

# Addressing Pay Equity

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## Excerpts

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# SUMMARY OF KEY FINDINGS

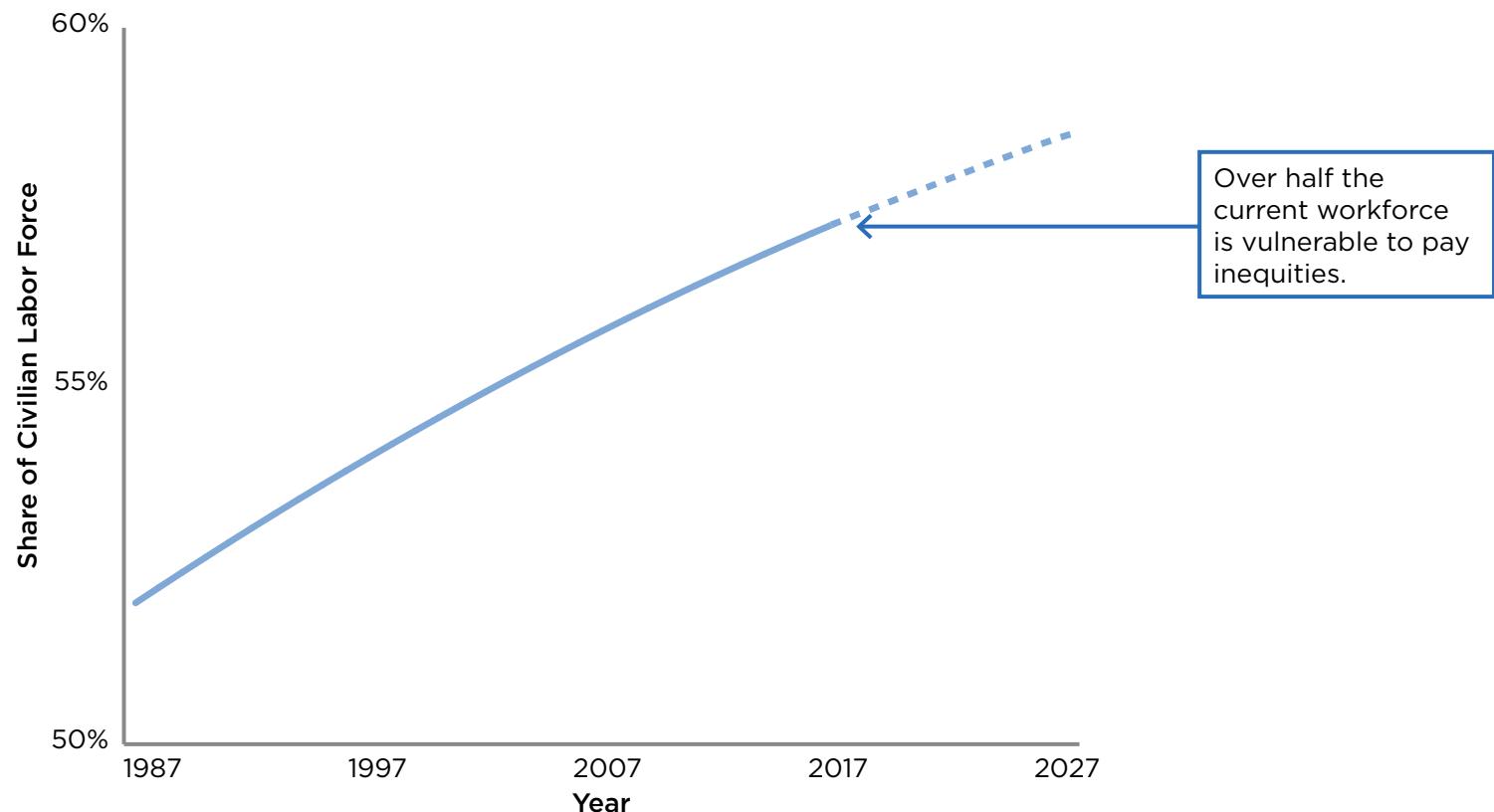
- **Managing pay equity is a universal and fundamental component of the Rewards executive's role.** Much of the pay equity gap is explained by differences in environmental factors, but the remainder (7.4%) is due to unexplainable factors and must be corrected by the Rewards function.
- **Despite increased organizational focus on equity, conventional pay practices are ineffective at delivering on equal pay.** Role-to-role pay gaps are trending upward at an average rate of 0.17% per year.
- **Immediate investment in pay equity enables executives to reduce the long-term cost of equity management.** Organizations that try to close gaps and maintain equity now will pay less than those that wait to take action because the average cost to correct gaps increases by \$439,000 each year.
- **Organizations should take three actions to better address pay equity:**
  - **Sustain Equity Through Integrated Assessments**—Integrate pay equity assessments as a key process of the Compensation function rather than treating it as an ad hoc initiative.
  - **Manage Perceptions Through Open Communication**—Address employee perceptions of pay gaps through communication rather than relying on the correction of gaps to drive employee outcomes.
  - **Keep Pay Gaps Closed Through Proactive Prevention**—Prevent the creation of pay gaps throughout the compensation life cycle rather than only assessing and correcting existing gaps.

Workforces are becoming more diverse, and therefore a rapidly increasing size of an organization's workforce is vulnerable to pay inequities.

- By 2027, almost 60% of the US labor force will be comprised of women and racial and ethnic minorities.

## A WORLD OF INCREASING INEQUITY

Women and Racial/Ethnic Minorities as a Share of the US Civilian Labor Force



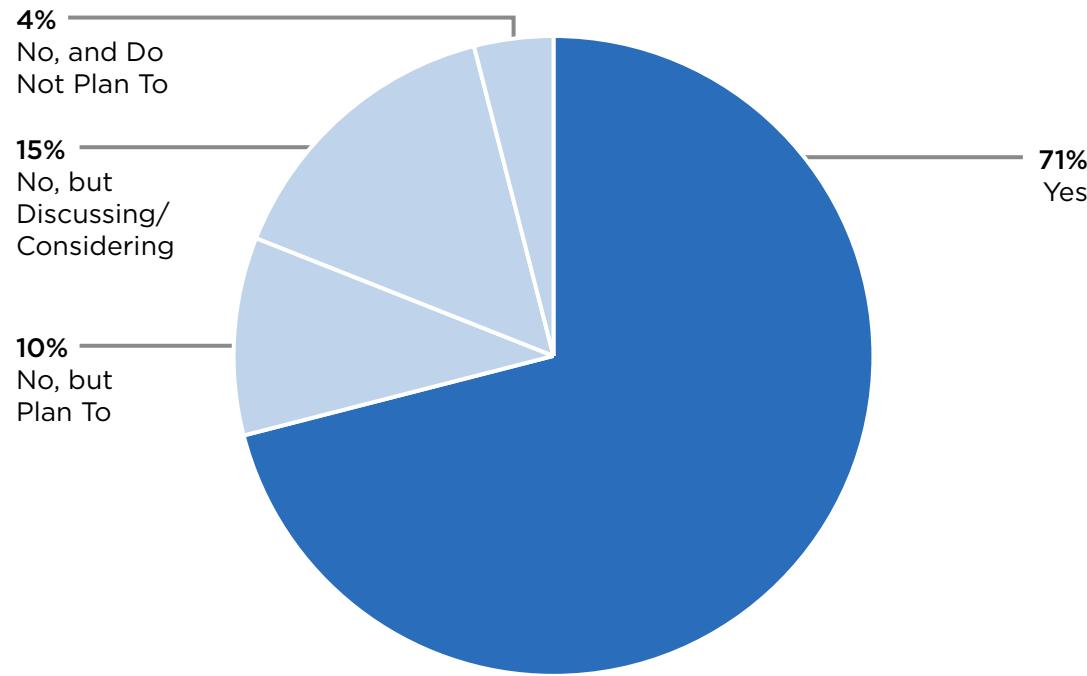
Source: United States Department of Labor, "Labor Force Statistics from the Current Population Survey," 28 April 2017, <https://www.bls.gov/cps/demographics.htm>; CEB analysis.

See the EU labor force trend.

Almost 75% of organizations have started taking action to address pay equity.

## MOST ORGANIZATIONS ARE TAKING ACTION

Organizations Taking Action to Address Pay Equity  
*Percentage of Organizations*



**Nearly all organizations** are planning to address pay equity.

*n* = 78.

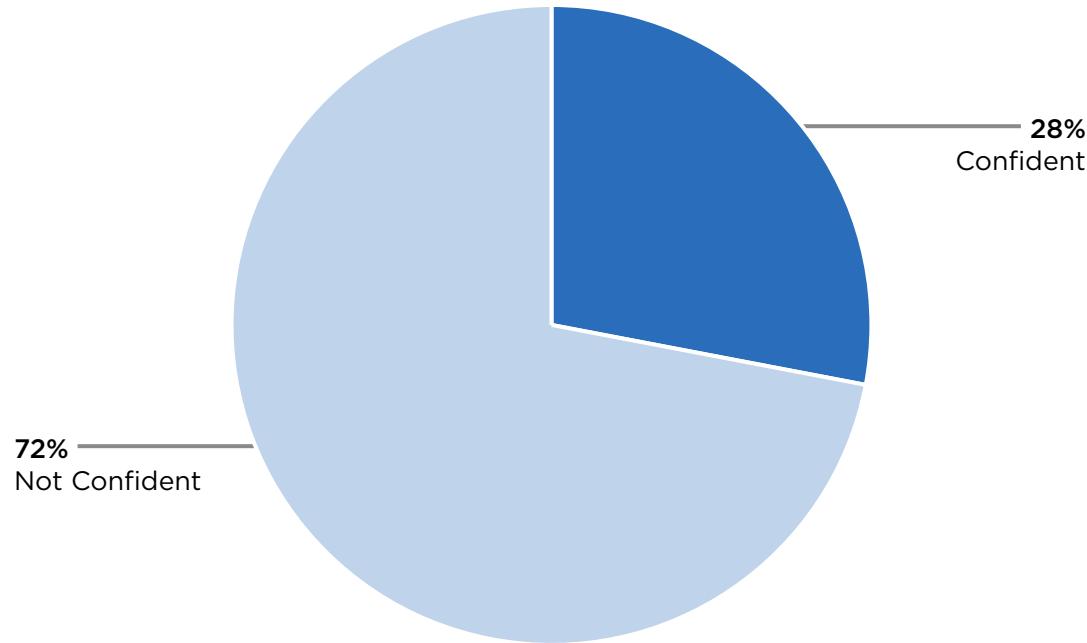
Source: CEB 2017 Pay Equity Benchmarking Survey.

Despite this action,  
fewer than one-third of  
organizations believe  
they have successfully  
closed existing pay gaps  
at their organization.

## ORGANIZATIONS ARE UNSUCCESSFUL

Organizations Not Confident They Have Closed Existing Pay Gaps

*Percentage of Organizations That Believe They Are Successful at Closing Existing Pay Gaps*



*n* = 78.

Source: CEB 2017 Pay Equity Benchmarking Survey.

We conducted a global analysis to understand the current state of practice in pay equity.

# A COMPREHENSIVE ANALYSIS

## Our Research Strategy

### Employee Survey

We surveyed over 20,000 employees across 40 countries to understand employee perceptions of pay equity.

### Glassdoor Data

We analyzed data from Glassdoor, which provided salary information for more than 500,000 employees, to understand the real state of pay equity today.

### Organizational Survey

We surveyed more than 75 heads of Total Rewards globally to understand organizations' pay equity practices.

### Executive Interviews

We conducted more than 50 interviews with heads of HR, Total Rewards, and Compensation to understand trends and challenges in pay equity.

Source: CEB analysis.

## Participating Organizations Partial List



Altria



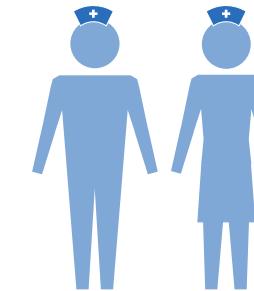
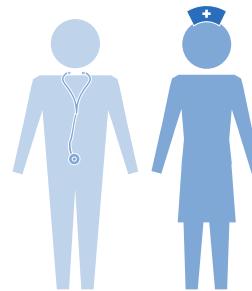
MARY KAY



Source: CEB analysis.

Although group-to-group pay gaps have created urgency around pay equity, companies have much more control over role-to-role pay gaps.

# ORGANIZATIONS INFLUENCE ROLE-TO-ROLE GAPS



## Environmental Causes Group-to-Group Pay Gaps

**Defined:** Discrepancies in pay resulting from talent factors (e.g., occupation, industry, experience)

**Cause:** Environmental, such as the concentration of women in certain occupations and industries, and the cumulative effect motherhood can have on their careers

**Significance:** Long-term barriers that result in earning gaps; deeply engrained practices that are hard to change

## Focus of Politics and Public Opinion

## Operational Causes Role-to-Role Pay Gaps

**Defined:** Discrepancies in pay resulting from personal characteristics (e.g., gender, race/ethnicity, age, nationality, religion)

**Cause:** Operational, related to practices such as hiring and talent management or attributed to biases that occur in the talent management cycle

**Significance:** Unlawful pay discrimination in most developed nations; hard to identify, because gaps can be explained by multiple factors

## Within Greatest Organizational Control

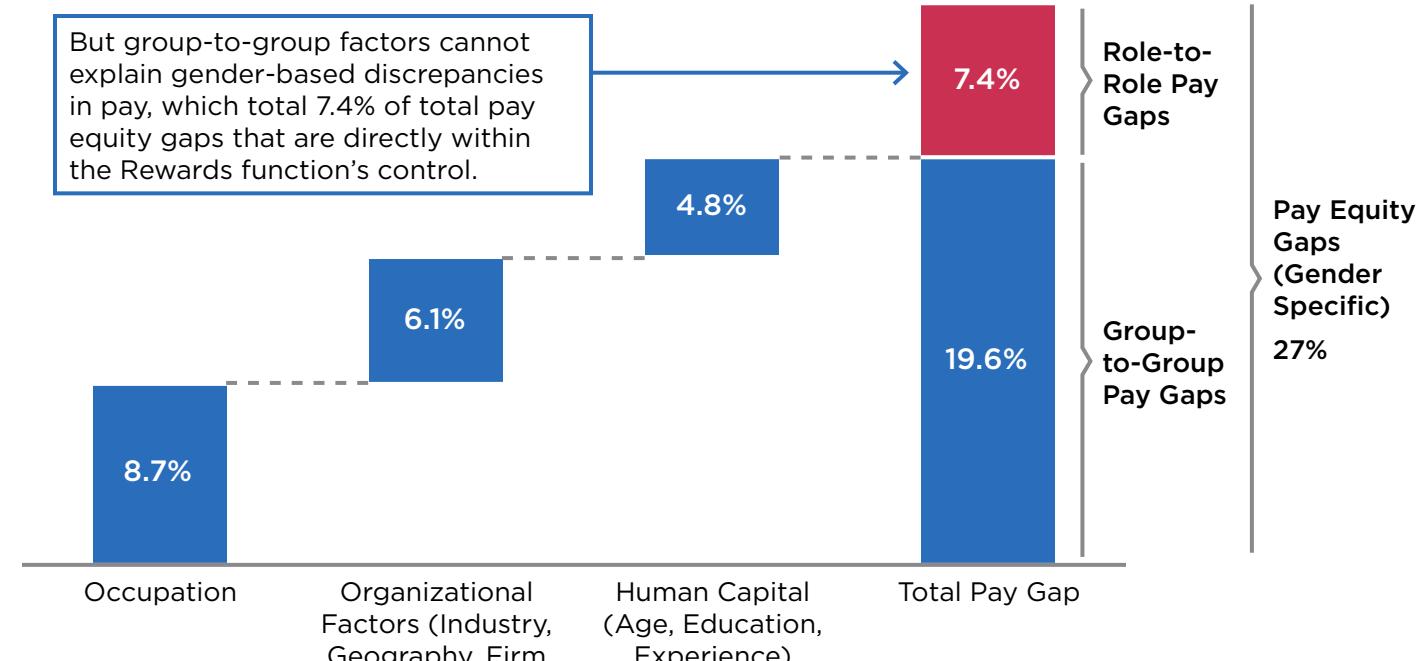
Source: CEB analysis.

Differences in environmental factors explain much of pay equity gaps, but the remainder is due to unexplainable factors the Rewards function must correct.

- A gender pay equity gap of 27% equates to women earning 78.7 cents per dollar that men earn.
- A role-to-role gap of 7.4% equates to women earning 93.1 cents per dollar that men earn for comparable work.

## REWARDS MUST ADDRESS ROLE-TO-ROLE GAPS

### Factors Explaining Gender-Specific Pay Equity Gaps



*n* = 505,438.

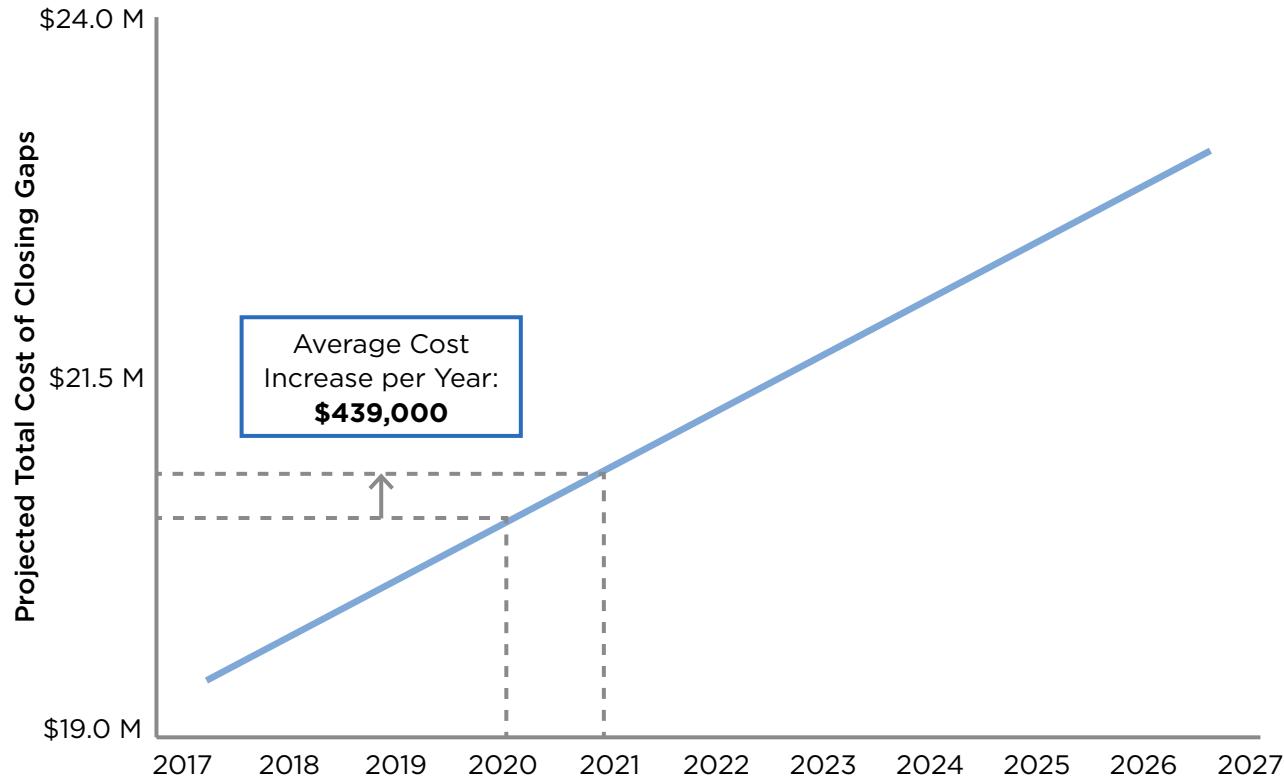
Source: CEB analysis; Employee data provided by Glassdoor.

**Managing pay equity is a universal and fundamental component of the Rewards executive's role.**

Organizations that make the effort to close gaps and maintain equity now will pay less than those that wait to take action.

## CLOSING GAPS WILL NEVER BE CHEAPER

Ensuring Equal Pay Is Cheaper Now Than It Ever Will Be Again  
*Projected Cost of Closing Role-to-Role Gender Gaps<sup>a</sup>*



*n* = 505,438.

Source: CEB analysis; Employee data provided by Glassdoor; United States Department of Labor, "Labor Force Statistics from the Current Population Survey," 28 April 2017, <https://www.bls.gov/cps/demographics.htm>.

<sup>a</sup> Based on projected changes in workforce gender diversity and size of role-to-role gender gap; assumes median salary of \$50,000 for women and an organization with 10,000 employees.

**Immediate investment in pay equity enables executives to reduce the long-term cost of equity management.**

See the average cost increase calculated in the UK pound.

# ADDRESSING PAY EQUITY

Creating an Equitable Organization Through Pay

Action 1 Integrated Assessment	Action 2 Open Communication	Action 3 Proactive Prevention
Integrate pay equity assessments as a key process of the Compensation function rather than treating it as an ad hoc initiative.	Address employee perceptions of pay gaps through communication rather than relying on the correction of gaps to drive employee outcomes.	Prevent the creation of pay gaps throughout the compensation life cycle rather than limiting efforts to assessing and correcting existing gaps.

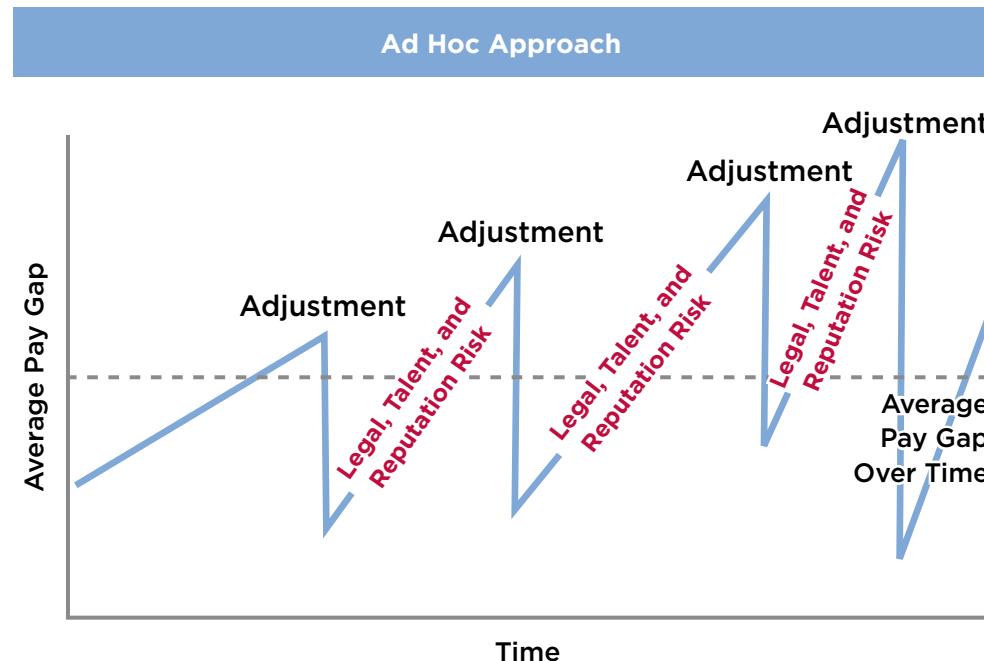


<sup>1</sup> Pseudonym.

Organizations that treat pay equity as an ad hoc initiative will leave themselves open to increasing legal, talent, and reputation risk as well as significant work between adjustments.

## AD HOC IS UNSUSTAINABLE

Change in Role-to-Role Pay Gaps Over Time  
Illustrative



Source: CEB analysis.



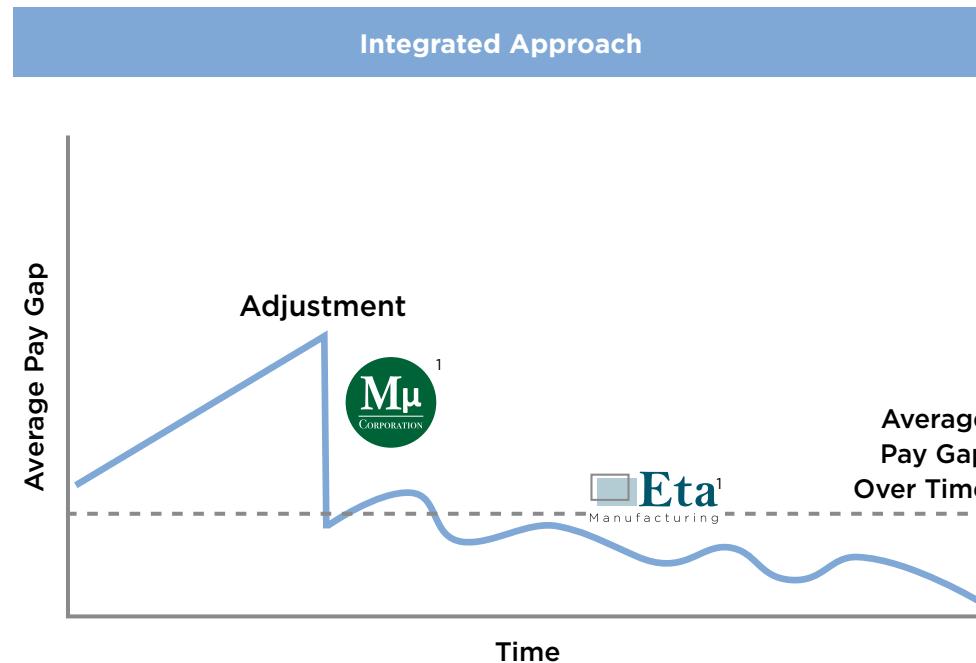
**Impact:** Ad hoc adjustments will not hold over time and leave organizations open to increasing legal, talent, and reputation risk. For each individual ad hoc adjustment, the Compensation team will have to:

- **Build** the business case for pay equity,
- **Attain** buy-in,
- **Deprioritize** other projects,
- **Request** funding for adjustments, and
- **Hire** a vendor, or **create** an internal team.

Instead, organizations can minimize work for the Compensation team and risk by integrating a pay equity audit to prevent gaps from reoccurring and more easily manage adjustments.

# INTEGRATE PAY AUDITS

Change in Role-to-Role Pay Gaps Over Time  
*Illustrative*



Source: CEB analysis.

<sup>1</sup> Pseudonym.

1



Develop an internal audit practice to **identify individuals** with role-to-role gaps:

- Create true peer groups.
- Prioritize limited funds to the most critical gaps.
- Confirm identified gaps with a qualitative review.

2



Integrate HR partners into audit processes to **sustain progress** on gaps:

- Monitor pay equity trends in the business.
- Provide context on employees with gaps for thoughtful adjustments.

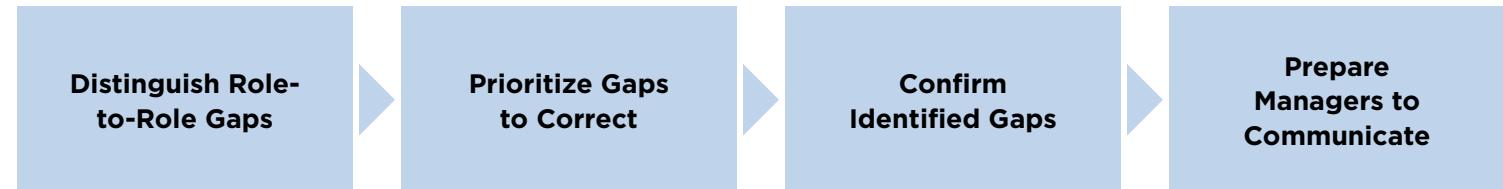
To identify individuals with true role-to-role gaps in their pay, organizations must evaluate pay quantitatively to ensure accurate pay assessments and qualitatively to confirm adjustment decisions.

- First, the Compensation team meets to group employees by the work they do to separate true role-to-role gaps from group-to-group gaps.
- Then the team determines a gap threshold it is willing to accept to prioritize limited funds for the most critical gaps.
- Next, the team allows managers to review adjustment decisions as a final check.
- Lastly, Mu provides managers with resources to help them communicate to affected employees why they are receiving adjustments.

# IDENTIFY AND ADDRESS ROLE-TO-ROLE GAPS QUANTITATIVELY AND QUALITATIVELY



## Quantitatively Analyze Pay



Separate true role-to-role gaps from group-to-group gaps by creating narrow groups of employees performing similar work.

Determine a threshold for equal pay that helps the organization prioritize the most critical gaps.

## Qualitatively Assess Results



Use a manager review as a final check that the employees identified should receive adjustments.

Clarify why affected employees are receiving adjustments by communicating the purpose behind them.

Source: Mu Corporation; CEB analysis.

This page represents a high-level overview of the Mu Corporation case study. View [Mu Corporation's Approach to Identifying and Addressing Role-to-Role Pay Gaps](#) in full on the CEB Total Rewards Website.

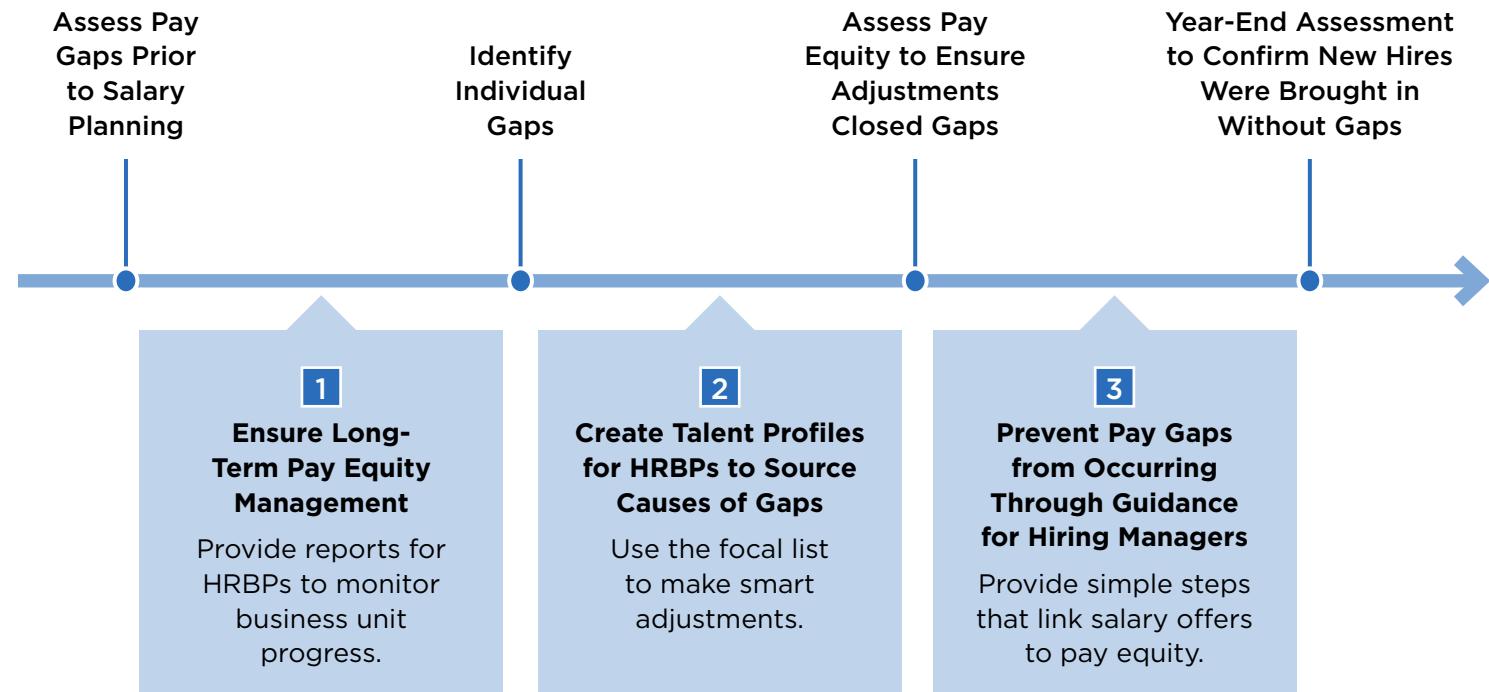
<sup>1</sup> Pseudonym.

Eta effectively monitors pay equity through integration of key HR partners into the pay equity work stream and by thinking strategically about how to maintain equity beyond adjustments.

- Eta monitors pay equity trends, facilitating HRBPs' ongoing maintenance of equity in each business unit.
- Compensation provides HRBPs with context around talent who need adjustments, enabling thoughtful salary planning.
- To prevent gaps from occurring in hiring, Eta provides guidance to hiring managers to ensure equitable offers.
- Eta determined assessing pay equity at two to three points that align to the HR workflow is best to sustain progress.

# INTEGRATE HR PARTNERS INTO PAY EQUITY DECISIONS TO SUSTAIN PROGRESS ON GAPS

## Eta's Integrated Pay Equity Model



Source: Eta Manufacturing; CEB analysis.

This page represents a high-level overview of the Eta Manufacturing case study. View [Eta Manufacturing's Integrated Approach to Sustaining Pay Equity](#) in full on the CEB Total Rewards Website.

<sup>1</sup> Pseudonym.

# ADDRESSING PAY EQUITY

Creating an Equitable Organization Through Pay

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Integrate pay equity assessments as a key process of the Compensation function rather than treating it as an ad hoc initiative.	Address employee perceptions of pay gaps through communication rather than relying on the correction of gaps to drive employee outcomes.	Prevent the creation of pay gaps throughout the compensation life cycle rather than limiting efforts to assessing and correcting existing gaps.

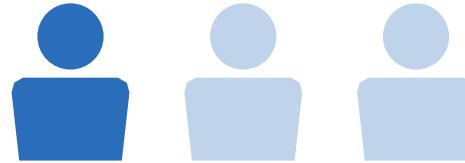


<sup>1</sup> Pseudonym.

When employees perceive pay gaps, organizations pay the price.

# PERCEPTIONS HAVE A PRICE

One in Three Employees Perceives Pay Gaps



*n* = 21,189.

Source: CEB 2016 Q4 Global Labor Market Survey.

The Effect on Retention of Employees Perceiving a Pay Gap Is...



...equivalent to a **high-performing employee** being rated as **meets expectations or lower**.

...equivalent to an employee believing he or she could earn **30% more** doing the same job at another company.

**...50% worse** than experiencing **a pay freeze**.

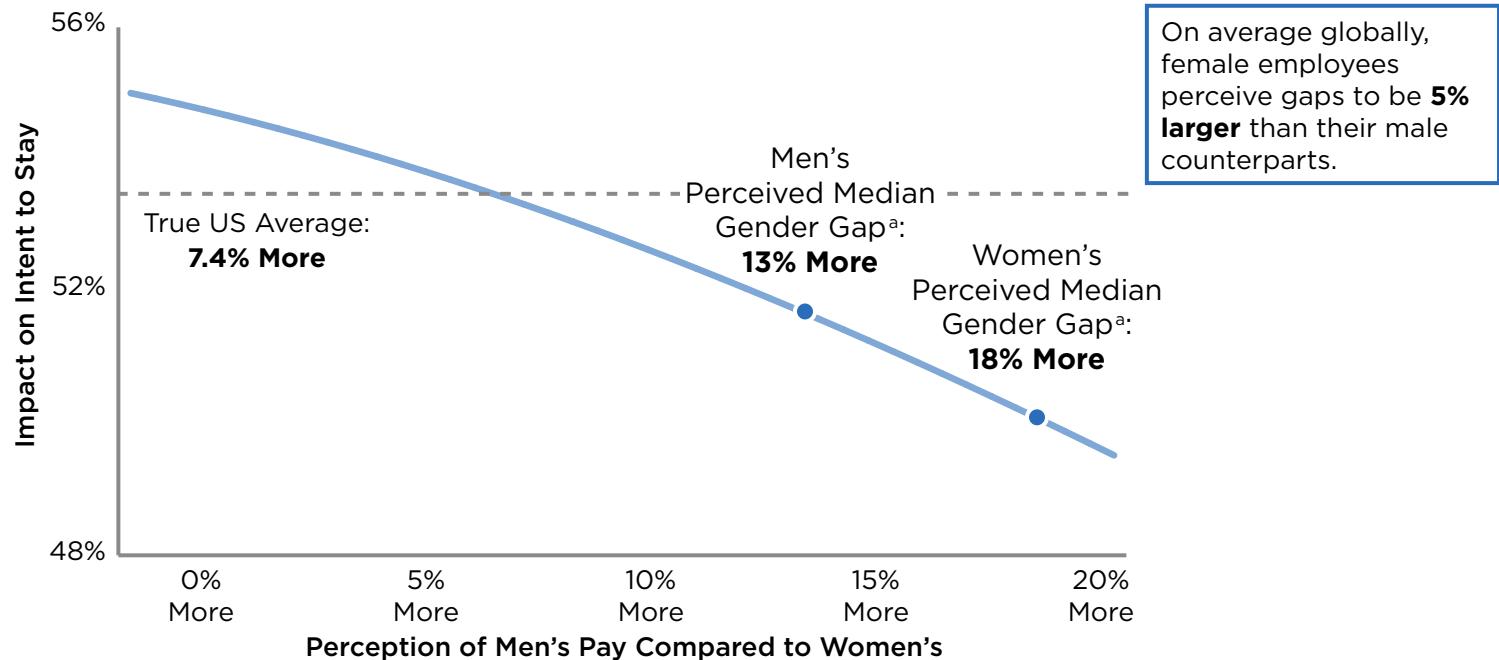
*n* = 21,189; 9,686.

Source: CEB 2016 Q4 Global Labor Market Survey; CEB 2016 Pay for Performance Employee Survey.

Employees who perceive gaps also believe them to be much larger than they truly are, which greatly reduces intent to stay.

## EMPLOYEES OVERESTIMATE GENDER PAY GAPS

Gender Pay Gaps Decrease Retention  
*Impact of Perceived Pay Gap Size on Employee Intent to Stay*



*n* = 5,681.

Source: CEB 2016 Q4 Global Labor Market Survey.

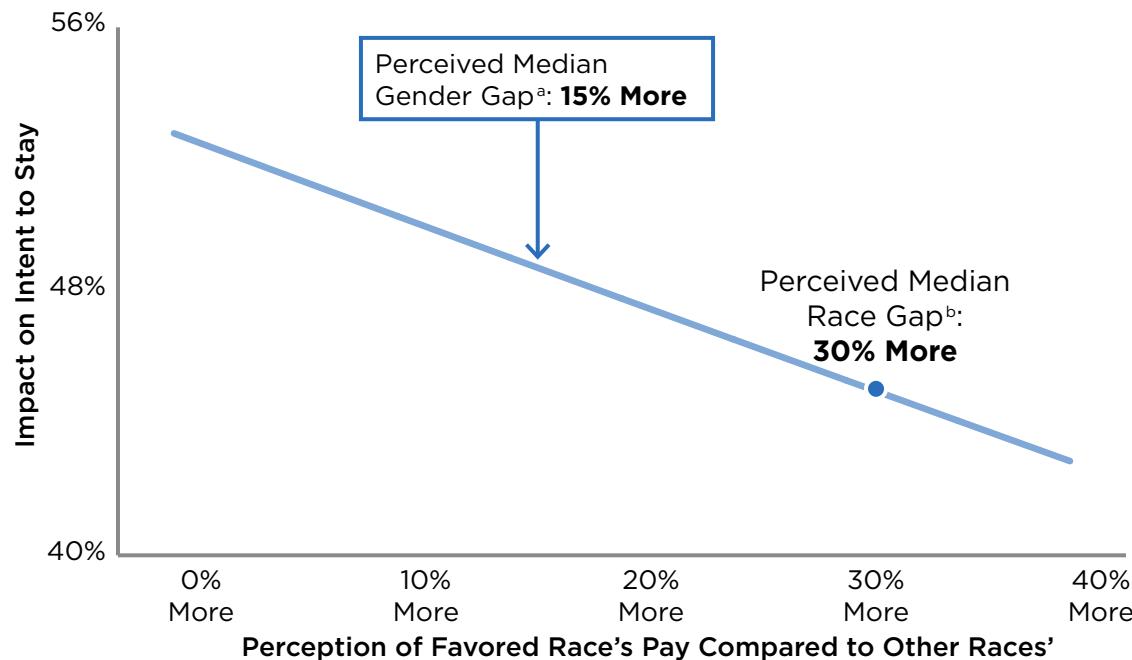
<sup>a</sup> Among employees who perceive a gender gap.

See the true [UK average gender pay gap](#) as compared with men's and women's perceptions.

Employees believe the race pay gap is 30% on average—twice as large as they believe the gender gap to be.

## RACE GAPS ARE PERCEIVED TWICE AS LARGE

Race Pay Gaps Decrease Retention  
*Impact of Perceived Pay Gap Size on Employee Intent to Stay*



*n* = 6,033; 5,681.

Source: CEB 2017 Employee Wellbeing Survey; CEB 2016 Q4 Global Labor Market Survey.

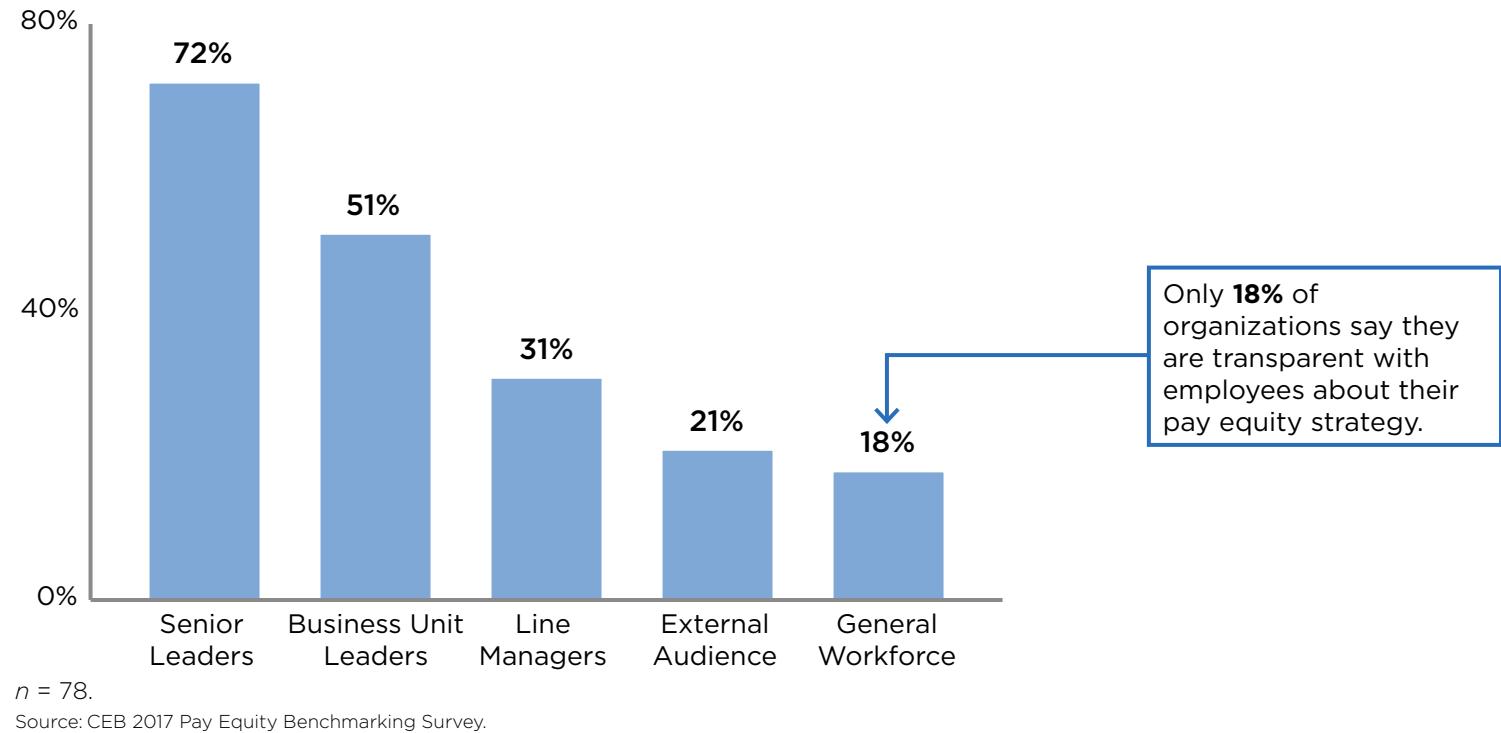
<sup>a</sup> Among employees who perceive a gender gap.

<sup>b</sup> Among employees who perceive a race gap.

Overall, organizations do not communicate beyond business unit leaders about their pay equity strategy, with only 18% communicating directly with employees.

## FEW COMMUNICATE TO EMPLOYEES

Most Organizations Do Not Communicate to Employees About Pay Equity  
*Percentage of Organizations That Communicate to Each Audience*

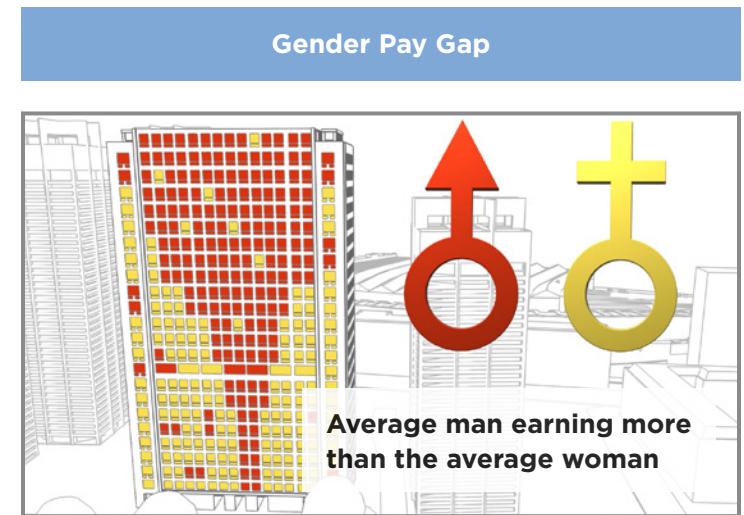
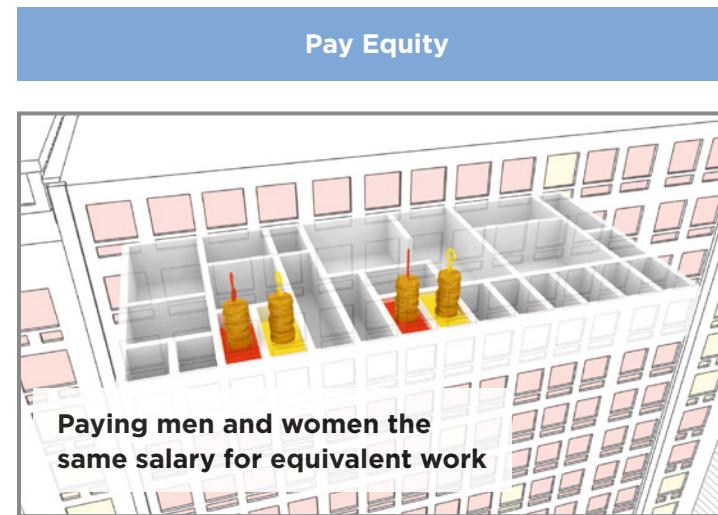


Shell preempts employee confusion about recent equity legislation with communication to the entire organization that defines the two kinds of pay gaps and how the organization is addressing each.

# PREEEMPT PAY EQUITY CONFUSION WITH COMMUNICATION



Shell's Enterprise-Wide Video Explaining the Two Kinds of Pay Gaps



Although Shell has had equal pay for many years and continues to monitor it with regular audits, it uses its communication to educate employees about the entire issue.

Shell clarifies that the organization is experiencing a gender imbalance issue that is contributing to its gender pay gap, not pay discrimination, and that the organization is addressing it with D&I initiatives.

Source: Shell; CEB analysis.

# ADDRESSING PAY EQUITY

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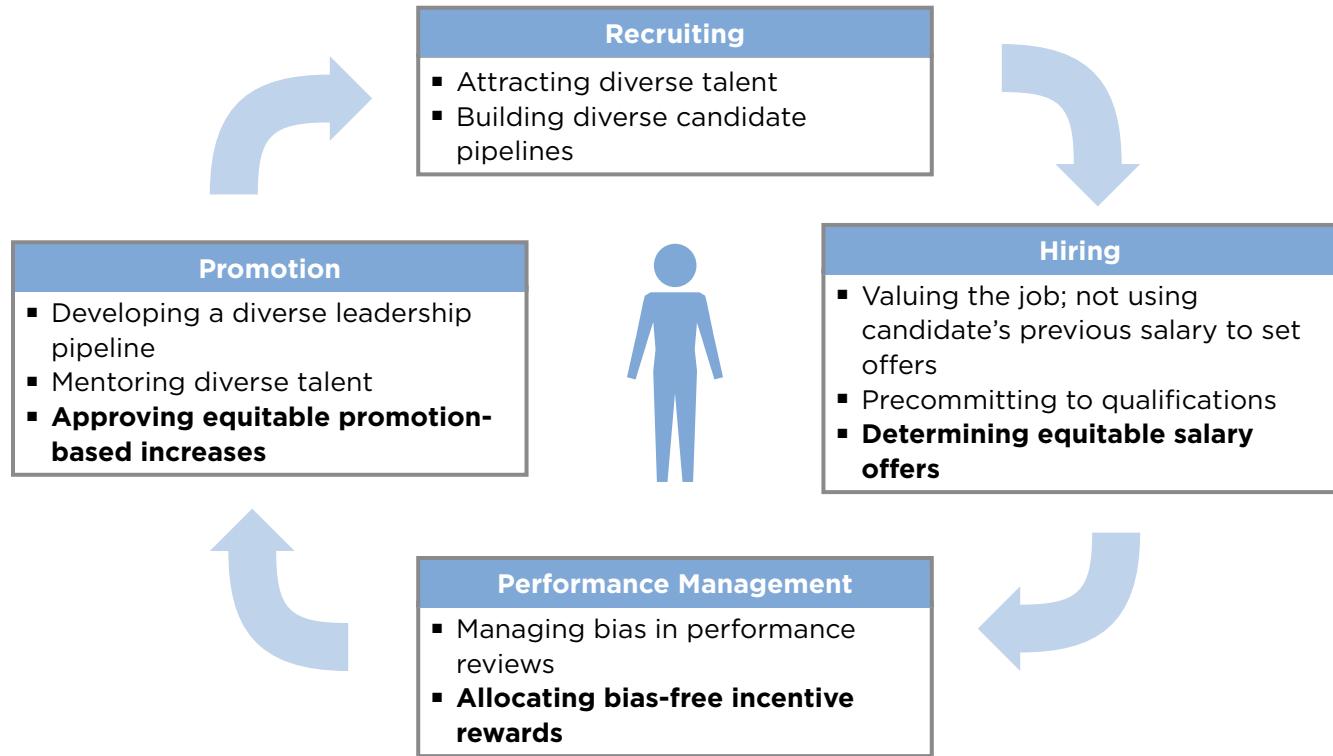
<sup>1</sup> Pseudonym.

To prevent role-to-role pay gaps from reoccurring, organizations should address bias in the employee life cycle.

- First, organizations should focus on the compensation practices where inequities can occur.

# ADDRESS REWARDS BIAS IN TALENT LIFE CYCLE

Compensation Aspects of the Talent Life Cycle

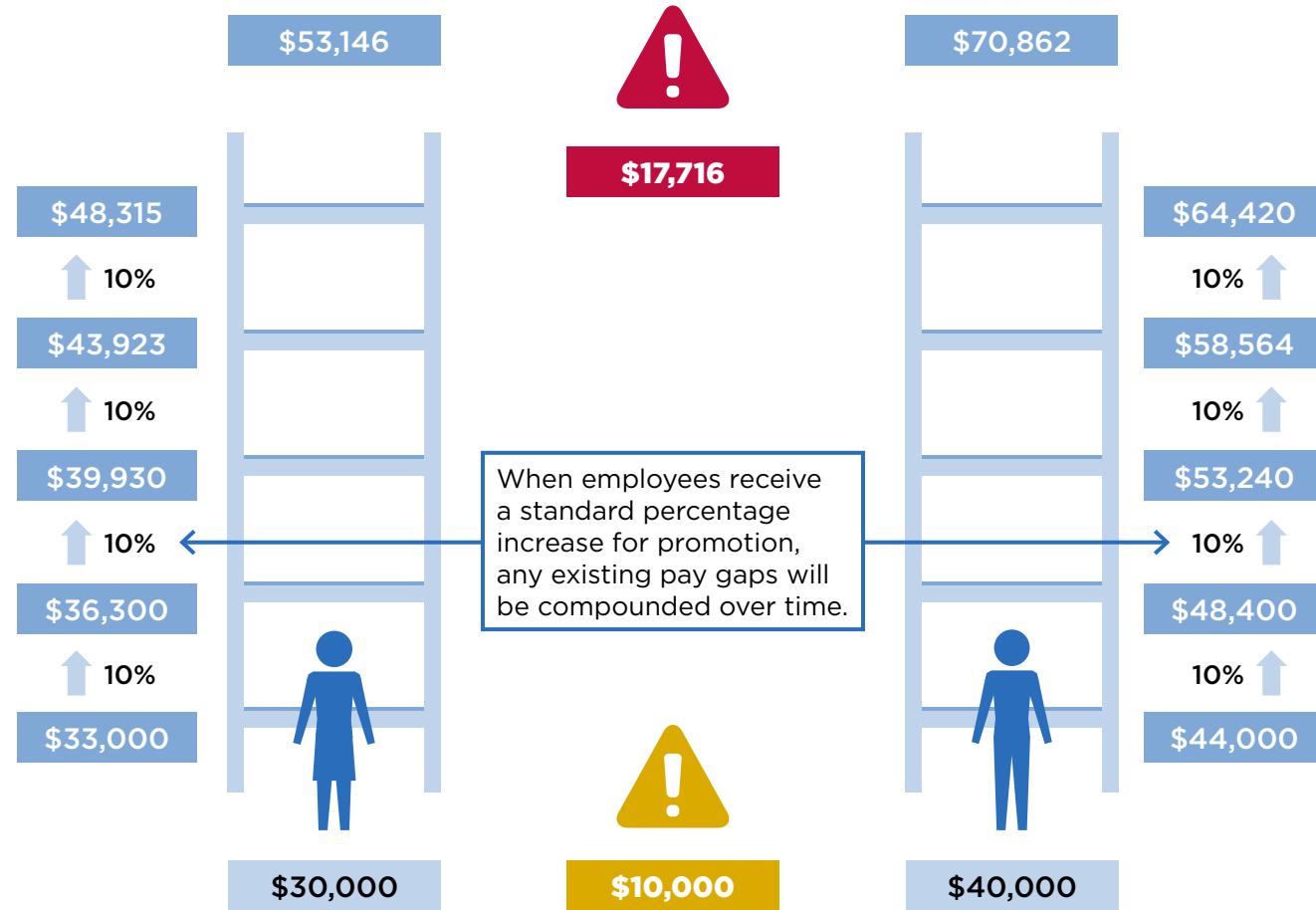


Source: CEB analysis.

Organizations perpetuate inequities through promotion practices that provide percentage increases on base pay, which compound current gaps.

## PREVENT PERPETUATING PAY GAPS IN PROMOTION

Pay Gaps Are Compounded Through Inequitable Promotion Practices



Source: CEB analysis.

Mu avoids perpetuating existing pay gaps by level-setting employee salary to new roles rather than carrying over inequities with increases as a percentage of current salary.

- Mu allows managers to vary award amounts to bring all employees to the range of the new role.
- Managers are able to make increases beyond the recommended position by submitting a request to the Compensation team for approval.
- The minimum threshold recommended is usually set at 85% of the midpoint for that role.

# USE PROMOTION INCREASES TO LEVEL-SET EMPLOYEE PAY



## Traditional Promotion Pay Practices

Managers award employees the recommended percent increase in salary that corresponds with their new role.

	Job Level	Current Salary	Increase	New Salary
<b>Employee A</b>	Analyst	\$35,000	10%	\$38,500
<b>Employee B</b>	Analyst	\$45,000	10%	\$49,500

- ✗ Enables existing inequities to follow an employee from role to role
- ✗ Allows bias by using base pay to reflect the value of an individual in a role rather than the role itself

## Mu's Promotion Pay Practices

Managers deliberately award employees salary increases that will level-set their pay to the minimum salary threshold that reflects the value of the role.

	Job Level	Current Salary	Minimum Threshold	Increase
<b>Employee A</b>	Analyst	\$35,000	\$50,000	\$15,000
<b>Employee B</b>	Analyst	\$45,000	\$50,000	\$5,000

- ✓ Eliminates existing gaps that may be created through hiring or performance rewards by level-setting employees to their new role
- ✓ Ensures equity in base pay by reflecting the value of the role rather than the individual

Source: Mu Corporation; CEB analysis.

“When employees are new to role, there really shouldn’t be major differences in their base pay. These guidelines allow us to ensure we are correcting any previous discrepancies, and then we can allow the pay-for-performance cycle to do its job and differentiate employees for their work.”

Manager, Compensation  
Mu Corporation

<sup>1</sup> Pseudonym.

The best organizations have learned three key lessons to effectively address pay equity.

# ADDRESSING PAY EQUITY

Creating an Equitable Organization Through Pay

**Managing role-to-role gaps is a fundamental component of the Rewards function.**

**Conventional pay practices are ineffective at delivering on equal pay.**

**Immediate investment reduces the long-term cost of equity management.**

Source: CEB analysis.

## Three Lessons Learned

### **Lesson 1** **Ad Hoc Is Unsustainable**

Ad hoc approaches to pay equity management are resource intensive and unsustainable.

### **Sustain Equity Through Integrated Assessments**

### **Lesson 2** **Perceptions Have a Price**

The cost of pay equity manifests in employee perceptions.

### **Manage Perceptions Through Open Communication**

### **Lesson 3** **Talent Practices Create Gaps**

Key talent practices must change to maintain ongoing pay equity.

### **Keep Pay Gaps Closed Through Proactive Prevention**

Source: CEB analysis.

# Appendix

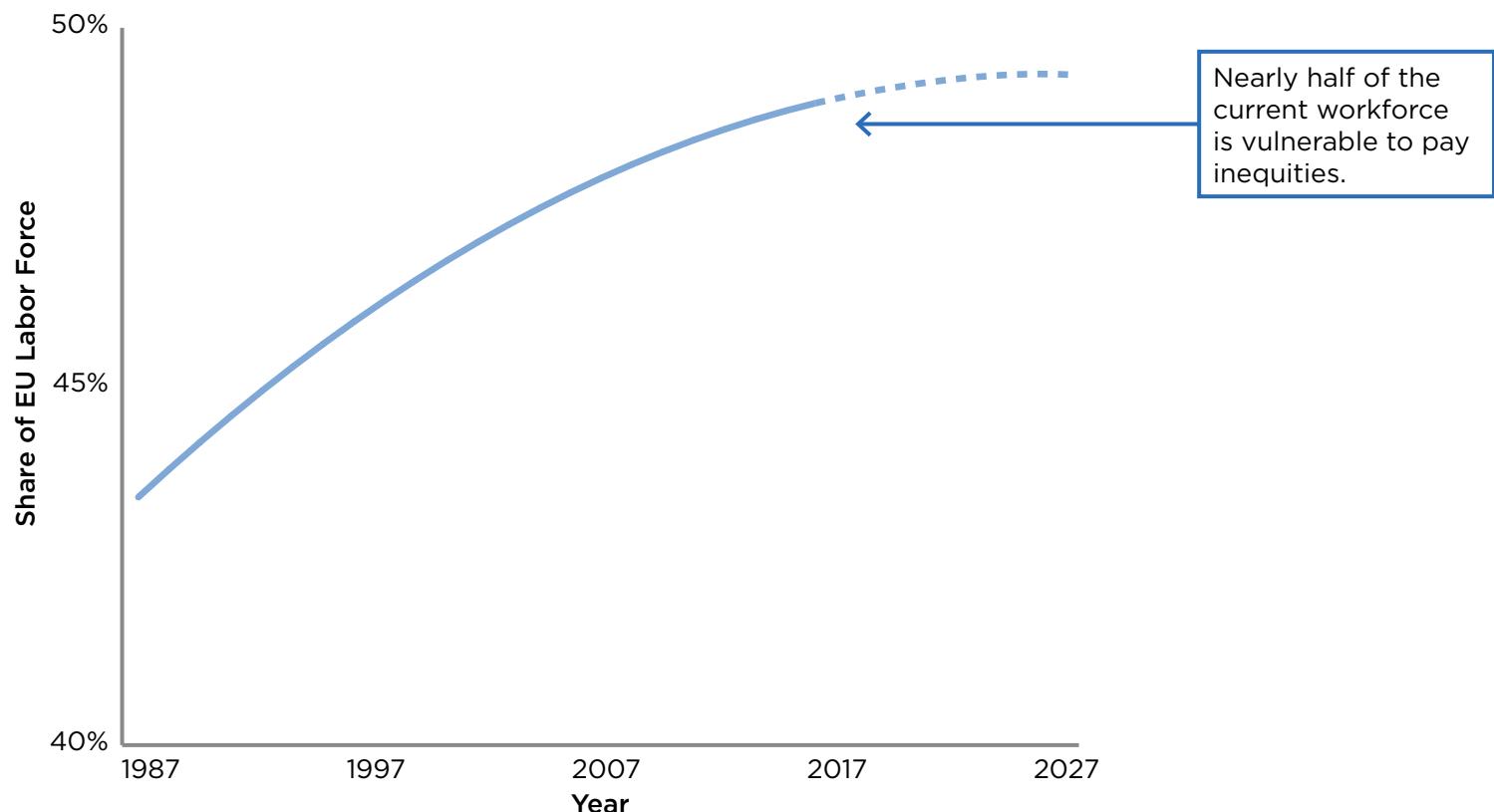
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Workforces are becoming more diverse, and therefore a rapidly increasing size of an organization's workforce is vulnerable to pay inequities.

- By 2027, almost 50% of the EU labor force will be made up of women.

## A WORLD OF INCREASING INEQUITY

Women as a Share of the EU Labor Force



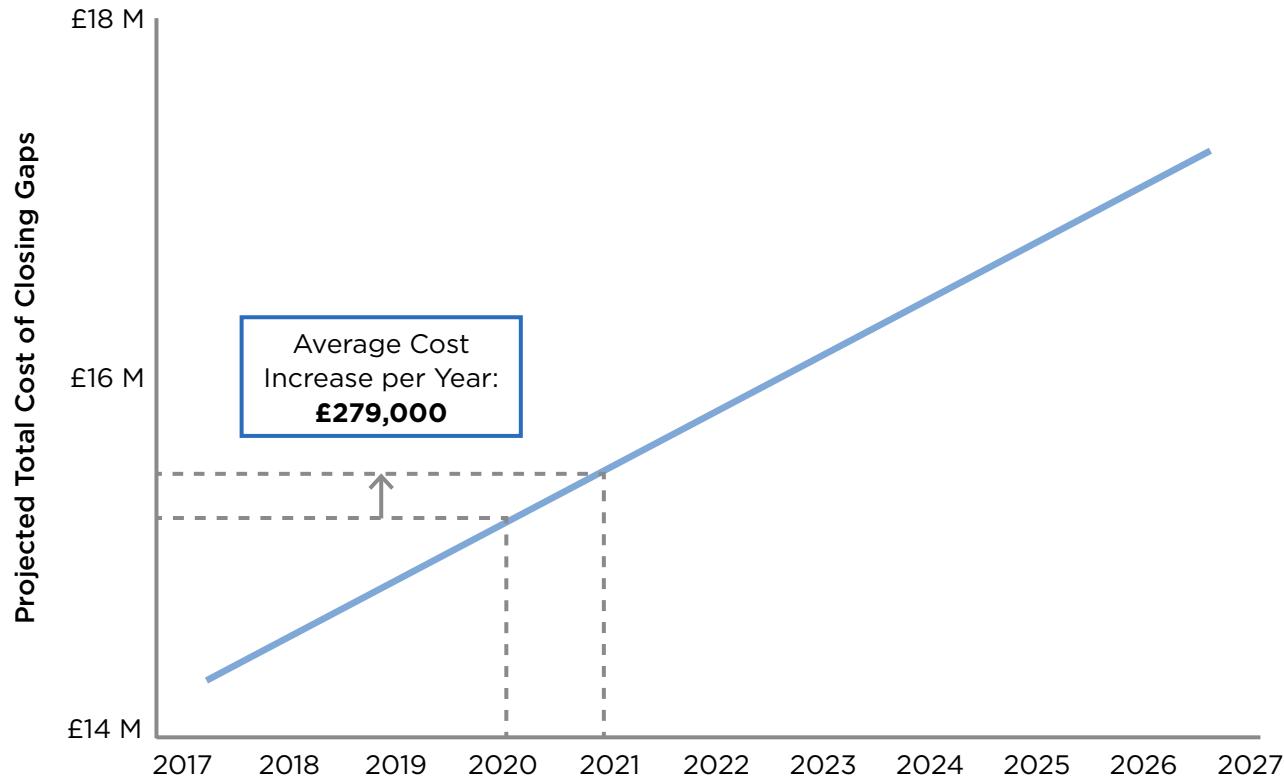
Source: Eurostat, *Employment and Unemployment (Labor Force Survey)*, 2016. <http://ec.europa.eu/eurostat/web/lfs/data/database>.

Return to the [US labor force trend](#).

Organizations that make the effort to close gaps and maintain equity now will pay less than those that wait to take action.

## CLOSING GAPS WILL NEVER BE CHEAPER

Ensuring Equal Pay Is Cheaper Now Than It Ever Will Be Again  
*Projected Cost of Closing Role-to-Role Gender Gaps<sup>a</sup>*



*n* = 505,438.

Source: CEB analysis; Employee data provided by Glassdoor; Eurostat, *Employment and Unemployment (Labor Force Survey)*, 2016.  
<http://ec.europa.eu/eurostat/web/lfs/data/database>.

<sup>a</sup> Based on projected changes in workforce gender diversity and size of role-to-role gender gap; assumes median salary of £35,000 for women and an organization with 10,000 employees.

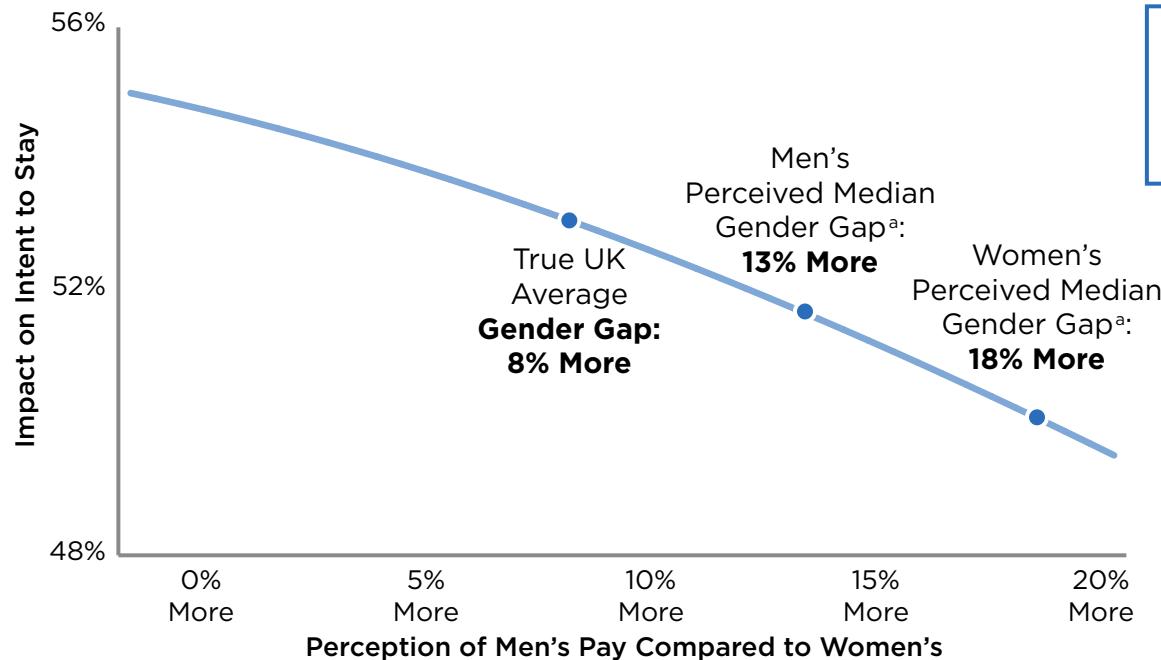
**Immediate investment in pay equity enables executives to reduce the long-term cost of equity management.**

Return to the average cost increase calculated in **US dollars**.

Employees who perceive gaps also believe them to be much larger than they truly are, which greatly reduces intent to stay.

## EMPLOYEES OVERESTIMATE GENDER PAY GAPS

Gender Pay Gaps Decrease Retention  
*Impact of Perceived Pay Gap Size on Employee Intent to Stay*



On average globally, female employees perceive gaps to be **5% larger** than their male counterparts.

*n* = 5,681.

Source: CEB 2016 Q4 Global Labor Market Survey; CEB analysis; Glassdoor, *Demystifying the Gender Pay Gap*, March 2016, <https://research-content.glassdoor.com/app/uploads/sites/2/2016/03/Glassdoor-Gender-Pay-Gap-Study.pdf>.

<sup>a</sup> Among employees who perceive a gender gap.

Return to the true US average gender pay gap as compared with men's and women's perceptions.