



Your step-by-step guide to pay equity analysis



Pay equity is a complex issue and many businesses simply do not know if they have a pay equity challenge or not. And even those who have some sense of the issue rarely have a grasp on the full extent of it – never mind how they can approach making a positive change.

However, there is a way forward, and we can guide you. It starts with analysis.

With pay equity, what gets measured gets done. As once you have a comprehensive picture of the inequity in your business, you'll be compelled to take action.

There's no denying that undertaking effective pay gap analysis can be challenging, especially for larger organizations. But we've distilled the process down to just five key steps.

Here's how you can make real progress on pay equity.



Step 1

Understand the legal context

The resistance that some companies have around pay equity is fueled by their awareness that it is a major litigious issue. If you get things wrong, there can be serious legal implications. An understandable cause for concern of course – but also a compelling reason to take action now.

Start by speaking to external or internal legal counsel with expertise in employment issues. Their input will be invaluable in helping you to understand the full implications of your analysis and any resulting actions you take.

Laws around employment vary across different countries and states, so make sure you do not fall foul of any local regulations. For instance, some locales may have laws restricting positive discrimination, which could influence your ability to effect pay equity adjustments to resolve inequity. Also consider local data privacy and data transfer issues that may impact your analysis.

Act local, think global

Make sure your big-picture goals are not held back by local regulations. For multi-national employers, pay equity is a global issue and actions to drive change need a global commitment. Where possible, always aim to do more than demanded by the minimum regulatory requirements – or you are likely to find yourself falling behind again in the coming years.



Step 2

Establish your goals

Consider how global pay parity will look in your organization and agree on a definition of success. Will you address pay equity (equal pay between employees doing comparable work) or pay equality (evidenced by pay gaps, but when all employees have the opportunity to earn the same) or both. Before making this commitment, make sure you understand the root causes and the time it may take to effect change.

For example, Adobe defined their aim as “...ensuring that employees in the same job and location are paid fairly relative to one another, regardless of their gender or ethnicity”.

Whereas Citi Bank chose to publish a “raw” unadjusted figure showing that within their business the median pay for women is 29% less than it is for men. The processes that helped these companies arrive at these two outcomes were different.

Consider inhibitors to success

Pay conditions vary significantly between countries, so take this into consideration when setting your goals globally.

For detailed information on country-by-country pay differences, refer to The International Labour Organization Global Wage Report 2018/19. The report includes data from 64 countries on global wage growth and pay gaps, reflecting the wage distribution from around 75 per cent of the world's employees. Not surprisingly, countries with higher income have the lowest levels of wage inequality. Low-income and middle-income groups tend to have higher levels of wage inequality. Consider these trends when establishing your global targets.

Your pay parity goals will ultimately define the data you require for analysis. The availability of employee data on a consistent basis is critical to your ability to make effective comparisons. For example, protected category status such as ethnicity is not recorded in all locations.

The key takeaway from this step: set yourself up for success. You must know what you are aiming to achieve and any factors that may prevent you from achieving your desired goals.

Step 3

Complete your analysis

Once you have a clear handle on your objectives, you can efficiently structure the analysis to uncover the required data.

The easiest way to measure a pay gap is to look at the average pay differences across the organization. For example, to measure the gender pay gap overall, you compare the average pay for men as a group to the average pay for women. The most commonly cited statistics on pay gaps tend to be based on this definition.

But this doesn't tell the whole story. A simple comparison of pay gaps on an aggregate basis doesn't account for valid reasons why the average pay for men might differ from women as a group. Because it doesn't include these adjustments, these statistics are called the "unadjusted" or "raw" pay gap data.

Another way to look at pay gaps is to compare similarly situated employees and consider the factors that can influence pay. These are known as compensable factors and could include differences in education, tenure, job type, location, and performance.

Compensable factors differ between companies and should be related to your compensation philosophies and principals. For example if you practice performance-related pay then you would expect performance to drive differences in pay levels. So it's crucial that you understand the factors impacting on your organization.

The aim is to make a fair comparison between similar workers, then see what pay gap remains after considering legitimate factors. This is called the "adjusted" pay gap.

Look beyond pay

Although most equal pay analysis is centered on pay, there are a broader range of talent metrics to look at – these can help you diagnose issues like representation and progression that drive pay gaps and where bias could be influencing your employee policies. This root cause analysis should be part of your strategy.

Reliable data, handled responsibly

Data is the driving force behind the ability to make informed decisions on pay equity. However, make sure that you are handling and processing any employee data responsibly, or you could face more regulatory issues.

Consider seeking expert advice on how to source data on protected categories, store data securely and make sure that it can be routinely updated in an appropriate manner.

If you want the ability to accurately measure pay across your full business, then you'll need consistent data for all employees. And remember, it all starts with reliable data. So before doing anything, you must make sure all data is clean.

Pay related metrics	Non-pay related metrics
Comparison of new hire salaries	Applicants vs successful applicants
Comparison of new promote salaries	New hires by job level
Comparison of salary and bonus allocation in review	Tenure in job grade
Allocated off cycle awards by gender	Turnover by job gender and job level
Audit of pay equity amongst highest paid employees	Take up of part time work by gender
Number of incentive/LTI eligible employees by gender	Allocation of performance ratings (or other talent ratings)
Pay increases of women on maternity vs those not	Understand your gender profiles by role

Step 4

Identify risks and address issues

Once you have completed the first phase of your analysis, you will need to take a closer look at what the data tells you. Are there hot spots where outcomes look significantly different from the rest of your organization? If so, these may require a deeper analysis.

Are there obvious data errors that will require a re-run of the analytics?

Your next move

Ultimately, the numbers will tell a story of pay equity within your business, and from this, you can make a call on what action needs to be taken.

Now is the time to ask big questions of your data and consider if the factors that drive pay differences are:

- Consistent and clear in your reward strategy
- Implemented consistently through reward programs
- Free from bias



Step 5

Take action

Your research is complete, and you've gone over the output with a sharp eye – now it's time to act.

By this stage, you know that nothing should be done in haste. Take time to plan your action in detail and make sure you're doing the right thing.

When it comes to pay adjustments at an individual level, you should consider implementing a formal remediation process. This will help protect the business from any potential litigation, as your process will need:

- To track and understand issues at an employee level rather than across the wider workforce, as there are many valid reasons why two employees could be paid differently
- A robust statistical approach to justify your actions
- The available budget for changes and a clear picture of how this plays out relative to your overall compensation budgets
- A clear understanding of legal issues associated with pay adjustments – particularly around positive discrimination

Recognize other factors

While decisive action on adjusting pay represents excellent progress, make sure you don't forget about the bigger picture.

There are a number of wider diversity and inclusion actions you can take to help target the root issues of pay gaps. Understand these causes and make changes that will have a lasting impact in avoiding further inequality entering the business in the course of hiring.

It doesn't end here

For a truly fair approach to pay equity, it's essential that such analysis and action becomes part of your business-as-usual processes.

The best way to do this: technology. Software solutions such as Pay Equity make it easy for you to build an on-going approach to pay equity analysis. With one source of reliable pay data, you can take ownership and align your processes to compliance risks while promoting fair treatment of employees.

Your commitment to pay equity contributes to a broader culture you can develop as a fair and inclusive workplace for all. And ultimately, that leads to greater employee motivation, better performance, and improved financial results. Beyond that, it even helps enhance reputation and protect your brand.

In short: the time to take action on pay equity is now.

About Payscale

As the industry leader in compensation data and technology, Payscale helps organizations **#getpayright**. Payscale is the only technology solution for managing compensation that provides multiple streams of fresh, transparently curated and validated salary data. Combined with modeling engines that learn continuously and generate recommendations and insight, Payscale empowers HR to price jobs and adjust compensation to reflect near real-time changes in the market — all on one trusted data platform. With Payscale's Adaptive Compensation Advantage, teams operate with efficiency, focused on outcomes rather than manual data management.

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