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Pay equity: A cause worth pursuing

Moving from compliance to value





Introduction

The spotlight on pay equity, and particularly gender pay equity, is likely to shine even brighter in the months and years ahead due to a combination of economic, social, and political pressures aimed at reducing the pay gap between men and women. However, the broader issue may be one of employment equity; encompassing more than pay and going beyond distinctions between men and women to include any underrepresented cohort of the workforce.

Despite the attention focused on pay equity, employers should be mindful that there is not a universal definition of fairness and fairness does not suggest equal compensation for everyone in the same job. Differences in performance over time, experience and proficiency within the role, and supply/demand dynamics in geographic locations may legitimately justify variations in compensation for the same or comparable jobs under both existing and proposed legislation.

Still, regardless of how one chooses to frame the matter, employers would be well served to get ahead of this issue to align with likely changes impacting businesses — and societal expectations — in the areas of pay equity, fairness and inclusion. Our research and client experience show that fairness and equity in the organization's management processes is a key tenet in creating an engaged workforce and retaining key talent, especially those who are traditionally underrepresented in the workplace. Moreover, numerous studies have shown that greater diversity can generate better corporate performance and stability, more innovation, a better connection between the organization and its customers and, an overall improvement in the organization's brand.

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Legislation past and pending

Concerns about pay inequality exist around the world and many countries have well established legislation regarding equal pay for work of equal value. In many cases, this legislation was initiated in the 1960s, 1970s and 1980s and is being reviewed and modernized. The general view is that such legislation has helped but has not solved the underlying problem. The revisions are likely to increase the requirements on employers to be pro-active in implementing equitable pay practices.

At the heart of equal pay for work of equal value is the ability to measure the value of work independently from how the market currently pays for that work. Work Measurement (often referred to as job evaluation) is a core tool that all employers will need to demonstrate, both to employees and authorities, that they do to provide equitable pay. In this regard, [Korn Ferry Hay Group's Guide Chart – Profile Method](#) of job evaluation is the most widely used such tool in the world and has been applied on many occasions, in a wide range of geographies and jurisdictions, to establish and demonstrate (to the satisfaction of regulatory bodies) that an employer has implemented bias-free work measurement.

While a Republican White House and Congress in the U.S. may slow the gender pay equity agenda at a national level, several cities and states have an active legislative agenda in this space. For employers, there is an immediate concern related to pending legislation in New York City, Philadelphia, and Massachusetts that would restrict the use of compensation history in making offers to job candidates. Similar measures are under consideration in Illinois, Maine, Maryland, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont.

Under the pending legislation, talent acquisition efforts would be limited by not allowing a recruiter — be it external search consultants or an organization's internal function — to ask a candidate about their compensation history. The idea is that to base a hiring offer on previous compensation could perpetuate inequities for individuals who may have been systematically underpaid. At a tactical



level, employers in locations where legislation is most advanced should develop contingency plans to reframe their information-gathering process from compensation history to compensation expectations. Under the pending measures, it would be permissible to ask candidates:

- What are your compensation expectations?
- What are these expectations based on?

To arrive at a reasonable offer, employers can then assess their view of appropriate compensation with the candidate's expectation and contrast the two against relevant market data for the role which considers the nature of the work (i.e. job family, job title, level of management hierarchy, duties and accountabilities) and the size and scope of the role (i.e. organization size and complexity, scale of operation, global reach, staff size).

It will become increasingly important for organizations to have robust sources of market information and processes in place to assess the internal value of work (i.e. processes for measuring and assessing job content and comparability) in addition to market benchmarking information. Our research shows that roughly 50% of management and professional roles can be effectively matched by job title/model in the external marketplace. This percentage is likely to decrease as organizations evolve, establish new business models and create jobs that are hybrids and/or specifically designed to provide the organization with a competitive advantage.

Why gender pay inequity persists

Although wage discrimination based on gender has been illegal in the U.S. since 1963, gender pay equity has proven to be an elusive goal. The Bureau of Labor Statistics indicates the median earnings of full-time female workers to be roughly 77% of the median earnings of their male counterparts. However, when the main factors that influence pay-job level, time in role, function, location, and performance are included — the gender pay gap, while it still exists, becomes significantly smaller, according to Korn Ferry research.

The gender pay gap is more pronounced at higher organizational levels, per our research, partly because women remain significantly underrepresented in the most senior and highest paying job functions and are often overrepresented in lower paying industries and companies compared to men.

Political and organization leaders are keenly aware of the issue. Nearly 200 of the largest U.S. organizations have signed the White House Equal Pay Pledge, initiated by the Obama administration last year, which asks organizations to undertake actions to identify and rectify gender pay inequities and to promote practices to “close the national wage gap to ensure fundamental fairness for all workers.”

Separately, a coalition of 27 CEOs from companies ranging from Bank of America to LinkedIn to Coca-Cola have committed to creating a new consortium of organizations that will seek to achieve gender parity in executive and senior roles of major companies by 2030 and, in the interim, to work to reduce unconscious bias in the workplace.

Getting in front of the issue

Perhaps it's not surprising, with an issue so broad and with such history, that our experience with clients suggests mixed opinions relative to the importance of the issue, organizations' level of preparedness and, steps being taken to effect change.

However, given strong societal consensus for addressing gender pay equity issues and the growing body of research demonstrating that gender pay equity and inclusiveness generate a healthier work climate and bottom line, organizations have a great deal to gain by improving the fairness of their reward systems and talent management programs — essentially creating an employee value proposition that positions the company as a place where everyone can build careers and thrive, regardless of our differences.



Further, in these types of environments, bolstered by clarity of direction and where values are evident, employee engagement is more likely to flourish; employees are far more likely to exert discretionary effort in work climates where they feel they are treated fairly, know that superior performance gets rewarded and believe, and see evidence, that there are opportunities to progress to leadership roles.

The Rx for addressing gender pay equity

Organizations will need to consider strategy, policy and practice in driving solutions for employment equity; top down by senior management in terms of how they want to define the organization's culture; and, bottom up in how managers go about creating an engaging climate and opportunities for all.

The prescription for organizations seeking to embed improved gender pay equity in their culture and management practices include the following:

Charter a team to identify and resolve pay equity issues:

- Direct strategy, process development and execution
- Ensure consistency in the process
- Develop internal expertise and best practices
- Evaluate effectiveness of efforts

Understand perceptions of pay equity:

- From leaders, managers and employees
- Formal data gathering — via surveys and/or focus groups

Establish consistent and gender-neutral processes, tools, and capabilities in:

- Compensation and benefits management
- Content-based job evaluation
- Performance and potential assessment
- Promotion management

Conduct periodic pay equity studies, including:

- Annual reviews of descriptive statistics on pay differences between genders
- Periodic (e.g. 3 years) development of models to identify and resolve inequities
- Multi-year equity adjustments for the most extreme cases
- Incorporation of equity adjustments into periodic compensation processes such as base salary increases, promotions, variable pay treatment
- Consideration of inclusive eligibility criteria (i.e. males and females) for equity adjustments

Provide transparent communications to employees on pay equity practices:

- Pay equity philosophy
- Methodologies
- Data used in analysis
- High level results of analysis
- Follow-up and follow through

As organizations move forward to create a more fair and inclusive culture that provides opportunities for everyone and rewards performance, the issue of unconscious bias will need to be identified and discussed. At every step of the decision-making process involving human capital — from hiring, to selecting an individual for a growth assignment, to performance evaluations and compensation reviews, to promotions — organizations should endeavor to be consciously inclusive.

Organizations that embrace inclusiveness are more creative, are better able to identify with various market segments both domestically and globally, and are more attractive to top talent.

As such, the longer-term organizational ROI, from a commitment to gender pay equity and fairness and transparency in all aspects of the talent supply chain, is worth the investigation and subsequent investments.



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Get in touch

To discuss how Korn Ferry can help your organization get ahead with a robust equitable reward strategy, please contact: clientsupport@kornferry.com or visit www.kornferry.com.

ABOUT KORN FERRY

Korn Ferry is a global organizational consulting firm. We help clients synchronize strategy and talent to drive superior performance. We work with organizations to design their structures, roles, and responsibilities. We help them hire the right people to bring their strategy to life. And we advise them on how to reward, develop, and motivate their people.