DEMYSTIFYING THE PAY EQUITY STUDY

These seven tips can help your board set and monitor expectations. By Takis Makridis

PAY EQUITY ANALYSES are often mind-numbingly complex. Their underlying econometric methodologies may seem as impenetrable as night. And after seeing the results, it may be unclear where the gaps come from, how to benchmark them, what's driving them or how to measure their reliability.

Responsibility for pay equity, along with broader diversity, equity and inclusion (DEI) matters, typically rests with the human capital committee of the board of directors. Board members and senior HR leaders often express trepidation over the complexity of pay equity analyses. The good news? You don't need a PhD in statistics to unpack a pay equity study and exercise oversight of your company's DEI programs. You do, however, need to make sure the right information is provided to you in the right way. Here are seven tips to get you started.

1. Make sure you understand the methodology

Are audit committee members subject-matter experts on derivatives accounting? Not necessarily. They have experts walk them through the issues and calculations, then put the results in the proper context. Consider doing something similar and push your external vendor to describe their methodology with visualizations and in plain, everyday English.

2. Approach comparisons with caution

It's important to monitor how your pay equity stacks up against that of other companies. At the same time, keep in mind there are too many moving parts to prematurely draw conclusions about what the differences mean. Pay equity studies are influenced by job architecture, employee roles, geographic dispersion of the employee base and other idiosyncratic factors. Beyond that, there's limited standardization when it comes to calculation methods. By all means, monitor the results disclosed by peers, but stay focused on the drivers within your own study and what continuous improvement steps they imply for your organization.

3. Don't confuse the outliers with the aggregate pay equity gap

Outliers are a statistical byproduct of the model used in a pay equity analysis. They represent roughly the top and bottom 5 percent of employees whose actual pay diverges from the model-predicted pay. While the outliers are a good place to begin an analysis, it may be the case that statistically meaningful pay differences exist across a much broader group of employees than those flagged as the top and bottom 5 percent. If that's the case, then focusing only on the outliers will fail to address the broader structural issues.

4. Expect disruption from the Great Resignation

Elevated turnover and the ongoing labor shortage have caused some firms to lose ground on pay equity. Others are finding that certain variables in the model simply don't work as well. For instance, the difficulty in filling roles has led to pay compression, by which new hires are earning as much as (or sometimes more than) existing employees. That means variables like experience matter less. In some companies, we've also seen a higher prevalence of males exiting and entering to capture inflated new hire equity grants and offers, a phenomenon that amplifies existing pay equity gaps.

5. Get to the bottom of a pay equity gap

A good starting point is to understand the influence of employee entry and exit during the latest 12 to 24 months, especially in light of recent job market volatility. Other analytics may break results down by job grade, geography, business unit and related variables of interest. You'll also want to know whether gaps widen or narrow over the course of the average employee's journey. These insights not only demystify the aggregate result, but also help you prioritize which operational initiatives to champion.

6. Put controls around job offers

In the rush to snap up candidates, companies can inadvertently undo the good work they've done on pay equity. One solution is to institute a process that compares the attributes of a candidate getting an offer with the framework of the most recent pay equity study so you can see whether the offer is outside the expected range. The idea isn't to impede business—exceptions can be made if the company has a concrete and supportable reason for it. But this way, all pay decisions are made with the full context of how the organization tests for and monitors pay equity.

7. Measure twice, cut once on external disclosure

Once the company discloses details around its pay equity, there's no turning back and the number of questions will only increase. Meanwhile, pay equity results can fluctuate as external and internal conditions change year over year. There are countless forces—some in your control and some not—pushing and pulling complex statistics like the pay equity gap. So before publishing any results, spend at least one or two years monitoring them, complete with variance and root cause analysis.

Bring a long-range view to pay equity

Be careful not to view pay equity studies as check-the-box, one-and-done efforts. Insist on clarity, drill into trending and variance analysis, and expect the analyses to tackle new questions each year. That way, you'll arm yourself to provide the kind of oversight that supports the continuous improvement of DEI efforts and the human capital strategy more broadly.

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