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RESEARCH REPORT

Making Pay Equity Work for All

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UKG

Why the Time Is Right to Make Pay Equity Work for All

Providing equal opportunity for all people is at the heart of being a great workplace. To be truly supportive, employers must recognize a person's value and compensate them equitably based on their skills, their experience, and the work they perform, no matter their gender or diversity intersection.

Pay inequity is one of the most enduring and unjust realities in the U.S. and global workplace. According to U.S. Bureau of Labor Statistics data, for every dollar a man in the U.S. earned in 2020, a woman made $0.82—a gap of 18 cents.[1] And while gender-based pay discrimination has been illegal since 1963 and the Lily Ledbetter Fair Pay Act became law in 2009, that gap widens even further when you look at intersectionality such as Black, transgender, and immigrant women.[2] It's estimated that Black women will lose more than $1 million in lifetime earnings because of inequitable pay.[3]

As an organization whose purpose is people, UKG knows that an individual's income impacts every aspect of life, including their health, wellness, family, and future. So, we're taking a stand.

Through our Close the Gap Initiative, UKG is contributing 18 cents for every employee paid through our software—about $3 million per year—to education awareness, research, and nonprofit organizations dedicated to closing the pay gap.

This study is a cornerstone of this initiative, exploring the gaps between what employees witness at their organizations and how executives rate themselves. It looks at strategies that separate pay equity leaders from others; the impact intersectionality has on the perception of pay equity progress; and how leadership, pay transparency, clear communication channels, and innovative technology tools can help organizations achieve lasting pay equity.

Responses reflect the biases embedded within society and lack of well-established strategies that continue to create systemic barriers when it comes to equal pay practices. Now more than ever, organizations must recognize the importance of turning talk into action and taking the necessary steps to create a foundation for change.

There are many factors when it comes to achieving pay equity in organizations, from the cultural aspect to the pragmatic aspect to the philosophical. We know getting to the root of this systemic issue and creating change in organizations won't happen overnight, but we hope you will join us on our journey to take meaningful action to support the livelihoods and aspirations of women and underrepresented groups in the workplace and to help win the decades-long fight for equity for all.

1 U.S. Bureau of Labor Statistics. (2021). 2020 Annual Report: Highlights of Women's Earnings. Retrieved from https://www.bls.gov/cps/earnings.htm.

2 Center for American Progress. (2020). Quick Facts About the Gender Wage Gap. Retrieved from https://americanprogress.org/article/quick-facts-gender-wage-gap.

3 *Harvard Business Review*, Deepa Purushothaman, Deborah M. Kolb, Hannah Riley Bowles, Valerie Purdie-Greenaway, "Negotiating as a Woman of Color," January 14, 2022, https://hbr.org/2022/01/negotiating-as-a-woman-of-color.

Making Pay Equity Work for All

For decades there have been laws prohibiting sex-based wage discrimination between men and women in the same workplace who perform jobs requiring equal skill, effort, and responsibility under similar conditions. Yet pay equity continues to elude corporate America. On average, women make 82 cents per dollar earned by their male counterparts.[1] For women of color, the numbers are worse: Black women, for example, make 63 cents per dollar and will lose nearly $1 million in lifetime earnings due to unequal pay.[2]

"Although gender-based pay discrimination has been illegal since 1963, it's still endemic in the workplace for women, particularly women of color," says Adrienne Lawrence, vice president of Jennifer Brown Consulting, a New York City-based firm that designs workplace strategies for diversity, equity, and inclusion. "It's really a reflection of the biases embedded within our society."

However, a sea change could be underway with the potential to bridge long-standing pay gaps. A May 2022 survey by Harvard Business Review Analytic Services of 453 executives and senior managers shows that 74% consider pay equity a moderate or high strategic priority. And in a parallel Harvard Business Review Analytic Services survey of 3,005 employees, 71% of employees agree that pay equity is an important priority for their organization.

It's easy to understand why organizations are prioritizing pay equity: a global labor shortage; legislative initiatives to advance pay equity; and movements such as Times Up, #MeToo, and Black Lives Matter are driving organizations to closely examine their pay practices—or risk paying the price in lost revenue and high attrition.

HIGHLIGHTS

74% of executives consider **pay equity a moderate or high strategic** priority.

49% of organizations **do not have a well-established pay equity plan** in place, while 24% of employees don't even know if such a plan exists at their organization.

41% of employees believe their employers have been **very successful in achieving pay equity**.

Due to rounding, some figures in this report may not add up to 100%.

Achieving pay equity is no longer solely a matter of eliminating sex discrimination but an intersectional issue that cuts across race, color, and sexual orientation and requires a deeper examination of varying perspectives and a more granular look at pay data.

Yet ensuring equal pay for equal work remains challenging for many organizations: less than half (41%) of employees surveyed believe their employers have been successful in achieving pay equity. Worse yet, 26% of employees say their organizations have been unsuccessful in ensuring equal pay for equal work. An even more pessimistic picture emerges across categories of race and gender. While half of white male employees rate their organization as highly successful at achieving pay equity, only 37% of white women and 35% of Black/African American women, Hispanic/Latinx women, and Hispanic/Latinx men share the same positive outlook.

This divergence of opinion highlights the increasing complexity of today's pay gap: achieving pay equity is no longer solely a matter of eliminating sex discrimination but an intersectional issue that cuts across race, color, and sexual orientation and requires a deeper examination of varying perspectives and a more granular look at pay data. The term "intersectionality" was coined by Kimberlé Crenshaw, a professor of law at Columbia Law School whose work has been foundational in critical race theory. The theory of intersectionality explores inequality through the overlapping and/or independent systems of discrimination or disadvantage based on social categorizations, such as race, sex, or class.

While some companies are taking action to address compensation disparities, all too often a culture of silence, a lack of transparency, and an absence of proper leadership prevent organizations from bridging the pay gap in meaningful and constructive ways.

To better understand the progress being made to overcome these obstacles, those organizations surveyed have been divided into three key categories. Nineteen percent of organizations are "leaders"—organizations with a well-established pay equity program, coupled with high levels of success in achieving it. Forty-eight percent of organizations are "followers"—organizations that have experienced modest success in achieving pay equity and are far less likely to have a well-established pay equity program in place. And "laggards" comprise 34% of organizations, characterized by a lack of success in pay equity.

This report examines the strategies that separate pay equity leaders from their less successful counterparts; the gaps between what employees witness at their organizations and how organizations rate themselves; the impact of intersectionality on the perception of pay equity progress; and how proper leadership, greater pay transparency, clear communication channels, and innovative technology tools can help organizations achieve lasting pay equity in an increasingly complex workplace.

The Advantages of Pay Equity Are Clear to All

Given today's labor, cultural, and legislative environment, pay equity is more than simply the right thing to do; it's a business imperative. In fact, organizations say that a key benefit of pay equity is improved retention of existing talent (71%),

followed by building a stronger company culture (60%), greater employee engagement and productivity (60%), improved ability to acquire new talent (58%), and encouraging and increasing workforce diversity (55%). **FIGURE 1** Employees also agree on the top benefits of achieving pay equity, albeit to a lesser extent.

Earning a wage reflective of an employee's tenure, performance, and market value can boost morale and provide a powerful incentive for employees to remain where they are. "The current talent shortage is a huge incentive for companies to review how they're compensating employees," says Lucas Hendrich, a technology advisor and former chief technology officer at a software provider, adding that companies that fail to achieve pay equity "will lose people quickly."

Interestingly, a higher percentage of leaders (37%) than their less successful counterparts say a key benefit of achieving pay equity is that it demonstrates opportunities for advancement—an advantage more companies need to consider when evaluating the importance of pay equity, according to Anne Winkler, a professor of economics at the University of Missouri-St. Louis and coauthor of *The Economics of Women, Men and Work*.

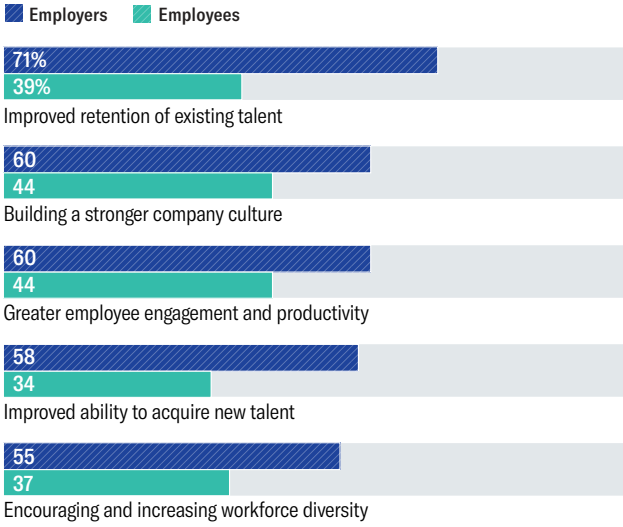
FIGURE 1

Top Pay Equity Benefits

Pay equity promises improvements in workforce composition, culture, and productivity

Employers: What benefits do you believe your organization is most likely to realize by achieving pay equity for its employees?

Employees: What benefits do you believe your organization is most likely to realize by achieving pay equity for its employees?



Source: Harvard Business Review Analytic Services survey, May 2022

"The current talent shortage is a huge incentive for companies to review how they're compensating employees," says Lucas Hendrich, a technology advisor and former chief technology officer at a software provider, adding that companies that fail to achieve pay equity "will lose people quickly."

"With respect to pay equity and women, companies need to think about the issues of promotion, advancement, and opportunities for training," she says. "They're not dollars, but promotion and training can translate into future dollars."

Pay equity laggards are just as likely as leaders to recognize the benefits that could accrue from pay equity, but to varying degrees. For example, while 67% of leaders say building a stronger company culture is a top benefit of achieving pay equity, only 54% of laggards believe this.

Pay equity practices can minimize exposure to legal risk, although this is lower on the list of benefits cited by organizations. For example, in September 2020, California passed a law requiring employers to file equal pay reports annually. In early 2021, Colorado adopted the Equal Pay for Equal Work Act, which requires that online job listings include compensation information. And in the U.K., government-issued gender pay gap reporting regulations call for organizations to take a snapshot of employee pay and bonuses or face enforcement action.

"Mitigating your legal risk is an important part of a pay equity strategy," says David Cohen, president of DCI Consulting Group, a Washington, D.C.-based HR compliance and data analytics firm. "If a company's pay equity numbers are publicly released and aren't good, it increases the likelihood of employees or shareholders filing a claim against an employer."

Overcoming a Culture of Silence

For all the economic, legal, and cultural incentives to achieve pay equity, organizations still face considerable challenges when it comes to executing a pay equity strategy, ensuring transparency of pay equity data, and establishing the right leadership team.

"One of the major problems with surfacing pay disparities and pay discrimination is a lack of transparency. People often do not know how much they make in comparison to the person sitting next to them," says Jocelyn Frye, president of the National Partnership for Women and Families.

Forty-six percent of executives cite both a lack of transparency in pay equity data and the complexity of implementing pay equity across roles and regions as the greatest barrier to improving pay equity for employees.

One explanation for this hurdle is that only 26% of organizations have a well-established pay equity plan in place. **FIGURE 2** And 49% of executives report they do not have any program whatsoever. Worse yet, 24% of employees don't even know if their organization has a pay equity plan in motion.

A carefully crafted pay equity plan can strategically outline the roles, responsibilities, best practices, and data-driven decision making necessary in order to pay employees equitably. In fact, without a plan, organizations risk leaving compensation calculations to the subjective discretion of middle managers and human resources teams.

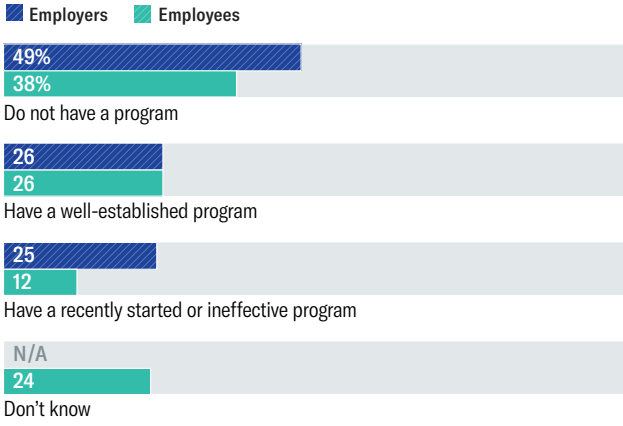
FIGURE 2

Pay Equity Plan Awareness

An absence of programs—and awareness—suggests little progress in pay equity

Employers: Which of the following best characterizes your organization's initiatives regarding pay equity?

Employees: Which of the following best characterizes your organization's initiatives regarding pay equity?



Source: Harvard Business Review Analytic Services survey, May 2022

Just ask Jack Klott. Klott is vice president of Total Reward at Independent Bank, where he oversees compensation, benefits, and HR technology. Today, Independent Bank relies on sophisticated technology to ensure pay equity, but Klott says for years the Michigan-based bank "never had a policy or practice in place where we really centralized compensation decisions. Up until that point, we had always left it to managers, but they weren't basing their decisions on anything other than gut feel." Without "data involved in any decisions" or a well-defined pay equity plan, Klott says, Independent Bank experienced an employee turnover rate of "well over 50%."

Another key barrier to achieving pay equity is a lack of transparency, cited by 46% of organizations. Employees agree: 34% of respondents emphasize their organization's failure to be open about pay equity as an obstacle to delivering equal pay for equal work.

The factors fueling this culture of silence can be both intentional and unintentional. In some instances, organizations have a self-serving interest in discouraging or prohibiting conversations around pay in order to conceal unfair pay practices and avoid workforce mutiny. But discussing salary with coworkers is also a long-standing cultural taboo that only serves to perpetuate discrimination and keep employees in the dark.

"One of the major problems with surfacing pay disparities and pay discrimination is a lack of transparency," says Jocelyn Frye, president of the National Partnership for Women and Families, a Washington, D.C.-based organization that aims to improve the lives of women by achieving pay equity. "People often do not know how much they make in comparison to the person sitting next to them."

Even those in the know may not ask for greater compensation from senior executives if they learn they're underpaid. Nearly a third (32%) of employees cite an unwillingness to speak up as a key barrier to achieving pay equity. Worse yet, Black and Hispanic/Latinx employees are more likely than white workers to say an unwillingness to speak up can impede pay equity progress (39% versus 28%), as are Asian or Asian American employees (34%).

Whether employees are silenced by fears of retaliation or a lack of opportunity, most organizations are nonplussed

by employees' unspoken pay grievances. A mere 11% of organizations see an unwillingness to speak up as a hindrance to pay equity success.

Another obstacle to equitable pay: a penchant for the status quo. Thirty-one percent of employees cite an unwillingness to disturb existing salaries/wages as a key factor contributing to pay disparities.

"People are used to the status quo," says Frye. "And the status quo has historically undervalued women, undervalued people of color, and undervalued women of color in particular."

Employees also point to differences in salary negotiating abilities as a factor contributing to pay disparities. In fact, research shows that women, particularly women of color, struggle to self-advocate when it comes to obtaining greater power and resources.[3]

"Women may not take certain risks that would help them level the playing field in terms of equity," says Hendrich. One of these risks, he says, is "negotiating to defend their salary stake."

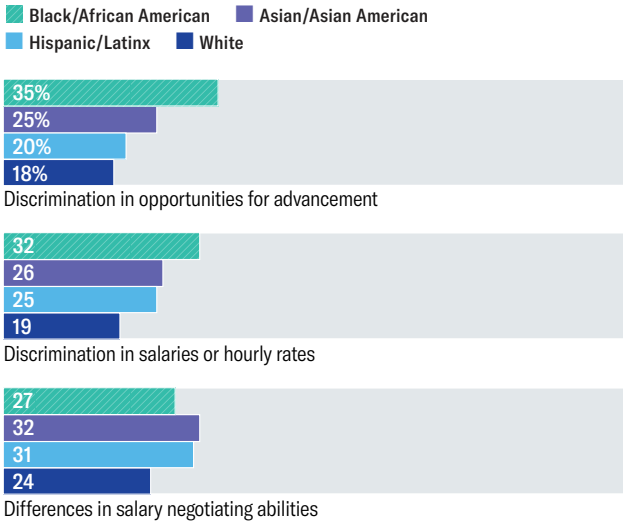
It's easy to understand women's hesitation to negotiate for equitable pay, according to the University of Missouri-St. Louis's Winkler. The pandemic precipitated "a dramatic rise in women's unemployment rates relative to men's," she says, "increasing attention" around issues of pay as some of

FIGURE 3

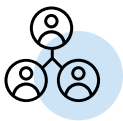
Contributors to Pay Disparities across Race

Opinions vary on the factors that lead most to pay disparities

In your view, which factors do you attribute most to unequal pay for equal work in your organization?



Source: Harvard Business Review Analytic Services survey, May 2022



Thirty-four percent of organizations and 28% of employees say that an absence of executive-level commitment is standing in the way of improving pay equity.

these women return to the workforce with a loosened foothold in the labor market.

Race also plays a significant part in how employees perceive negotiating prowess: 32% of Asian American employees, 31% of Hispanic/Latinx employees, and 27% of Black/African American employees blame differences in salary negotiating abilities for pay inequities. **FIGURE 3** Other key factors cited largely by minority groups include discrimination in opportunities for advancement and discrimination in salaries or hourly wages. In fact, 35% of Black/African American employees select discrimination in opportunities for advancement as their top pay disparity contributor, compared with 18% of respondents who identify as white.

To overcome these obstacles, senior executives must be willing to fully commit to pay equity—a component many respondents feel is sorely lacking in corporate agendas. Thirty-four percent of organizations and 28% of employees say that an absence of executive-level commitment is standing in the way of improving pay equity.

Unfortunately, when senior executives are not fully committed to pay equity, it is reasonable to expect that there will be little appetite for meeting the perceived high costs associated with efforts to achieve it. Their disinterest is evidenced by the 39% of employees who say organizations are not very effective at explaining pay equity and by the 35% of employees who are similarly unimpressed with organizations' efforts to support and train employees on how pay equity will be achieved.

These oversights suggest one of two possibilities: senior executives are unaware of the importance of making pay equity a reality, or they don't know how to go about it. Both scenarios are problematic, according to Surinder Saini, director of HR at Ward's Hydraulic Services in Alberta, Canada.

"The way you speak about pay equity, and how you implement it at the organization level, is witnessed by employees across the organization," says Saini. As a result, he says, "the CEO and senior leadership have to demonstrate they really care about pay equity. If top management isn't

involved and engaged in these initiatives, pay equity efforts won't be successful."

Compounding the problem of poor C-suite support is that although organizations have a long way to go to achieve pay equity, strategies remain static or, in the case of transparency, are moving in the wrong direction.

In the next year, 43% of executives plan to use external benchmarks to align pay and experience level, 36% plan to conduct a pay equity audit, and 33% will establish equitable starting salaries based on market data as they have done in the past.

Yet only 16% of executives expect to increase transparency as part of an overall plan to promote pay equity, despite the fact that 35% of employees cite transparency as one of the most impactful ways to eliminate disparities. Similarly, only 16% of organizations plan to raise awareness of pay equity initiatives through educational programs—an action 26% of employees cite as central to pay equity success.

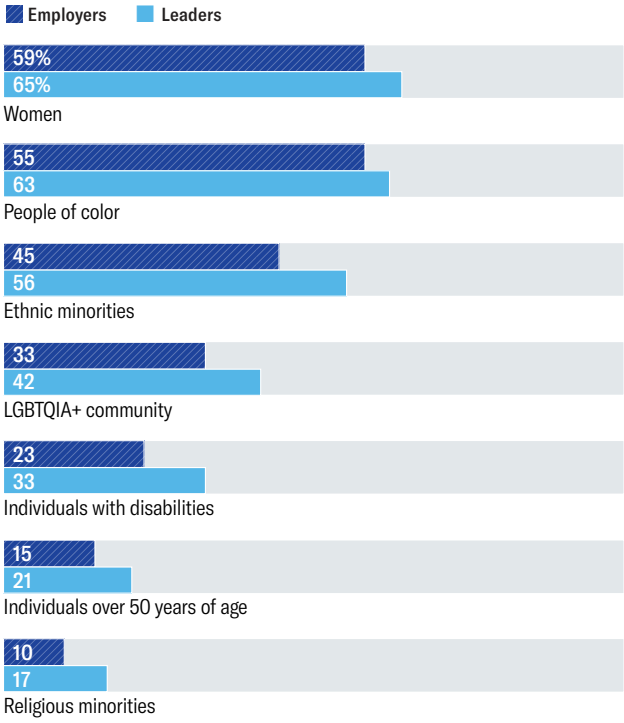
FIGURE 4

Unequal Distribution of Pay Equity Efforts

Women are the most-targeted group for equal-pay-for-equal-work efforts

Employers: To which groups are your organization's pay equity efforts directed?

Leaders (organizations with a well-established pay equity program, coupled with high levels of success in achieving it): To which groups are your organization's pay equity efforts directed?



Source: Harvard Business Review Analytic Services survey, May 2022

Strategies for Pay Equity Success

Clearly, the time has come for organizations to take stock of their pay equity efforts and recalibrate in ways that satisfy employee demands for greater transparency and senior executive accountability. Pay equity strategies must take account of not only today's gender pay gap but also the impact of intersectionality on people's perceptions of pay equity.

"If you're not solving the pay gap for Black women, or Latinas, or Native women, then you're not solving the pay gap," says Frye of the National Partnership for Women and Families. "It's not enough to say, 'I've closed the gender pay gap.' If you can't say it for the other groups of people who are experiencing disparities in an intersectional way, then you can't say you've solved pay inequity."

As it stands, pay equity efforts are not evenly distributed across key employee groups. For example, 59% of organizations say their pay equity efforts are directed toward women in general. **FIGURE 4** However, these numbers decline when it comes to people of color (55%), ethnic minorities (45%), the LGBTQIA+ community (33%), and individuals with disabilities (23%). Leaders follow this same declining pattern when it comes to targeting employee groups: 65% of leaders' pay equity efforts are directed toward women, 56% are focused on ethnic minorities, and 42% are focused on the LGBTQIA+ community.

Equally inconsistent are opinions on how effectively organizations are achieving pay equity for all. While 40% of white male employees believe organizations have succeeded in achieving pay equity for all employee groups, only 25% of white women, 23% of Black/African American women, 22% of Hispanic/Latinx men, and 16% of Asian/Asian American women agree—evidence of how the intersection between ethnicity and gender can significantly influence perceptions of pay equity success.

"Intersectionality impacts pay in the workplace by interjecting different sets of biases that may impair how an individual is perceived, and thus how their work is valued," says Lawrence of Jennifer Brown Consulting. "These biases effectively compound the inequities. However, when we start paying attention to them, that's when we're in a better position to overcome them."

Spearheading a Well-Crafted Pay Equity Plan

Fortunately, there are ways for organizations to draw attention to pay inequities that account for the intricacies of intersectionality and the experiences of employees. A

HR leaders themselves can claim their power as pay equity advocates by getting more actively involved in the day-to-day activities of an organization.

pay equity plan, dedicated leadership, auditing tools, a commitment to transparency, clear communication, and robust technologies are strategies that, together, can enable organizations to tackle pay equity for lasting results.

To bridge a pay equity gap, organizations must begin by building a solid foundation: a carefully crafted pay equity plan.

"It's incredibly important to have an established pay equity program," says Lawrence. "It's an investment in human capital that allows businesses to avoid legal disputes and negative publicity" while at the same time increasing "employee morale and commitment."

However, executing a pay equity plan can be a challenging endeavor, which is why organizations need to think carefully about whom they elect to helm their pay equity efforts. Forty-seven percent of executives say the chief human resources officer (CHRO) or equivalent is primarily responsible for pay equity initiatives in an organization, followed by the CEO or equivalent (39%), and a senior executive team (32%). Only 8% of executives say it's the job of a chief diversity officer to oversee pay equity efforts. A similarly high percentage of leaders (57%) believe the CHRO should be in charge, compared with 47% of followers and 42% of laggards. Only 25% of leaders say the CEO should have primary responsibility for pay equity initiatives.

Employees, on the other hand, prefer to see the C-suite in charge: 37% of employees believe the CEO should be responsible for pay equity initiatives, followed by the senior executive team (30%) and the compensation committee (24%). One possible explanation for this difference of opinion is that employees may feel that if a CEO is in charge, this individual is more likely to be held accountable for any future failings. **FIGURE 5**

But an ailing perception of HR and the limited power they wield in an organization can also impact preferences in leadership.

"Sometimes human resources departments aren't culturally integrated into the organization," says Summer Jackson, assistant professor of organizational behavior at Harvard Business School, whose research covers pay disparities. Instead, "they're viewed as technocrats or bureaucrats with forms to fill out" rather than as individuals with the power to effect real change. For this reason, she says, CEOs must take steps to impress upon employees that HR leaders "are important partners in the pay equity process."

In fact, HR leaders themselves can claim their power as pay equity advocates by getting more actively involved in the day-to-day activities of an organization. Laura Frederickson is a perfect example. Frederickson is the chief human resources officer for Village Health Clubs and Spas. To counter the

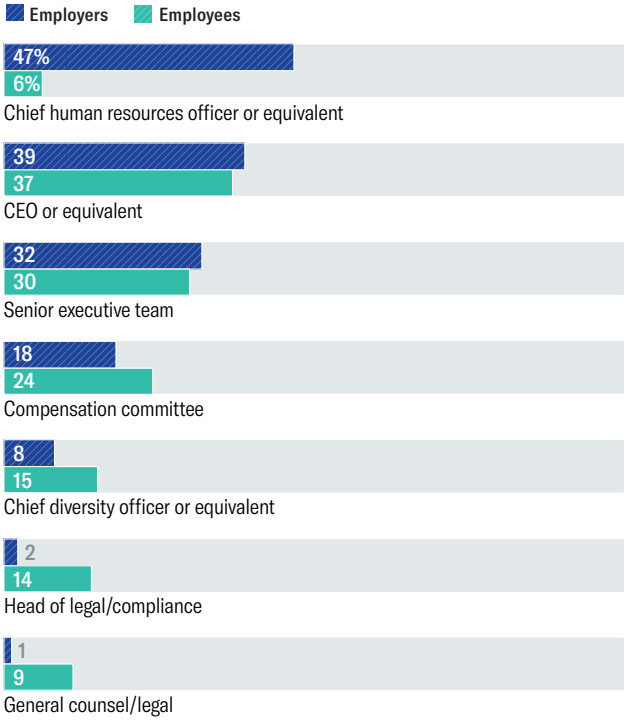
FIGURE 5

HR versus the C-Suite

Employees and their employers are at odds over who should be in charge of pay equity

Employers: Who has primary responsibility for pay equity initiatives in your organization?

Employees: Who do you believe should have primary responsibility for pay equity initiatives in your organization?



Source: Harvard Business Review Analytic Services survey, May 2022

"It's important to create a space for employees to say, 'I have a question or concern about pay,' without being fearful of losing their job," says Frye at National Partnership for Women and Families.

perception of HR professionals as "policy and paper pushers," she says, she and her HR team members make sure they remain "visible, participate in department meetings, and interact with employees."

Exercise Self-Awareness with Audits and Surveys

Once a well-crafted pay equity plan is in place, many senior executives choose to rely on external sources for guidance on how to set salaries and other forms of compensation. But in contrast to organizations' reliance on external benchmarks and market data, employees believe pay equity success hinges on inward-facing initiatives. Case in point: 42% of employees say conducting a pay equity audit or analysis would help improve pay equity.

"The leading barriers to pay equity are largely biased, internalized efforts of organizations not being willing to exercise the self-awareness to acknowledge that they may have a problem," says Lawrence. Under these dire circumstances, she says, an audit can be the "legwork" needed to "ensure that bias is not impacting how a company pays or compensates its employees."

But completing this kind of corporate gut check is easier said than done. "Companies often don't spend the time, money, and resources to conduct a proper pay equity study, so they end up making salary adjustments on the wrong people, for the wrong reasons," says Cohen of DCI Consulting. Without using sophisticated statistical tools—such as robust regression modeling, which considers factors such as role, performance, and location—when calculating pay, companies run the risk of "actually reducing the validity of their compensation system," according to Cohen.

Lawrence concurs on the difficulties inherent in performing an in-house audit or analysis of pay equity. "Pay equity audits must bear in mind certain demographics, such as race and sexual orientation, to see where there are differences in gender-based pay inequities," she says. However, many companies lack the in-house expertise to parse complex data sets.

In response, Lawrence recommends partnering with a professional employer organization that "can handle the heavy lifting when it comes to collecting, analyzing, and interpreting data, including outliers that are impacted by virtue of intersectionality."

Another action employees believe would aid in improving pay equity is gathering feedback via employee surveys, as cited by 35% of respondents. According to Jackson of Harvard Business School, companies "should conduct pulse surveys throughout the year to find out how satisfied employees are with their day-to-day work-life balance, managers, colleagues, and the direction the company is heading. That's really important data that can help leadership identify any potential issues before the company experiences a mass exodus of people."

Village Health Clubs and Spas is one company that relies on "anonymous employee surveys" to gauge how employees feel about the company's pay equity efforts, according to Frederickson. But even she admits that it takes more than surveys to get a comprehensive read on pay equity progress. "It all starts with culture," she says. "If your culture encourages employees to talk to you about any topic, then they'll be more likely to let you know if they feel their performance warrants a raise, or if they're questioning how their pay compares to others in the organization or the market."

For example, at Independent Bank, employees can send anonymous messages directly to the CEO or executive vice president via the company's corporate intranet. To date, Klott says, several employees have used this private communication channel to inquire into issues around pay equity.

Regardless of the platform, though, Frye says, "It's important to create a space for employees to say, 'I have a question or concern about pay,' without being fearful of losing their job." Consider, for example, how organizations around the world have created digital whistleblowing hotlines that let employees anonymously report on corporate misconduct, unethical behavior, or illegal activity.

Enhance Transparency and Openness

Of course, employees might argue that the need for confidential channels of communication would be moot if organizations did a better job of sharing compensation information in the first place. More than one-third (35%) of employees cite increasing transparency of salaries across the organization as one of the most important strategies for achieving pay equity.

The good news is that change is already afoot: "It helps to have younger workers now who are more open about discussing pay," says Frye. "Certainly, when I came out of

law school, people rarely talked about each other's pay—it was a taboo subject."

Some companies have already taken constructive steps to create more openness around pay and how it's calculated. Steve Windfeldt is the vice president and owner of Preferred Credit. He says, "We continue to work toward complete pay grade transparency for all of our employees so that soon they will have an idea of what their earnings can be within a 30% spread of the hourly role that they are in."

The reality is that opaqueness may no longer be an option, as recent legislative changes call for greater pay transparency and accountability. In March 2022, U.S. President Biden issued an executive order "promoting pay equity and transparency" within the federal workforce and among federal contractors. These new regulations prohibit federal contractors from retaliating against employees who discuss their pay with one another. Contractors are also required to provide compensation data on their employees, including race and sex.

The White House's intensified focus on pay equity is already having a positive impact on employee openness, according to Cohen. "Certainly, within the United States, it's becoming more common for employees to talk to one another about pay"—a cultural shift that's forcing "employers to really think about whether they're paying fairly."

"Certainly, within the United States, it's becoming more common for employees to talk to one another about pay"—a cultural shift that's forcing "employers to really think about whether they're paying fairly," according to David Cohen, president of DCI Consulting Group.

Open the Channels of Communication

Despite new cultural and legislative norms, employees are mostly in the dark when it comes to an organization's pay equity strategies. Indeed, 27% of employees report not knowing what strategies their organization uses to promote pay equity. Moreover, 39% of respondents report that their organization has not been very effective at explaining pay equity or in being open and transparent about performance standards, performance reviews, hourly rates, and salaries for all employees.

Efforts to educate employees on pay equity have also fallen short. Thirty-five percent of employees believe organizations have not been effective at educating executives, supervisors, and employees on pay equity initiatives. While leaders are in a much stronger position than laggards, overall 40% of organizations identify a lack of transparency around pay equity as a key reason for disparities in pay.

Once again, employees' awareness of pay equity initiatives varies with respect to race and sexual orientation. For instance, 21% of employees don't know the extent to which their organization has achieved pay equity for the LGBTQIA+ community. As organizations fail to bring clarity around pay equity progress for key employee groups, there needs to be more dialogue, particularly when it comes to initiatives targeting the LGBTQIA+ community.

"It's not uncommon for senior leadership to implement pay policies and practices that employees aren't aware of," says Jackson. One contributing factor, she says, is a "single onboarding orientation" that "overloads" employees with information on everything from vacation days and performance reviews to pay policies.

A better approach, Cohen says, is for companies to "be very clear on their employment practices, especially as they relate to compensation, how salary is set, how companies conduct market surveys to price jobs, how they perform merit increases, and how bonuses are distributed. From an employer's perspective, the more you can communicate to your employees on your pay practices, the better."

But educating employees on pay practices also involves teaching managers how to "determine salaries and reward performance," says Frye. After all, managers are a direct link between employees and the leadership team. Consequently, they have a powerful say in how performance appraisal decisions are made and compensation is determined.

Conversely, Frye warns, when managers aren't educated on pay equity issues, "even when managers think they're doing the right thing, there may be a lack of uniformity that results in pay disparities that start small and eventually get big."

Robust Technologies for the Win

The pandemic has accelerated digital transformation in all areas of business, compensation being no exception. Yet while most organizations are using a wide variety of tools to ensure pay equity, 10% of respondents to the employer survey say they are not using any technologies whatsoever to assess pay equity.

Efforts to educate employees on pay equity have also fallen short. Thirty-five percent of employees believe organizations have not been effective at educating executives, supervisors, and employees on pay equity initiatives.

The most commonly used tools and technologies include industry benchmarking, as cited by 48% of organizations. It's an approach to pay equity that Windfeldt says has enabled Preferred Credit to retain "virtually all of our employees over The Great Resignation."

According to Windfeldt, in 2019 the financial services company introduced pay-equity matrixes, which the HR team populated with "market research on a wide array of positions and titles. We went through the entire company, looking at internal titles and positions and matching them to market data in terms of what these positions should be paid." Today, each job description at the company is assigned a particular pay grade for fairness and consistency.

Klott also leveraged industry benchmarks to improve pay equity at Independent Bank. The company examined individual job positions, evaluated the value these positions bring to the organization, and then "priced out these positions based on market data, including where the positions are located," he says. As a result, salary expense at Independent Bank increased by around $3.5 million after bringing employees up to market ranges, according to Klott. "The data showed where we needed to be from a competitive standpoint and also from a retention standpoint," says Klott. "We've really come a long way." In fact, since leveraging industry benchmarks, according to Klott, the company has practically reduced its churn rate by half.

Other tools and technologies used to ensure pay equity include HRIS (human resource information systems), cited by 36% of organizations, and data analytics, selected by 35% of respondents.

However, innovative tools are fast gaining traction in the pay equity arena. A perfect example is Encore Global's use of sophisticated business intelligence and analytics tools. The event solutions software provider built a pay equity model with "robust equity testing on our merit, performance, and succession processes to ensure fairness throughout the talent life cycle," according to Carl Schleyer, Encore Global's vice president of total rewards and HR technology.

The result, he says, is a data-driven predictive "model that helps us understand what's driving the rate of pay" for employees, as well as identify "outliers," based on a combination of factors including work experience, job level, and location.

Increased functionality, such as data visualization tools, is helping drive greater adoption of sophisticated pay equity technology solutions. "With dashboards, we can take a look at how we pay our employees and if we're being competitive with our pay as it pertains to the market," says Frederickson. "Having the data in front of us is an easy way to make sure we're achieving pay equity, rather than having to swim in a litany of spreadsheets and create ad hoc reports. It's just nice to be able to go into your system, access a report, and get a snapshot of how you're paying people."

In the future, artificial intelligence (AI) and machine learning also promise to play a larger part in pay equity by allowing data scientists to crunch vast volumes of labor market

47%

of employers surveyed said the chief human resources officer (or equivalent) has primary responsibility for pay equity in their organization.

"Companies want to achieve pay equity, they want to do it right, and they want to identify problems if they exist and fix them. But there are no shortcuts for doing so," says David Cohen, president, DCI Consulting Group.

data to determine proper compensation. But issues around data collection and inherent biases may mean organizations will continue to rely on industry benchmarking and HRIS for more years to come.

"Artificial intelligence could play a role in the pay equity space," says Cohen. "The problem is the data isn't there yet for organizations to perform it correctly and accurately. Ninety-nine percent of the employers we work with don't capture previous experience, education, certification, or even security clearance in their HR systems. That's the kind of data you need to effectively build AI models. Do I think that we will get there in the future? Yes. But the data just isn't there yet."

Jackson of Harvard Business School agrees that there is still work to be done before organizations widely adopt AI to eliminate pay disparities. "There's a lot of promise in AI and machine learning," she says. "But machine learning relies on existing data. And there's bias already built into that data because, historically, we haven't been compensating people fairly. Algorithms based on machine learning are not able to break that cycle." Rather, she recommends that organizations combine the algorithmic power of AI with "human judgment" for more accurate decision making.

Making Pay Equity Progress Last

While the majority of organizations expect their pay equity investments to remain flat over the next year, 31% expect a moderate increase in spend. There are several ways organizations would be wise to allocate these funds as part of a well-established pay equity plan.

For one, greater investment in pay equity training and education can inform employees of the measures organizations are implementing to achieve pay equity. Regularly conducting employee surveys and audits can help organizations take the internal temperature of pay equity progress rather than simply rely on external market data. Confidential communication channels are excellent for fostering a culture of openness that promotes far greater transparency around remuneration rates, especially for employees who identify as people of color, LGBTQIA+ community members, and women. And robust technologies promise to enhance executives' understanding of complex pay data.

Together, these strategies can provide a formidable foundation for achieving long-lasting pay equity—but only if organizations are willing to break ties with the status quo and embrace new thinking on how gender, race, and sexual orientation intersect with issues around pay gaps.

"Companies want to achieve pay equity, they want to do it right, and they want to identify problems if they exist and fix them," says Cohen. "But there are no shortcuts for doing so."

Endnotes

1 PayScale, "2022 State of the Gender Pay Gap Report," 2022. https://www.payscale.com/research-and-insights/gender-pay-gap/.

2 National Women's Law Center, "The Lifetime Wage Gap, State by State," March 16, 2021. https://nwlc.org/resource/the-lifetime-wage-gap-state-by-state/.

3 Deepa Purushothaman, Deborah M. Kolb, Hannah Riley Bowles, and Valerie Purdie-Greenaway, "Negotiating as a Woman of Color," HBR.org, January 14, 2022. https://hbr.org/2022/01/negotiating-as-a-woman-of-color.

Business Survey

Harvard Business Review Analytic Services surveyed 453 members of the *Harvard Business Review* audience via an online survey fielded between April and May 2022. Respondents qualified to complete the survey if they were familiar with their organization's pay equity plans or efforts.

Size of Organization

- **41%** 10,000 or more employees
- **30%** 1,000–9,999 employees
- **9%** 500–999 employees
- **19%** 50–499 employees
- **0%** Fewer than 50 employees

Seniority

- **21%** Executive management/ board members
- **43%** Senior management
- **23%** Middle management
- **13%** Other grades

Key Industry Sectors

- **17%** Technology
- **13%** Health care
- **12%** Education
- **11%** Government/ not-for-profit
- **9%** Financial services

All other sectors less than 8% each

Key Job Functions

- **19%** HR/training
- **11%** General management
- **11%** Operations/product management/ manufacturing

All other functions less than 8% each

Regions

- **90%** United States
- **10%** Canada

Consumer Survey

Harvard Business Review Analytic Services surveyed 3,005 full-time employee respondents (i.e., not senior or executive level) drawn from a third-party research panel. The study was conducted via an online survey fielded in May 2022.

Age Groups

- **0%** Under 18
- **10%** 18 to 24
- **23%** 25 to 34
- **23%** 35 to 44
- **24%** 45 to 54
- **20%** 55 to 69
- **0%** 70+

Genders

- **51%** Female
- **49%** Male
- **<1%** Prefer to self-describe

Race or Origin Identities

Respondents selected all that applied.

- **3%** American Indian, Alaska Native, or Other Indigenous Peoples
- **12%** Asian or Asian American
- **26%** Black or African American
- **10%** Hispanic or Latinx
- **1%** Middle Eastern or North African
- **1%** Native Hawaiian or Other Pacific Islander
- **55%** White
- **1%** Prefer not to say
- **1%** Prefer to self-describe

Size of Organization

- **25%** 10,000 or more employees
- **29%** 1,000–9,999 employees
- **15%** 500–999 employees
- **31%** 50–499 employees
- **0%** Fewer than 50 employees

Key Industry Sectors

- **16%** Health care
- **12%** Education
- **10%** Government/ not-for-profit
- **10%** Financial services

All other sectors less than 8% each

Key Job Functions

- **27%** Operations/product management/ manufacturing
- **12%** Other
- **11%** Administration

All other functions less than 8% each

Regions

- **83%** United States
- **17%** Canada

Figures may not add up to 100% due to rounding.

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