# BRIDGING THE PAY GAP: WHY PAY EQUITY PAYS OFF

PAY EQUITY RESEARCH REPORT

Introduction

Pay equity is not a revolutionary concept, yet in 2021, the data still shows that not all workers are receiving equal pay for equal work. For example, even after controlling for certain job-related factors (e.g., experience, education, industry, etc.), research indicates that women with the same job and qualifications still earn only $0.98 for every $1.00 earned by men.[1] Further, a similar pattern exists for people of color, with Black women earning $0.97 and Black men earning $0.99 for every $1.00 earned by white men.[2] While a few cents may seem trivial, it could mean the difference between thousands to hundreds of thousands of dollars lost over these workers' careers.

The good news is that many organizations have started the journey of making a committed, well-intentioned effort to build pay equity into their practices. For example, many organizations are now conducting pay equity reviews or self-evaluations of pay to enhance equity within their organizations and to identify and rectify unexplained differences. When conducted proactively, pay equity reviews can help organizations understand why pay differences exist and can assist organizations in establishing more equitable pay practices that not only foster healthy workplace cultures but also reduce legal risk.

There is still progress to be made, however, with many organizations missing the opportunity to build further trust through greater transparency when it comes to their pay equity practices.

47%
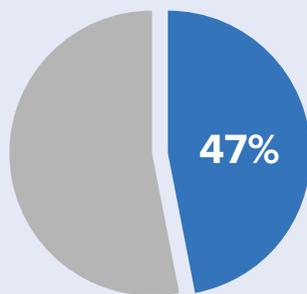
Less than half
of HR professionals say their organization is transparent with employees about how pay decisions are made.
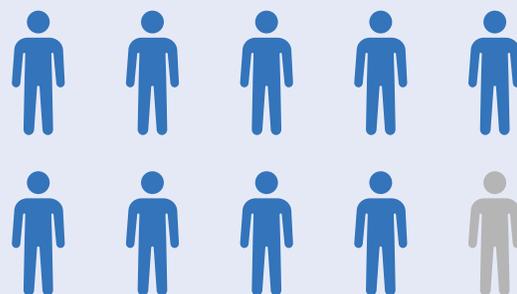
But more than
9 in 10
think it is important for organizations to be transparent on this issue.

[1] _The State of the Gender Pay Gap in 2021 PayScale._
[2] Ibid

To achieve pay equity, organizations must look beyond quick, surface-level fixes and focus on how they can create more equitable and transparent pay practices that serve as a foundation for lasting and positive change. Data shows that it pays off to do so. For example, **91%** of employees who feel their organization is transparent about how pay decisions are made also say they trust that their organization pays people equally for equal work regardless of gender, race and ethnicity. Conversely, only **49%** of those who feel their organization lacks transparency when it comes to pay decisions trust that employees are being paid equally for equal work. As the research throughout this report shows, organizations that choose to go on this journey not only will build more diverse, equitable and inclusive workplaces but also will likely benefit from a positive impact to their bottom line.

The Current Landscape of Pay Equity Practices

To better understand how organizations approach pay equity and where they are on their pay equity journey, it's important to look at the current pay equity landscape.
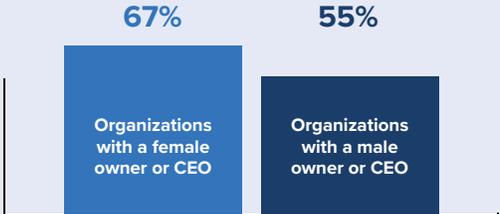
Who Conducts Pay Equity Reviews?

Many organizations engage in audits to ensure their pay practices are equitable. **Nearly 3 in 5 (58%)** of the organizations surveyed voluntarily conduct pay equity reviews to identify possible pay differences among employees performing similar work that cannot be explained by job-related factors.

This means that over half of organizations already recognize that pay equity best practices can bring value to their organizations. Notably, industry type does not appear to drive which organizations conduct pay equity reviews. Instead, larger organizations and organizations with female CEOs lead the pack when it comes to conducting pay equity reviews.

Larger organizations are more likely than smaller organizations to conduct pay equity reviews or audits

Organizations with 5,000+ employees	78%
Organizations with 500-4,999 employees	61%
Organizations with 100-499 employees	54%
Organizations with 1-99 employees	48%

Organizations with a female owner or CEO are more likely than those with a male owner or CEO to conduct pay equity reviews or audits

Organizations with a female owner or CEO	Organizations with a male owner or CEO
67%	55%

How Do Organizations Conduct Pay Equity Reviews?

Most organizations that engage in pay equity reviews recognize that pay equity is not a one-time action; rather, it requires an ongoing and meaningful commitment to fair compensation practices. Of the organizations conducting voluntary pay equity reviews, about **4 in 5 (82%)** say they do so on a regular basis, with **95%** of those organizations having conducted their most recent review within the past two years. Additionally, of the organizations conducting voluntary reviews, most do so in-house and primarily informally.

- **61%** conduct informal reviews in-house.
- **27%** use a third-party vendor or consultant with expertise in pay equity.
- **15%** conduct formal reviews in-house with the support of internal legal counsel.
- **11%** conduct formal reviews in-house with the support of external legal counsel.

When conducting pay equity reviews, organizations are most likely to review for gender-related and race-related pay inequities.

When conducting a pay equity review, which of the following employee characteristics does your organization examine for pay differences?

Gender	Race or ethnicity	Age	Disability status	Sexual orientation
75%	64%	48%	25%	17%

Why Don't Some Organizations Proactively Conduct Pay Equity Reviews?

If **3 in 5** of the organizations surveyed currently conduct voluntary pay equity reviews or self-evaluations of pay, that means approximately **2 in 5 (42%)** are not yet engaging in this best practice. So what's keeping these organizations from doing so?

It's important to acknowledge that engaging in pay equity reviews requires organizations to invest some level of both time and money. However, perhaps contrary to popular belief, investments of time and money are rarely cited by HR professionals as reasons why their organizations don't currently conduct these reviews: Just **8%** of HR professionals surveyed said their organization doesn't conduct these reviews because of the cost.

The top reasons HR professionals give for why their organization doesn't conduct pay equity reviews may be shortsighted when thinking about the potential long-term implications of these decisions.

Of the HR professionals who say their organization doesn't conduct pay equity reviews:

47%
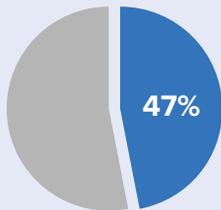
Nearly half say it's because conducting pay equity reviews isn't a priority for their senior leadership.

Implication: Senior leaders must recognize that the tone set from the top often has significant and continuous impact on whether their workforce feels respected, valued and treated fairly.
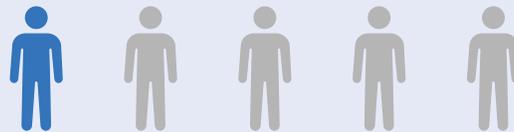
Around 1 in 5

23%	**22%**	**18%**
say their organization doesn't need to conduct one.	say their organization doesn't know how to conduct an effective pay equity review.	say they don't have the budget to rectify pay disparities detected by a review.

Implication: As discussed previously, pay equity is unlikely to be achieved through a one-time action. Just because pay equity issues weren't detected in the past doesn't mean they can't arise in the future. Given the diversity of today's workforce, even the most well-intentioned organizations can still be vulnerable to pay equity issues.

Implication: Waiting until an employee files a complaint is not the right time to start engaging in pay equity reviews. Importantly, a lack of awareness of how to conduct an effective pay equity review is unlikely to hold up in a court of law. When it comes to pay equity, planning ahead is always a best practice.

Implication: Ignoring pay disparities that can't be explained by job-related factors won't make them go away. By engaging in proactive planning earlier, such as during yearly budget discussions, organizations not only will ensure they have the funds available should they be needed but also will be better positioned to ensure that potential disparities do not compound over time.

While the journey to pay equity can be challenging, organizations willing to make this investment are likely to experience long-term savings, such as mitigated legal costs, higher employee morale and retention, and better workplace culture. However, to reap these long-term savings, organizations must be cautious about falling into common pay equity pitfalls.

Pay Equity Pitfalls: An Ounce of Prevention Is Worth a Pound of Cure

Pay equity pitfalls can be encountered in several places. To avoid these pitfalls, awareness and education are key. While all organizations still have room for improvement, organizations that voluntarily conduct pay equity reviews are better prepared to create fair and equitable workplaces.

> Of the organizations that conduct pay equity reviews, **83% say they've made adjustments or changes to employees' pay** following the conclusion of a review, demonstrating that pay equity reviews can have a real, direct and immediate positive impact on employers' compensation practices.

This also highlights a good-faith effort on the part of organizations to rectify pay differences proactively and reduces organizations' legal risk.

In other words, organizations that lead in the pay equity space understand the importance of proactive vigilance to ensure pay practices continue to remain equitable across their workforce for years to come. **As the saying goes, "An ounce of prevention is worth a pound of cure."**

Pitfall #1: Data Quality

The first pitfall organizations may face on their pay equity journey is related to the quality of their compensation and job data. For example, **half (50%)** of organizations say they have positions within their company that share the same job title or job code but that otherwise involve significantly different tasks or roles. Yet, of those organizations, **29%** say they don't have a formal way of tracking this information. To fully understand their progress on pay equity, organizations must first have accurate and comprehensive data they can use for that purpose. Without the data to show, for example, that employees perform different work, organizations will be unable to identify how to improve the fairness of their compensation practices.
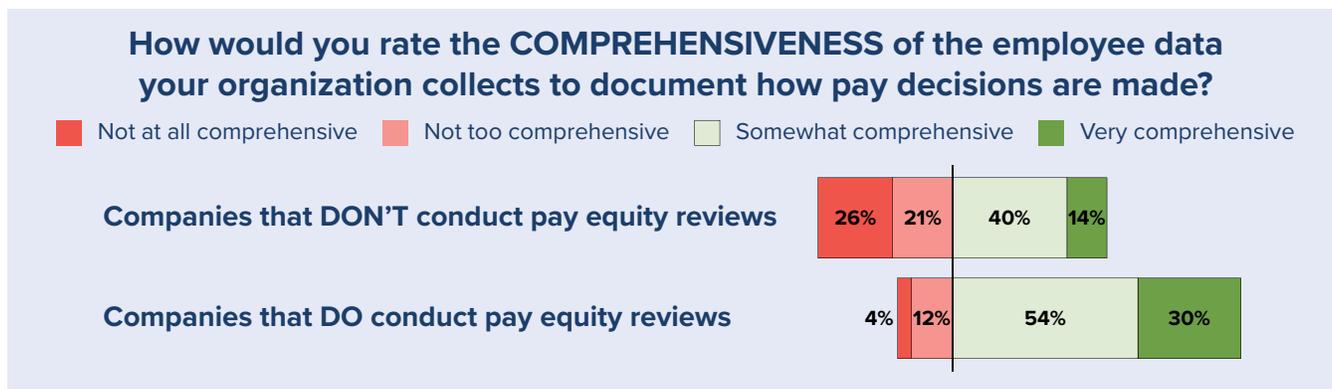
Further, **approximately 9 in 10 (91%)** of the organizations surveyed say they voluntarily offer higher starting pay to job candidates who possess skills, qualifications or

credentials that are above and beyond the minimum qualifications for a position or will do so if the candidate negotiates for it. Yet, of these organizations, **1 in 5 (20%)** don't have a formal way of tracking information about these additional skills, qualifications or credentials. While offering higher pay to highly qualified candidates or to workers who perform substantially different work is not illegal, organizations that don't effectively record and store this information have no way of showing that a pay decision was made using fair and data-driven criteria.
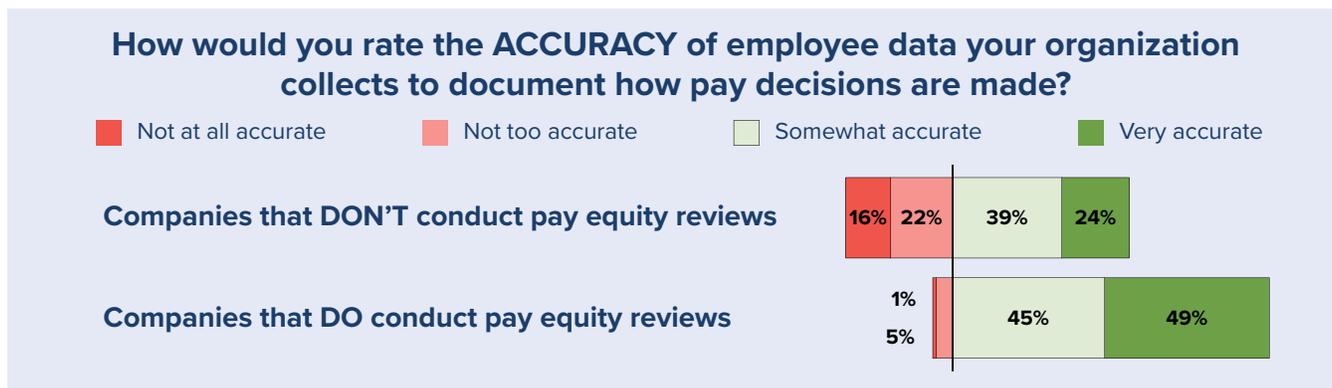
Just like the foundation of a home, organizations looking to build equitable and legally defensible pay practices must prioritize building better data systems to track how pay decisions are made. When organizations have accurate and comprehensive pay data as their foundation, they enhance the strength and longevity of their pay practices as well as their ability to weather storms.

When compared to HR professionals whose organizations don't conduct pay equity reviews, HR professionals whose organizations do conduct such reviews are:

- **Twice** as likely to say the employee data their organization collects to document how pay decisions are made is <u>very</u> comprehensive **(30% versus 14%).**

How would you rate the COMPREHENSIVENESS of the employee data your organization collects to document how pay decisions are made?

Legend: Not at all comprehensive | Not too comprehensive | Somewhat comprehensive | Very comprehensive

Companies that DON'T conduct pay equity reviews: 26% | 21% | 40% | 14%

Companies that DO conduct pay equity reviews: 4% | 12% | 54% | 30%

- **Twice** as likely to say the employee data their organization collects to document how pay decisions are made is <u>very</u> accurate **(49% versus 24%).**

How would you rate the ACCURACY of employee data your organization collects to document how pay decisions are made?

Legend: Not at all accurate | Not too accurate | Somewhat accurate | Very accurate

Companies that DON'T conduct pay equity reviews: 16% | 22% | 39% | 24%

Companies that DO conduct pay equity reviews: 1% | 5% | 45% | 49%

- **Nearly twice** as likely to agree or strongly agree that they're confident their company's employee data records and/or documentation are detailed enough to explain a pay difference if one was detected during a pay equity review **(79% versus 41%)**.

I am confident that my organization's employee data records and/or documentation are detailed enough to explain a pay difference if one was detected during a pay equity review or audit.

	Strongly disagree	Disagree	Agree	Strongly agree

	Strongly disagree	Disagree	Agree	Strongly agree
Companies that DON'T conduct pay equity reviews	20%	38%	34%	7%
Companies that DO conduct pay equity reviews	5%	17%	60%	19%

- **Significantly more** likely to say their organization has the systems and technology it needs to collect and store high-quality data to support a pay equity review **(78% versus 55%)**.

My organization has the systems or technology it needs to collect and store high-quality data to support a pay equity review or audit.

	Strongly disagree	Disagree	Agree	Strongly agree
Companies that DON'T conduct pay equity reviews	14%	31%	42%	13%
Companies that DO conduct pay equity reviews	6%	16%	57%	21%

These findings underscore that conducting pay equity reviews can naturally lead to the existence of better systems that help organizations understand what they need to be able to make better, more informed and equitable pay decisions. What's more, these benefits can be recognized by organizations of all sizes. In fact, the data shows across the board that organizations that conduct pay equity reviews, regardless of their size, have more accurate and comprehensive pay data than their same-size counterparts that don't proactively conduct such reviews. In other words, following pay equity best practices just makes good business sense. When organizations invest in the quality of their pay equity data, they are also investing in building a stronger foundation for the future.

Pitfall #2: Pay History

The second pitfall organizations may face on their pay equity journey has to do with the information they collect from job candidates. During the hiring process, organizations often gather a variety of information from job candidates to determine their fit for the role. Asking for information such as candidates' experience and education, their skills and abilities, and their pay expectations is often considered a standard part of the hiring process and is used to ensure job candidates and employers are on the same page.

However, there is one piece of information that some organizations may still request that has the potential to create a pay equity pitfall: pay history. Asking candidates for their pay history can be problematic because it's possible that pay history could reflect an inequity they experienced earlier in their career. In response, some states and localities have enacted different forms of prohibitions against pay history inquiries, which has created a patchwork of different policies across the United States.

Of the HR professionals whose organizations don't operate in a state that bans pay history inquiries, **more than 1 in 3 (36%)** say their organization always, often or sometimes requests that job candidates provide information about their prior pay or pay history during the hiring process.

Yet, when asked why their organization asks candidates for their pay history, the reasons HR professionals provided were very similar to the reasons why they ask candidates for their pay expectations.

Reasons Why Organizations Ask Candidates to Provide Pay History or Pay Expectation Information		
Top 3 Reasons	**Candidates' Pay History**	**Candidates' Pay Expectations**
To ensure the candidate's pay expectations will be in line with the compensation the organization is able to offer	**78%**	**89%**
To determine what pay rate would be appealing to the candidate	**46%**	**40%**
To determine what pay rate should be offered to a candidate	**38%**	**30%**

This poses an interesting question to organizations that's worth reflecting on: Why ask for a candidate's pay history when similar information can be gleaned by asking about pay expectations?

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Pitfall #3: Not Doing the Homework

Most organizations are already asking about pay expectations: **86%** say they always, often or sometimes ask job candidates to provide this information during the hiring process. But simply pivoting from pay history to pay expectations isn't a cure-all for achieving pay equity. Prior to asking for candidates' pay expectations, organizations will benefit from doing their homework.

When asking about pay expectations, organizations must be aware that men and women tend to approach these discussions in different ways. When survey respondents were asked about the last time they were asked to provide information about their pay expectations or desired salary during the job application or job interview process, women were more likely than men to say that they only asked for between 1-10% more than their current pay at the time **(50% versus 34%)**. Men were more likely than women to say they asked for 11%-20% more or over 20% more than their current pay at the time **(22% versus 14% and 12% versus 6%, respectively)**. Further, when asked about the last time a pay offer didn't meet their expectations, men were more likely than women to say they turned down the job **(47% versus 40%)**. In other words, women tend to be less ambitious than men with their pay expectations, possibly without realizing the impact this may have on their future career earnings.

When thinking about the last time you were asked to provide information about your pay expectations or desired salary during the job application and/or job interview process, what was the desired level of pay you asked for?		
Communicated Pay Expectations	**Men**	**Women**
Less than your current pay at the time	**10%**	**7%**
The same amount as your current pay at the time	**21%**	**23%**
Between 1-10% more than your current pay at the time	**34%**	**50%**
Between 11-20% more than your current pay at the time	**22%**	**14%**
Over 20% more than your current pay at the time	**12%**	**6%**

What's more, female job candidates' tendency to ask for less money means many are selling themselves short in final pay negotiations:

1 in 3 HR
professionals said their organization has offered a candidate a lower pay rate than was originally budgeted for because the candidate's pay expectations were lower than expected.

Nearly 4 in 5 HR
professionals reported that their organization has offered a higher pay rate than was originally budgeted for because the candidate's pay expectations were higher than expected.

So how are male and female workers determining what they consider fair?

When setting their pay expectations, workers are most likely to compare against past or current pay to determine the amount of pay they consider fair, with **70%** saying they use this method. This is **27 percentage points higher** than the second most utilized method—online salary calculators or tools—at **43%**.

Interestingly, while male and female individual contributors are about equally likely to compare against their past or current pay **(71% versus 70%)**, there is a noticeable gap between male and female managers. Whereas **76%** of female managers say they compare against their past or current pay when determining what pay they consider fair, only **66%** of male managers say the same. If female managers are more likely than male managers to base their pay expectations on their past or current pay, it's possible that a past inequity could carry over from job to job and compound over time at the leadership level.

For organizations looking to establish equitable pay practices, it's critical to understand how to approach conversations about pay expectations with these considerations in mind. While organizations can't control what candidates ask for, those organizations that do their homework and are aware of the different approaches men and women might take are better positioned to ensure that pay decisions are ultimately based on candidates' skills and qualifications for the role.

Pitfall #4: Training

The fourth pitfall organizations may face on their pay equity journey relates to the training (or lack thereof) that employers provide to their workforce on the topic of pay equity practices. When it comes to training on pay equity, most organizations, even those that regularly conduct pay equity reviews, fall short of ensuring that HR, senior leaders and people managers are up to speed.

For example, only **26%** of organizations that conduct pay equity reviews also provide training on how to make business-related pay decisions. That number decreases to **5%** for organizations that don't conduct pay equity reviews. Such training can cover various topics, including the organization's compensation strategy for competitive and equitable pay, how that strategy is tied to objective criteria that should be incorporated when setting pay ranges and making pay decisions, and how to apply those criteria consistently across employees.

Additionally, **only 35%** of organizations that conduct pay equity reviews also provide training on how to properly document pay decisions. That number decreases to **12%** for organizations that don't conduct pay equity reviews. Going back to Pitfall #1, comprehensive and accurate pay data is an essential component to building a strong foundation for legally defensible and equitable pay practices. However, most organizations are not currently ensuring that hiring decision-makers across their business are on the same page when it comes to understanding how to make business-related pay decisions and, in turn, how to properly document those decisions.

Percentage of organizations offering pay equity-related training

■ Companies that DO conduct pay equity reviews   ■ Companies that DON'T conduct pay equity reviews

% offering this type of training

| | 26% | 5% | 35% | 12% | 41% | 9% |

Training on how to make business-related pay decisions

Training on how to properly document pay decisions

Training on the importance of pay equity

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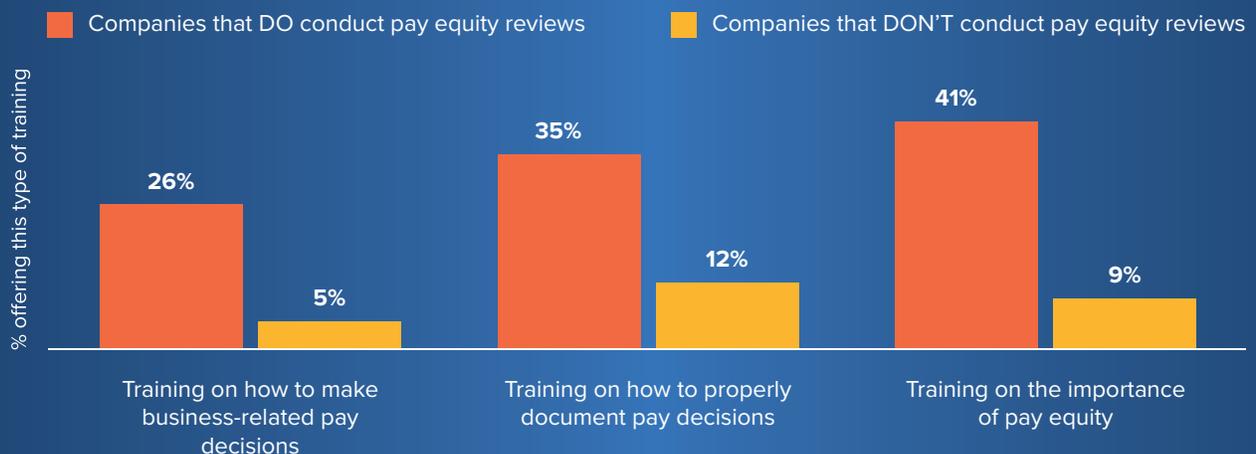
Further, when organizations provide training on these topics, the training is most likely to be provided to employees in HR and less likely to be provided to senior leaders and people managers, even though these two groups are likely to be privy to employees' pay information and/or have some form of influence over pay decisions.

When Organizations Do Offer Pay Equity-Related Training, Who Receives It?			
Training Type	Provided to HR	Provided to Senior Leadership	Provided to People Managers
How to make business-related pay decisions	85%	57%	47%
How to properly document pay decisions	85%	48%	40%
The importance of pay equity	80%	62%	49%

It's important that HR, senior leaders and people managers are equipped with the right tools from the start rather than in response to a pay inequity being detected. By outlining clear criteria for making pay decisions and establishing a clear compensation strategy, organizations will better prepare themselves to reduce the chance of inequitable pay decisions year after year.

Pitfall #5: Overlooking the Importance of Workplace Culture

Proactively building better pay equity practices is not only the right thing to do, it also has a direct impact on the organization's bottom line. As discussed throughout this report, sound data, systems and policies are essential ingredients of good pay equity practices. However, organizations that fail to recognize positive workplace culture as the glue that holds it all together may face a final pitfall. To ensure lasting success on their pay equity journey, organizations must make pay equity a part of their workplace culture.

On a positive note, many organizations already prioritize pay equity as a part of their workplace culture: **63%** of women and **73%** of men believe their organization's senior leadership makes achieving gender pay equity a priority. However, the flip side of this statistic also provides a note of caution that more progress still needs to be made: **37%** of women and **27%** of men surveyed don't believe their organization's senior leadership makes achieving gender pay equity a priority. Thus, organizations must be aware that the tone leadership sets from the top can impact whether workers feel they are being treated equitably and fairly, especially when pay equity concerns arise.

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Nearly 1 in 4 (23%) workers surveyed said they've been in a situation where they found out someone of a different gender at their organization was paid more than them even though they performed the same job and had the same level of experience.

- Women were more likely than men to say they've experienced this **(28% versus 19%)**.

Nearly 1 in 5 (19%) workers surveyed said they've been in a situation where they found out someone of a different race or ethnicity at their organization was paid more than them even though they performed the same job and had the same level of experience.

- Workers of color were more likely than white workers to say they've experienced this **(30% versus 11%)**.

Organizations that don't proactively address pay inequities risk employees surfacing the inequities themselves, and this can create a culture of distrust and may lead employees to search for a better environment.

Of workers who say they've been in a situation where they found out someone of a different gender or race at their organization was being paid more than them, **3 in 5 (61%)** said they found out about the pay discrepancy when the co-worker told them directly how much money they made; **around 2 in 5 (42%)** said they found out indirectly through workplace gossip.

Further, **about 1 in 5 (19%)** of the workers surveyed who found out they were being paid less than a colleague of a different gender or race said they talked to other employees about the pay difference. Besides talking to others:

- **29%** requested a pay raise.
- **27%** started looking for a new job.
- **18%** requested more information from their supervisor.
- **12%** requested more information from HR.
- **33%** did nothing or stayed quiet about the information.

This means that after finding out they were being paid less than a colleague, **two-thirds of employees said something or took some kind of action** to rectify the pay disparity.

Importantly, how organizations respond to these actions will shape how they're perceived going forward. Employers should expect that their workers will have conversations around pay, especially with the rise of third-party websites where

employees can readily access pay data and employee reviews on demand. However, employers can help make these conversations more positive and productive by having a clear plan in place for communicating about pay equity issues, policies and practices in a way that ensures workers feel heard, valued and respected.

By failing to proactively address pay equity issues, organizations not only risk losing top talent but also risk the aftereffects of workplace gossip that can lead to both distrust and cynicism that permeate the organization. In contrast, when organizations have a clear compensation strategy that is based on job-related factors and this approach is effectively communicated, they are not only more likely to earn the trust and respect of their employees but also more likely to experience the ongoing benefits that a positive workplace culture can bring.

Conclusion

The findings are clear: Organizations that proactively engage in pay equity best practices have a competitive advantage and stand to gain several benefits that are good for both employees and the bottom line.

The good news is that **nearly 3 in 5** organizations have already begun this journey and are working to demonstrate their commitment to building more equitable workplaces where workers of different backgrounds can thrive. In addition to protecting against discriminatory practices and legal risk, organizations that invest in pay equity best practices are more confident that they could explain a pay difference if one was detected during an audit, are more likely to be perceived positively by HR and their employees, and are better positioned to attract and retain top talent.

In contrast, the findings demonstrate that organizations that fail to build pay equity into their workplace culture, policies and practices are more likely to engage in a number of pitfalls that can lead to higher turnover, higher levels of distrust, an inability to explain critical pay disparities in a court of law and other costly pay issues that can compound over time.

While achieving pay equity is a journey that cannot be accomplished overnight, organizations that begin taking steps toward pay equity by assessing and improving their current pay practices will be better positioned to remain competitive and build better workplaces that work for all.

Methodology

The survey of workers was fielded June 29–July 14, 2021, using the AmeriSpeak Panel®, NORC at the University of Chicago's nationally representative, probability-based panel. Online interviews were conducted with 1,017 individual contributors and 1,038 managers. Data were weighted to reflect the population of U.S. working adults. The margin of error is approximately ± 3.01 percentage points at the 95% confidence level.

The survey of HR professionals was fielded electronically to a random sample of HR professionals from the active SHRM membership from June 10–July 20, 2021. In total, 1,094 HR professionals participated in the survey. Academics, students, consultants and retired HR professionals were excluded. Respondents represented organizations of all sizes in a wide variety of industries across the United States.