How to Prepare for a Pay Equity Analysis, Ep. 2: Diagnose

payscale

Today's Presenters

Becky Wood

Director, Insights & Analytics

Ruth Thomas

Chief Product Evangelist

Chris Iversen

Principal Pay Equity Consultant

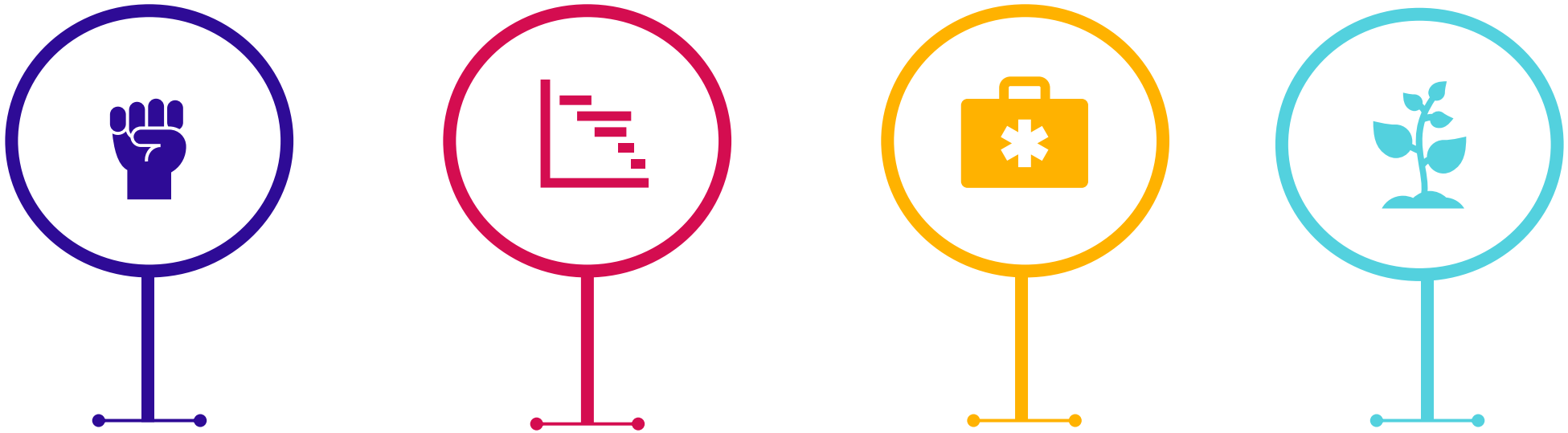
payscale

Pay equity analysis series

What you will learn:

- Key considerations before starting your journey
- How to prepare for pay equity analysis
- How to plan for remediation and take action
- How to work towards sustainable fair pay
- How technology can support you

Payscale's pay equity approach



Commit

Diagnose

Take action

Sustain

payscale

Today’s agenda

- How to diagnose your pay gaps
- What's next in this series
- Q&A

Poll 1: Has your organization conducted pay equity analysis?

- ❑ No, never
- ❑ Yes, but many years ago
- ❑ Yes, every few years
- ❑ Yes, annually
- ❑ Yes, continuously
- ❑ Unsure

Diagnose stage

Define scope and methodology

Group employees

Determine your factors

Run analysis

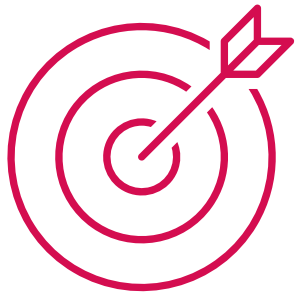
payscale

Define scope and methodology

What timeframe is achievable?

Which populations and locations are in scope?

Who will participate?



What frequency do you plan to conduct analyses?

Do you have the budget for pay remediation?

What are your key milestones?

How will this relate to your compensation cycle?

payscale

How long will it take ?

Group employees

How do you determine hierarchy?

Consider group size – impact on analysis

Can you use an existing job classification framework or benchmarking levels?

Job groupings should be legally defensible

How can you group employees doing like work or work that is substantially similar?

payscale

What are the main issues in grouping employees?

Determine your factors

Does your pay vary by location or employee segment?

What protected characteristics data do you have/want to collect?

Do you have good data for each of the factors?

How consistent and complete is your data?

What factors do you think should drive pay variance, and which shouldn't?

Are your factors defensible?

payscale

Poll 2: What compensable factors do you analyze for pay equity?

- ❑ Experience
- ❑ Location
- ❑ Performance
- ❑ Skills
- ❑ Certifications
- ❑ Hierarchy
- ❑ Other

Some explanatory variables are biased, even though they seem objective.

"At Payscale, we believe a holistic pay equity audit provides a complete understanding of factors that drive wage inequality."

Run analysis: how do you measure pay equity?

Controlled Pay Gap

(also known as adjusted or equal pay gap)

Measures equal pay for equal work - legislation has broadened this definition to equal pay for comparable, substantially similar and work of equal value.

It is perfectly reasonable to pay people in the same job differently **if this is due to justifiable factors.**

These are typically called compensable factors and should be legally justifiable and ideally aligned to your compensation philosophy.

Uncontrolled Pay Gap

(also known as unadjusted, raw or opportunity pay gap)

The **average earnings** of one group of employees compared to another.

Gives an **overall position** on equity.

Often isn't directly related to pay but to systemic issues such as cultural bias, societal assumptions and a lack of progress in workplace design.

Recognizing the root causes of pay gaps allows employers to address these systemic issues rather than just the symptoms evidenced by pay gaps.

Poll 3: Which pay gaps to you currently measure?

- ❑ The controlled gap (employees with the same job characteristics)
- ❑ The uncontrolled gap (overall regardless of job)
- ❑ Yes, for both the controlled and uncontrolled gap
- ❑ No
- ❑ Unsure

Run analysis – uncontrolled pay gap

$$\frac{\text{(Average Male Pay) – (Average Female Pay)}}{\text{Average Male Pay}}$$

Median and Mean both have value

Valuable for smaller groups as cohort analysis

Important to use with regression at the PAG level - it adds another lens, and you can still have pay equity issues without statistical significance

payscale

Run analysis – regression analysis

- Regression analysis tests whether a pay gap reduces after **key compensable factors that are legally defensible and align to your compensation philosophy** are considered.

- The analysis **statistically investigates the factors that determine pay.** The effects are measured simultaneously, i.e., the model attempts to estimate the contribution of each variable in the presence of the others.

- Statistical modelling can generate **predictions** of what an employee would be paid, according to the model, based on their individual values on permitted factors.

- Regression analysis modelling provides clues and directions for where to go next, what to analyze further.

payscale

Run analysis - key considerations

- What does the R2 model value indicate? How important is it?
- Always test the validity of models - may need to re-run with different variables or clean the data. And always compare against your goals and comp philosophies.
- Importance of outliers, regression, and other mathematical tools, and taking them all into account. Don’t just rely on one analytical result.
- You can still have pay equity problems without statistical significance!
- The model is only a model, it is not real life! It is important to contextualize.

payscale

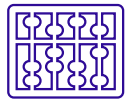
Key takeaways

Be intentional in defining the scope and planned outcomes for your pay equity work.

Data, data, data!

Grouping employees is probably the most important step and often requires pre-work, allow time for this.

Careful consideration of compensable factors is required, you may not have all you need to begin your first analysis, but that’s OK.



It is not always about the numbers and there is more than one way of doing this!

This is a technical but is a capability we should all be learning.

payscale

What's next?

Watch for episode 3 in the How to Prepare for Pay Equity Analysis Series: Take Action

Dig into more pay equity resources from Payscale

payscale

Q&A

Feel free to ask any questions in the chat!

payscale