asked repeatedly in 2022 whether there might be a deprioritization of pay equity efforts as organizations potentially cut back on costs in anticipation of a recession. However, heightened employee and stakeholder expectations will make it hard to do this, and those that have started their journey — and particularly those that stated a commitment to pay equity — will damage their reputation if they halt any efforts now.

In today's volatile labor market, you need to invest in **compensation management best practices** to navigate pay compression, pay equity, and pay transparency. Addressing pay equity will rapidly become a required part of every single pay decision and pay conversation. Don't doubt the importance of building out sustainable programs, or you could risk putting yourself at a competitive disadvantage.

Ruth Thomas
Chief Product Evangelist

Vicky Peakman
Director of Social Impact

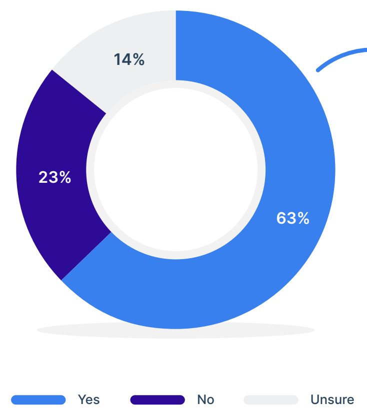
The commitment to pay equity remains strong

In 2022, we saw a huge jump in organizations prioritizing pay equity as a current initiative. This year, most organizations (63 percent) remain committed (down slightly from 66 percent in 2022). However, we see 69 percent of top-performing organizations increasing their commitment compared to 67 percent last year. Top performers are more likely to recognize that morale, retention rates, and performance can all improve when workers have confidence that their employer values them, as evidenced by this commitment to pay equity.

Taking into consideration this ongoing level of commitment, we saw the number of organizations conducting pay equity analysis **increase, with 62 percent now undertaking analysis** compared to 54 percent last year.

Is pay equity analysis a planned or current initiative at your organization?

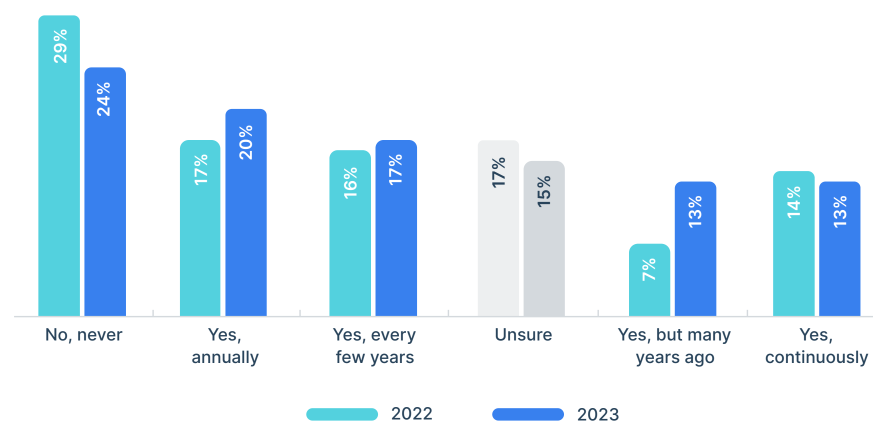
Source: Payscale's 2023 Compensation Best Practices Report



Top performers	69%
Payscale customers	69%
Dedicated comp function	72%
Comp maturity of 4 or above	72%

Has your organization conducted pay equity analysis?

Source: Payscale's 2023 Compensation Best Practices Report



*totals are not exactly 100% due to rounding

Reasons to undertake pay equity are changing

For those still seeking to get buy-in to pay equity initiatives, take note:

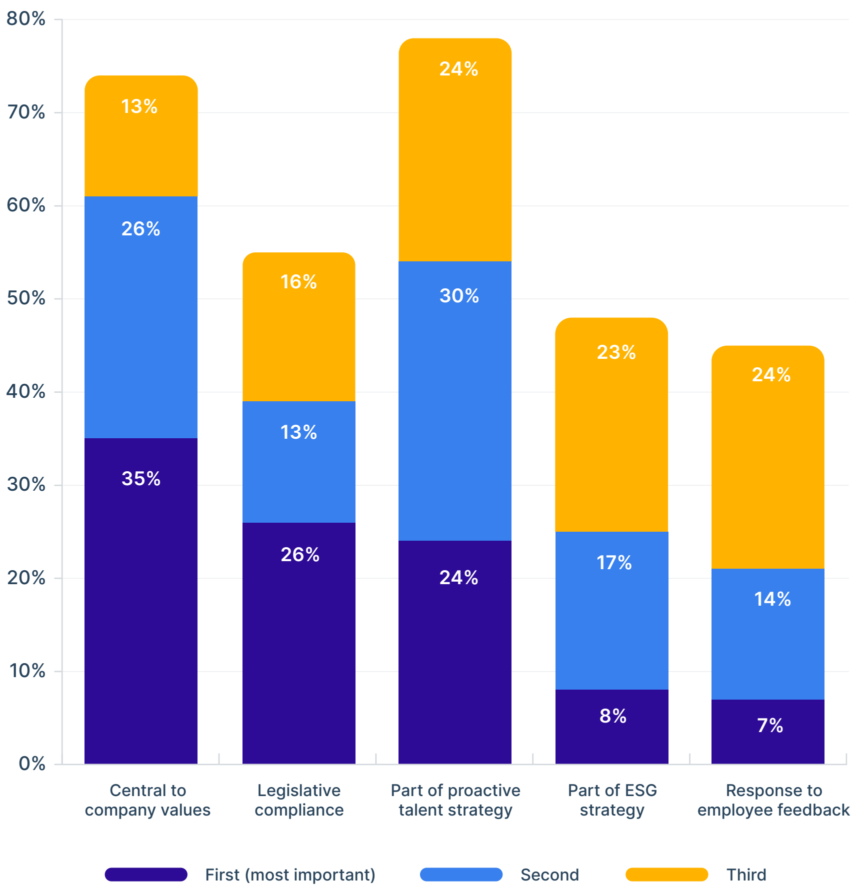
> **The key reasons to address pay equity remain value-led, with employers believing that it is part of a proactive talent strategy and central to their organization's values.**

With emerging pay transparency legislation drawing attention to pay equity, it was not surprising to see that legislative compliance rose to be the third most important reason for undertaking pay equity analysis (up from fourth in 2022).

Why is pay equity a planned or current initiative?

(rank top 3 in order of importance)

Source: Payscale's 2023 Compensation Best Practices Report



Pay equity needs to be an ongoing program

As we have heard many times, enacting a pay equity strategy is not a 'one-and-done' activity. In fact, it's better represented as a journey toward developing best practices, investing in systems to continuously monitor pay equity, and creating the cultural environment required to maintain fair pay as an integral part of compensation management and talent strategy. As more organizations act this year, we see that the progress of organizations overall is still at an early stage of maturity, with more focused on diagnosing and measuring pay gaps rather than implementing remediation measures or committing to actions to solve inequalities in the workplace.

How far does your organization intend to take pay equity in the next year or two?

Source: Payscale's 2023 Compensation Best Practices Report

We will make a commitment to understanding pay equity	41%
We will work to get internal alignment on how to approach pay equity	38%
We will measure our pay gaps (conduct pay equity analyses)	38%
We will establish procedures to maintain pay equity	30%
We will remediate to close pay gaps	27%
We will do a remediation analysis to budget for closing pay gaps	25%
We will set goals to actively solve inequalities within the workplace	24%
We will investigate systemic reasons for inequality within the workplace	21%
We are not interested in doing this or don't feel we need to	13%
Other	6%

Why is your organization not interested in pay equity analysis in the next year or two?

Source: Payscale's 2023 Compensation Best Practices Report

	Overall
Our org isn't prepared to do this	25%
Our org is too small for pay equity analysis to be statistically meaningful	24%
Our org measures pay equity and we know we don't have a problem	23%
Other	20%
Our org can't afford to do this right now	18%
Our org doesn't measure pay equity but we believe we don't have a problem	18%
Decision makers in our org believe pay gaps are nonsense	6%

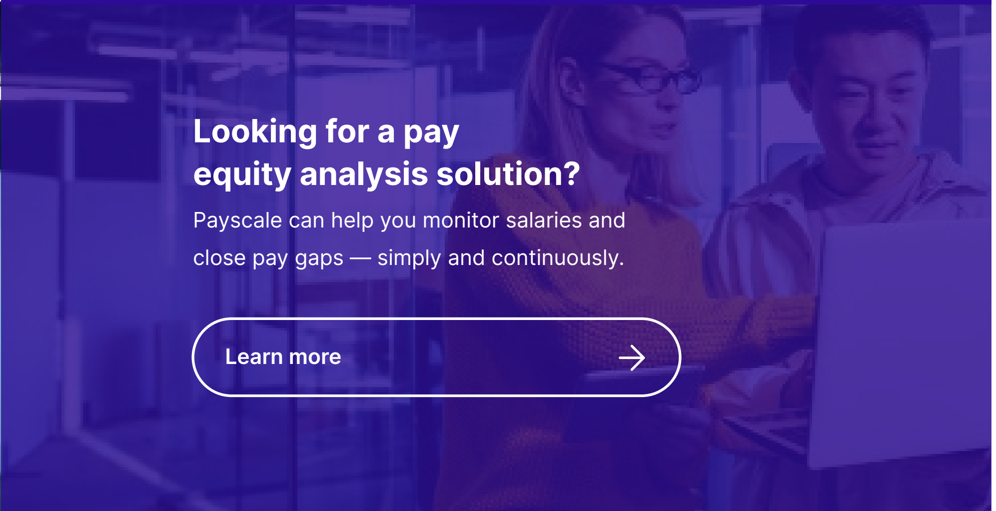
Despite this progress, we can see that 25 percent of organizations are still not prepared to tackle pay equity.

A higher number this year also indicated they could not afford to do this, up to 18 percent from 12 percent last year. This may reflect the economic climate, but it also likely shows a lack of awareness of the demonstrable business benefits pay equity brings.

Uncontrolled pay gaps are moving up the agenda

In our **2023 Gender Pay Gap Report**, the uncontrolled gender pay gap decreased by one percent to 17 percent, or $0.83 for every $1 that men earn. Considering the backdrop of the cost-of-living crisis and the ongoing impact of COVID-19 on women and people of color in particular, it is not surprising that not much has changed since last year. Unless organizations start to measure and address uncontrolled pay gaps as well as wealth inequality across organizations, these gaps will not close.

There does appear to have been a shift, however, as more organizations are committing to calculating their uncontrolled pay gaps. The percentage of organizations that know their uncontrolled gender pay gaps has increased from 21 percent to 25 percent, and the percentage that know what their uncontrolled race/ethnicity pay gaps has increased from 16 percent to 22 percent.



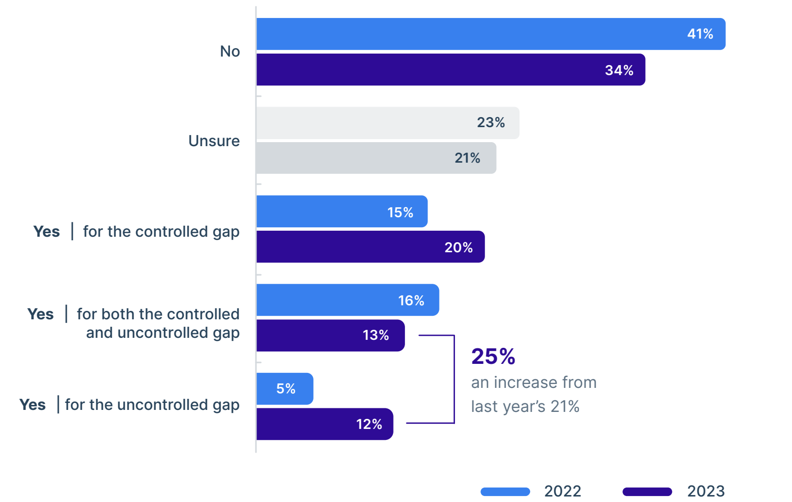
Looking for a pay equity analysis solution?

Payscale can help you monitor salaries and close pay gaps — simply and continuously.

Learn more

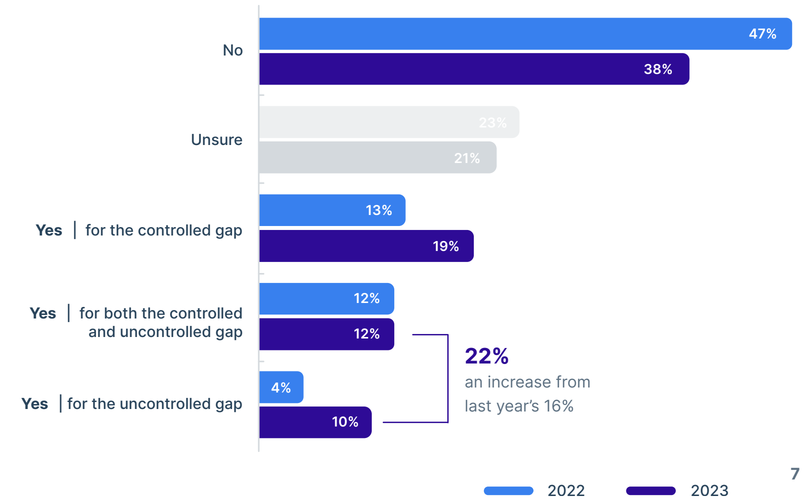
Do you know what your gender pay gap is?

Source: Payscale's 2023 Compensation Best Practices Report



Do you know what your race/ethnicity pay gap is?

Source: Payscale's 2023 Compensation Best Practices Report



More organizations are investing in remediation of pay gaps

In addition to doing more to understand their uncontrolled pay gaps, more organizations are starting to tackle the reasons behind them, which is a positive move.

> **The percentage of organizations doing something to address their uncontrolled pay gaps increased.**

These pay gaps highlight the lack of diversity and representation in higher paying jobs and across job levels and can bring attention to barriers to entry or progression for certain groups of employees. Only when we address these barriers will we see start to these pay gaps close.

In 2023, we predict there will be a growing focus on why progress toward closing uncontrolled pay gaps is so slow. More U.S. organizations will be calculating their pay gaps as well as doing legal pay equity checks — partially due to the expansion of pay-data reporting requirements and pay transparency legislation, but also due to ESG and employee pressure. Fixing the controlled pay gaps is just ensuring equal pay for equal work. Fixing the uncontrolled pay gaps is ensuring equality of opportunity in our workplaces and society.

Are you doing something to address your pay gaps?

Source: Payscale's 2023 Compensation Best Practices Report

	2022	2023
No | we are not addressing at this time	34%	27%
Unsure	28%	26%
Yes | for the controlled gap (employees with the same job characteristics)	18%	23%
Yes | for the controlled and uncontrolled gap	15%	14%
Yes | for the uncontrolled gap (overall regardless of job)	4%	9%

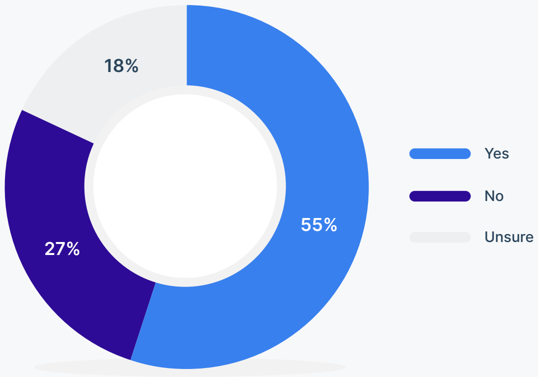
**totals are not exactly 100% due to rounding*

Pay compression is having an impact on pay equity

Last year, we saw record wage increases driven by an active labor market, with workers choosing to move roles as part of the Great Reevaluation in a bid to increase their pay relative to rising living costs. As a result, pay compression became a new compensation challenge with starting salaries for external hires often exceeding current employees' pay. Despite predictions of labor markets cooling, this remains an ongoing concern in 2023.

Are you concerned about pay compression going into 2023?

Source: Payscale's 2023 Compensation Best Practices Report



With pay compression on the rise, pay equity concerns increased. With our clients, we observed the best results from those who adopted a real-time approach to monitoring internal versus external equity to ensure that it was maintained for skill levels, experience, and/or seniority. It was not surprising to see that 42 percent of organizations (with rounding) are now doing something to address pay compression, and 10 percent do so by making frequent market adjustments.

Get ahead of the pay increase cycle

With **Payscale's Compensation Planning solution**, you can plan for regular pay raises to keep up with inflation, reward performance, and adjust to the changing market, all while maintaining pay equity.

Learn more →

Are you concerned about pay compression going into 2023?

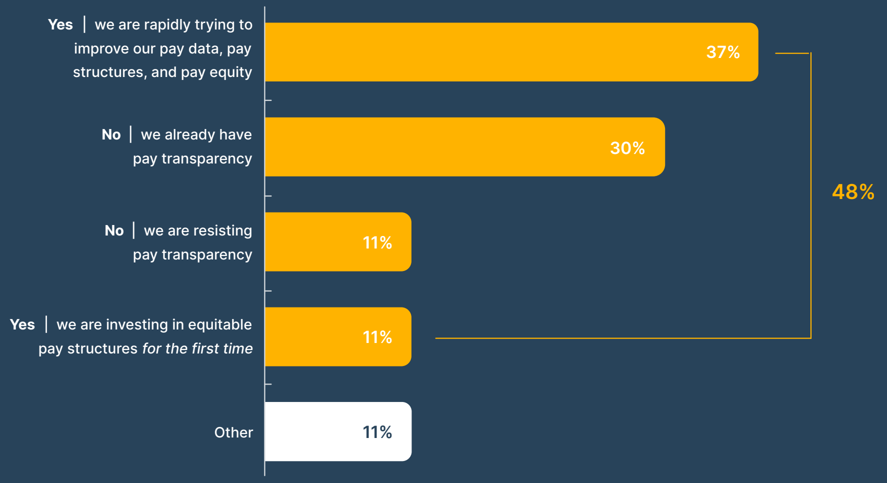
- **33%** — We are **monitoring** pay compression but haven't made any decisions yet
- **21%** — We are **giving base pay increases** to impacted employees to adjust pay to market
- **10%** — **Nothing**; we don't have the resources to address pay compression
- **10%** — We avoid pay compression by **proactively and frequently** adjusting pay
- **5%** — We are **combining** modest base pay increases with other incentives such as bonuses, stipends, or stock/equity to impacted employees
- **5%** — We are **giving bonuses or other incentives** to impacted employees because we are unwilling or unable to adjust base pay
- **2%** — Other
- **13%** — Unsure

Pay transparency legislation has become a new strategic focus for closing pay gaps

Recent pay transparency legislation is forcing organizations to swiftly and fundamentally change how they approach pay. We can see just how impactful these laws have already been with 48 percent of organizations confirming that legislation is driving change in their compensation practices — which are split between investing in equitable pay structures for the first time (11 percent) and improving pay data and equity in the pay structures they already have (37 percent).

In fact, becoming more transparent about pay was ranked as the most important compensation activity for the next few years by our survey participants.

Has recent pay transparency legislation driven your organization to change or improve your compensation practices?



Percentage of organizations who selected the following as "more important" rather than less important or unchanged for their organization in the next few years versus today.

It's essential to invest in the basics of compensation management

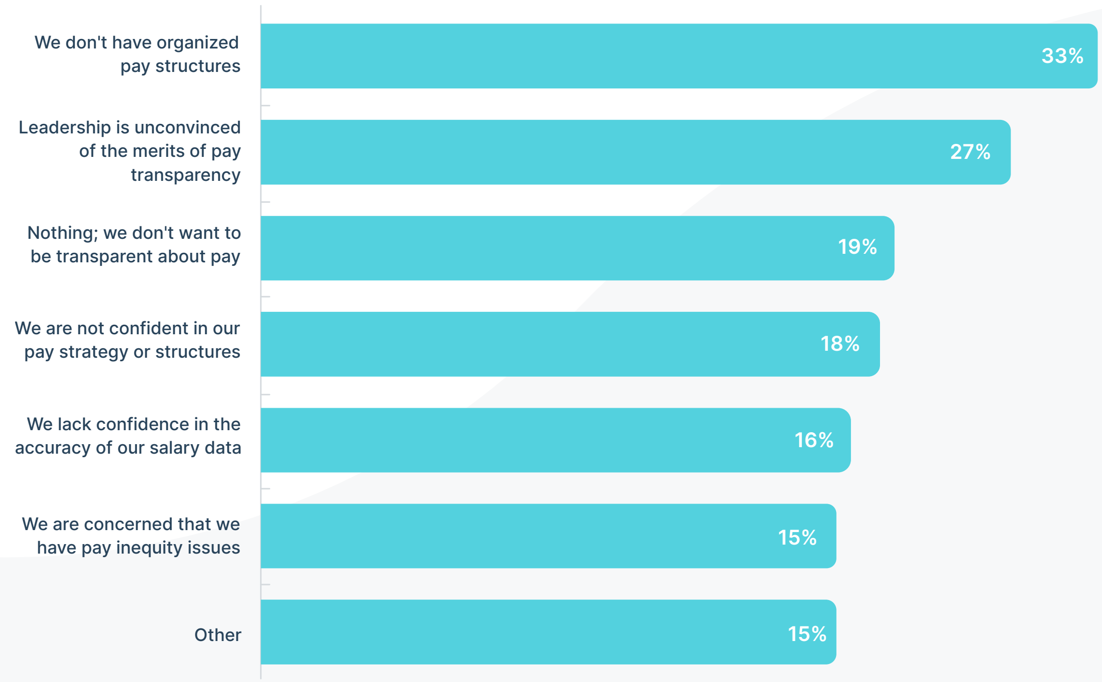
Whilst these new laws are forcing pay disclosures in job postings, there is also a need to take more proactive measures such as revisiting job architectures and pay frameworks, performing pay equity analyses, identifying existing gaps, and implementing manager communication training.

Our **2023 Compensation Best Practices Report** highlighted the barriers to organizations' pay transparency aspirations:

- **33 percent**
  don't have organized pay structures
- **18 percent**
  lack confidence in their pay strategy or structures
- **15 percent**
  are concerned about exposing pay inequity issues

What is preventing your organization from reaching at least level 3 on the pay transparency spectrum?

Source: Payscale's 2023 Compensation Best Practices Report



We are encouraged by the level of activity pay disclosure laws are generating. However, there is still the potential for those most impacted by pay gaps to be detrimentally affected. In many cases, we know that salary ranges are not being listed at all, and in other cases the ranges posted are so broad as to be worthless for the candidates and current incumbents. Also, many of the new laws do not require transparency over total compensation, so bonuses, performance pay, equity, and benefits can all be subject to additional negotiation. Only with a commitment to holistically improve pay programs and move toward clearer, more consistent and transparent pay management are we likely to see the outcomes this legislation is targeting.

The future of pay is transparent

Recent pay transparency legislation is forcing organizations to swiftly and fundamentally change how they approach pay. **The Pay Transparency Solution** by Payscale can not only help you get pay right but gives you the added confidence you need when sharing pay information internally and externally.

Learn more →

Pay equity is increasingly being viewed as an integral part of Environmental, Social, and Governance (ESG) strategy

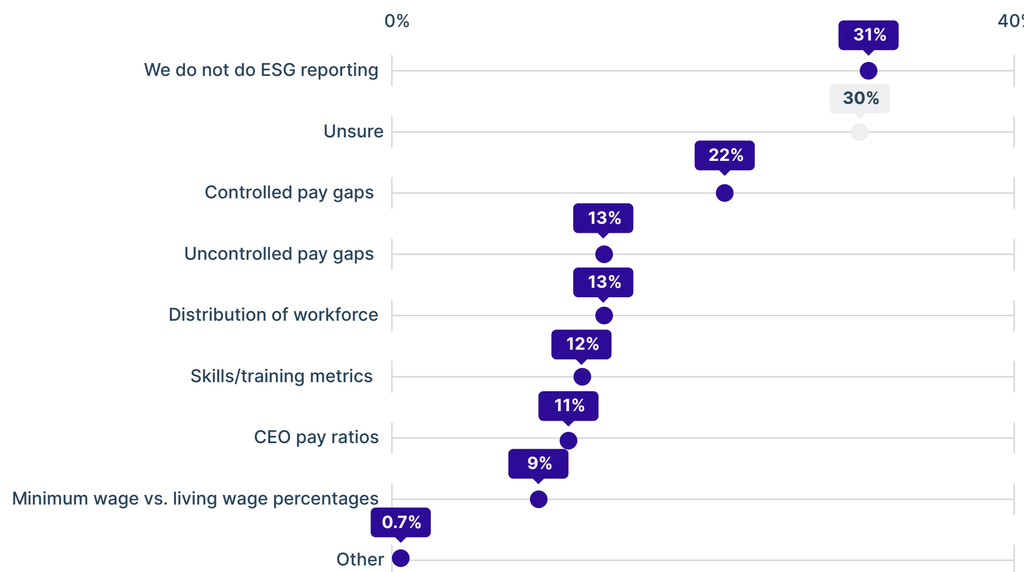
Despite some pushback due to recessionary concerns and the underperformance of some ESG-focused funds, many CEOs and investors are unwavering in their commitment to balance company performance and ESG initiatives in 2023. Organizations best able to demonstrate an accurate understanding and explanation of their pay gaps will be viewed as having greater transparency, translating into higher ESG scores and a positive view from regulators.

Our **2023 Compensation Best Practices Report** confirmed that controlled pay gaps are the most common type of ESG reporting we asked about (22 percent), with the next most common being uncontrolled pay gaps (13 percent) and distribution of the workforce (13 percent).

Only 11 percent of organizations are reporting their CEO pay ratios. Wealth inequality, as well as the differences between those who are employed at higher levels in the organization and those at lower levels, are in many of the ESG frameworks that organizations are starting to adopt. We expect to see this rise, especially if prices continue to increase at a higher rate than average wages and if layoffs continue in organizations with very high executive pay.

Which of the following are you reporting on as part of your ESG reporting?

Source: Payscale's 2023 Compensation Best Practices Report

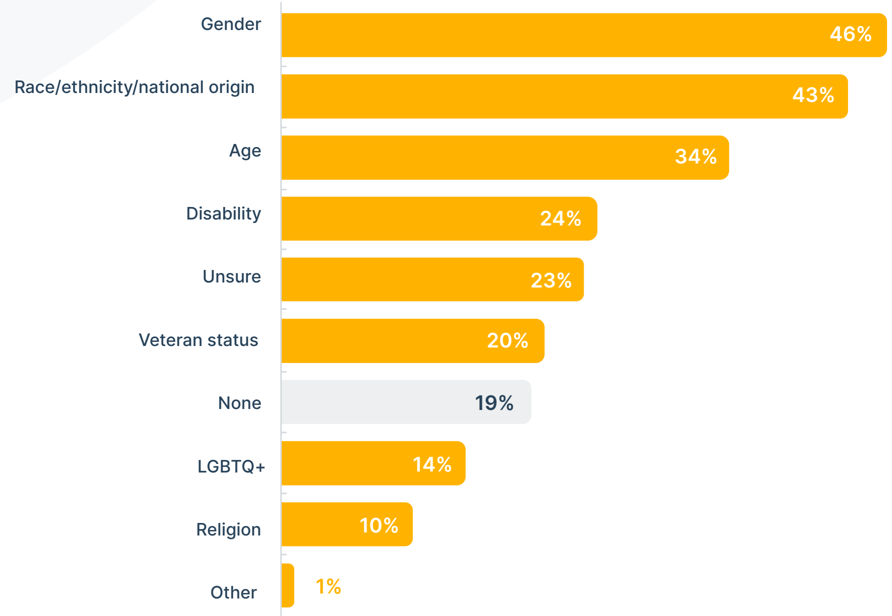


ESG reporting begins with diversity metrics

To understand whether there is segregation within organizations — vertically and/or horizontally — employers need to know the protected characteristics of their employees. Almost half of organizations are now requesting identity information for gender and race/ethnicity, probably due to the EEOC reporting requirements that have been in place for a while. It is encouraging to see employers requesting information for other protected characteristics, such as disability (24 percent), veteran status (20 percent), and LGBTQ+ status (14 percent). What is not known are the declaration rates for each of these. There is more work to be done to create the cultural environments for employees to feel safe enough to self-identify.

Along what dimensions are you measuring diversity among your current employee group?

Source: Payscale's 2023 Compensation Best Practices Report

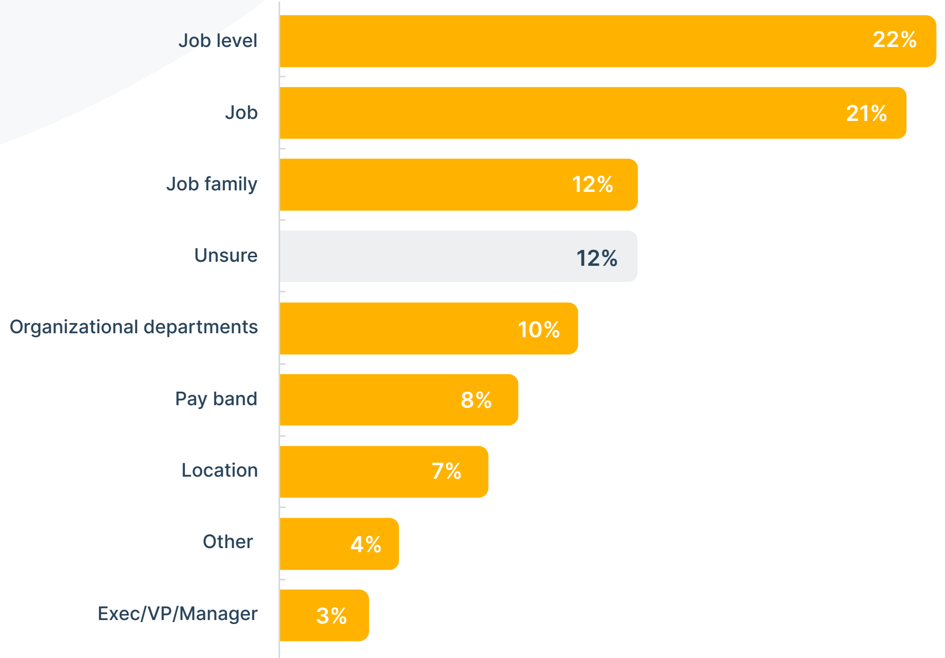


When organizations have sufficient data for these characteristics, it is important to break the numbers down by the level and area within the business. It is not surprising that there were fewer respondents to our survey doing this, as they may not yet have a high enough declaration rate in all levels and areas. By building up a picture of the diversity within your organization, you will understand the impact of pay policies and practices and what is leading to uncontrolled pay gaps and wealth inequality.

Along with pay equity, the ESG framework is not going away. Organizations will increasingly be held accountable for their impacts on society. That's why it's better to get in front of it and start collecting the data you need to provide the metrics required for reporting and — more importantly — for fixing inequity within your organization.

If you are measuring diversity among your current employees, at what levels are you measuring?

Source: Payscale's 2023 Compensation Best Practices Report



Conclusion

Ultimately, addressing pay equity is a matter of integrity. It's about being authentic when you say your employees are your greatest asset by treating them with fairness. Being transparent and demonstrating that your organization's approach to pay is fair and equitable shows your employees that you value them.

At Payscale, our mission is to make sustainable fair pay a reality. To do this, we help employers like you make pay equity an integral part of everyday compensation management practices. We provide compensation management software and consulting services to help you eliminate pay gaps and maximize talent investments by making fair, equitable, and appropriate pay decisions. We also have solutions to help you develop a compensation strategy, create equitable pay structures, manage pay compression, and achieve pay transparency.

Compensation solutions from Payscale

Whether you're setting your compensation strategy or seeking salary data unique to your industry, compensation management solutions and services from Payscale simplify the process.

Make pay equity central to pay strategy

The constant evolution of people within an organization makes pay equality a moving target, but modern compensation software from Payscale can help you monitor salaries and close pay gaps — simply and continuously.

Learn more →

The future of pay is transparent

Recent pay transparency legislation* is forcing organizations to swiftly and fundamentally change how they approach pay. The Pay Transparency Solution by Payscale can not only help you get pay right but gives you the added confidence you need when sharing pay information internally and externally.

Learn more →

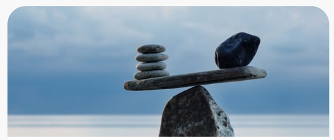
***Check out Payscale's pay transparency legislation tracker**

Additional resources

To learn more, check out additional **research and insights** from Payscale, including:

2023 gender pay gap report

Read report

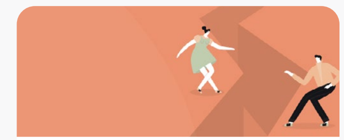


2023 compensation best practices report

Read report

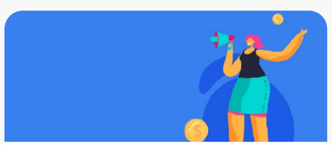
Pay transparency legislation

Learn more



Does pay transparency close the gender pay gap?

Read report

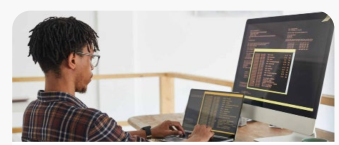


How to advocate for pay equity analysis whitepaper

Read whitepaper

The new era of pay equity guide

Read whitepaper



Pay equity starter kit

Read report

The pay equity and remediation handbook

Learn more

About Payscale

As the industry leader in compensation management, Payscale is on a mission to help job seekers, employees, and businesses get pay right and to make sustainable fair pay a reality. Empowering more than 50 percent of the Fortune 500 in 198 countries, Payscale provides a combination of diverse and dynamic data sources, experienced compensation services, and scalable software to enable organizations such as Angel City Football Club, Target, United Healthcare, Gainsight, eBay, and The Washington Post to make fair and appropriate pay decisions.

To learn more, visit **www.payscale.com.**

Pay is powerful™

payscale