Ditch the Calculator: Using Analytics to Solve Broader Pay Inequities

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The Conversation Around Pay is Changing
Many companies are fundamentally altering how they think about and manage employee pay

Competitive Pay

1. Supply & Demand
2. Attract & Retain
3. Pay-for-Performance
4. War for Talent

Fair and Transparent Pay

- Equitable
- Culturally-Aligned
- Customized
- Justifiable
What Makes Fair and Transparent Pay Possible?

Leveraging analytics tools and methodologies, companies have a realistic chance to create transparent and consistent approaches for balancing and applying all of the factors required to make fair pay decisions.

It Starts With Pay Equity

Pay inequality is a global issue
Closing the gap is good for business
There have been marginal improvements

But more needs to be done...

• In addition to maintaining compliance, employers have other motivations to close the gap, such as technology driving pay transparency, diversity driving business performance, and protecting their reputation

  • Out of 23 *OECD countries, the US has the 7th largest gender pay gap
  • Women still earn 80 cents for every dollar vs. what men earn
  • At this rate of progress, it will take women decades to close the wage gap

*Organisation for Economic Co-operation and Development
State Laws That Drive Pay Equity

What's New:
1. Comparisons for similar rather than equal jobs
2. Limit use of historical pay when setting starting pay
3. Drive pay transparency

Pay Equity Analysis

Traditional Analytics
- Review of base pay spreads and bonus payout spreads across grades and identification of gender outliers
- Build remedial action based on budgets

Pay Equity Analysis
- Conducting multivariate regression to assess your “true” gender pay gap
- Identify workforce policies and processes that drive pay inequity
- Assess and build remedial actions (e.g., estimating potential cost impact for addressing pay equity challenges)
The Current State of Pay Equity Analytics

<table>
<thead>
<tr>
<th></th>
<th>Traditional Pay Equity Analysis</th>
<th>Multiple Regression for Risk Assessment</th>
<th>Multiple Regression for Risk Diagnostics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Life Sciences</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-Commercial</td>
<td>47%</td>
<td>7%</td>
<td>0%</td>
</tr>
<tr>
<td>Commercial</td>
<td>54%</td>
<td>17%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Technology</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private</td>
<td>70%</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>Public</td>
<td>51%</td>
<td>30%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Our Point of View:
A traditional pay equity analysis is **not** actionable

Source: 2018 Radford Talent Pulse Survey.

Just Comparing Men vs. Women Is Not an Appropriate Risk Assessment

If you don’t understand what drives pay inequity in your organization, you are at risk

<table>
<thead>
<tr>
<th>What can cause the problem</th>
<th>How you can solve it</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting salary</td>
<td>Starting salary algorithm</td>
</tr>
<tr>
<td>Lack of structure</td>
<td>Develop or refine salary structure</td>
</tr>
<tr>
<td>Promotion practices</td>
<td>Framework, review committee, stat analysis</td>
</tr>
<tr>
<td>Managerial bias</td>
<td>Managerial training and development</td>
</tr>
<tr>
<td>Performance ratings (or lack of)</td>
<td>Rater bias training and statistical analysis</td>
</tr>
<tr>
<td>Leaves of absence</td>
<td>Constant monitoring, individual adjustments</td>
</tr>
<tr>
<td>Successful diversity outreach</td>
<td>Effectively tell your story</td>
</tr>
</tbody>
</table>

How do you know where to start?
Sample Outputs From a Pay Equity Analysis

Base Pay Impact

- Being a supervisor: 9%
- In software development: 8%
- Employed in the Bay Area (compared to LA): 7%
- 5 more years of external experience: 5%
- Rating "exceeds" compared to "meets": 4%
- Education Masters compared to Bachelor: 2%
- 5 more direct reports: 1%
- Rating "far exceeds" compared to "exceeds": -1%
- 5 more years of internal experience: -2%
- Recently promoted: -3%
- Gender is female: -4%
- Currently on LOA: -6%

Sample Outputs From a Pay Equity Analysis (cont.)

Impact of Gender After Controlling for Additional Factors

- Raw Gender Gap (No controls): 44.2%
- Grade: 7.2%
- Function: 10.5%
- Geography: 7.4%
- Industry: 6.8%
- Experience: 6.9%
- Tenure: 7.0%
- Performance: 7.0%
Gender Pay Gap: Example Life Sciences Industry

Impact of Gender After Controlling for Additional Factors

<table>
<thead>
<tr>
<th>Impact of Gender After Controlling for Additional Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw Gender Gap (No controls)</td>
</tr>
<tr>
<td>-------------------------------</td>
</tr>
<tr>
<td>10.8%</td>
</tr>
</tbody>
</table>

R Squared = .89

Source: Radford base pay calculator, Global Life Sciences, January 2018.

Gender Pay Gap in Life Sciences by Functions

<table>
<thead>
<tr>
<th>Functions</th>
<th>Raw Gap</th>
<th>Net gap</th>
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<tbody>
<tr>
<td>Administration</td>
<td>26.6%</td>
<td>2.0%</td>
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<tr>
<td>Clinical</td>
<td>24.5%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Finance and Administration</td>
<td>22.8%</td>
<td>2.4%</td>
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<tr>
<td>General Management</td>
<td>14.7%</td>
<td>5.1%</td>
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<tr>
<td>Human Resources</td>
<td>15.8%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>12.6%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Marketing/Business Development</td>
<td>18.4%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Product Development/Engineering</td>
<td>7.6%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Quality Control/Assurance</td>
<td>9.8%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Research and Development</td>
<td>17.1%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Regulatory Affairs</td>
<td>17.0%</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

*Raw gap indicates the impact of gender with no controlling factors; Net gap indicates the impact of gender after controlling for performance, grade, geography, industry, experience, and tenure

Source: Radford base pay calculator, Global Life Sciences, January 2018.
When it Comes to Equalizing Pay, Start with Easy Fixes

- Leveling roles and salary structures
- Establishing equitable starting salaries
- Creating a bias-free performance-management system
- Calculating how leave of absence policies affect compensation
- Training managers to avoid bias

Leveling Roles Becomes Critical to Ensure Pay Equity
### Tighter Salary Ranges Limit Manager Discretion

<table>
<thead>
<tr>
<th>Grade</th>
<th>Marketing</th>
<th>Engineering</th>
<th>Legal</th>
<th>Marketing</th>
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<td>282,000</td>
<td>225,500</td>
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<td>31,000</td>
<td>35,000</td>
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<td>36,000</td>
<td>41,500</td>
<td>31,500</td>
<td>36,000</td>
<td>41,500</td>
</tr>
</tbody>
</table>

### Establishing Equitable Starting Salaries Mitigates Future Problems

**Base Pay Calculator**

- **Country**: United States
- **Region**: San Diego
- **Currency**: USD
- **Industry**: Information Services
- **Revenue**: $1.4 billion
- **Total Headcount**: 5,000 employees
- **Job Function**: Software Engineer
- **Job Family**: Professional Level
- **Employee Experience**: 5-10 years
- **Performance Proxy**: High
- **Estimated Years of Experience**: 5-10 years

**Predicted Base Salary**: USD 113,667

**Confidence Range**: [96,219 - 134,280]
A Wider Perspective on Addressing Pay Equity

To start addressing systemic issues that can affect pay, examine the entire employee life cycle.

- Do we have a workforce representation problem?
- Is our talent-attraction strategy in line with labor market conditions?
- Is our onboarding inclusive?
- How diverse and deep is our talent pipeline?
- Are we rewarding our employees appropriately?
- Are we engaging everyone at the organization?
- Are we retaining talent and minimizing regrettable loss?

A Bigger Problem is Job Equity vs. Pay Equity

Percent Female by Grade Level

<table>
<thead>
<tr>
<th>Grade Level</th>
<th>Percent Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Executive</td>
<td>14%</td>
</tr>
<tr>
<td>SVP</td>
<td>14%</td>
</tr>
<tr>
<td>VP</td>
<td>13%</td>
</tr>
<tr>
<td>Sr. Director / Principal IC</td>
<td>15%</td>
</tr>
<tr>
<td>Director / Expert IC</td>
<td>16%</td>
</tr>
<tr>
<td>Sr. Manager / Advanced IC</td>
<td>19%</td>
</tr>
<tr>
<td>Manager / Senior IC</td>
<td>26%</td>
</tr>
<tr>
<td>Supervisor / Intermediate IC</td>
<td>35%</td>
</tr>
<tr>
<td>Supervisor / Entry IC</td>
<td>41%</td>
</tr>
</tbody>
</table>
Regulation + Technology = Pay Transparency

• What is it?
  • Technology and regulation makes it harder for employers to rely on secrecy to manage potential pay gaps
  • Pay transparency is about employees freely comparing their pay levels and making their own judgments as to what “fair” pay actually means for them

• Case
  • Organization in the US West made fairness pay adjustments based on a pay equity study
  • Employees compared their adjustments and some complained – most because they thought that employees with more internal tenure should be paid more
  • The problem was that historical pay freezes and pay premiums granted to new hires led to a situation where internal tenure was not rewarded

• The problem
  • Few organizations can tell a fact based story as to what they really pay for
  • In the age of pay transparency, employers will either take control or employees will tell that story for them

Pay transparency will drive the need for pay fairness for everyone

Compensation in the Age of Pay Transparency

The good news
• The same data that your employees can access to compare pay levels can be used by you to compute fair pay levels that go beyond job and location

The other good news
• More rigor and more data will further elevate the role of the compensation expert
  • Rethink your reward strategy and compare it to the facts
  • Tell your story
  • Set and adjust pay in a way that is consistent with your story (internal equity, external equity, strategic alignment). Provide tools to managers to set pay levels
  • And of course: Tighten up your job architecture!

Regulations and Pay Transparency require new tools to aid pay decisions
Four Key Steps to Addressing Pay Transparency

**Analyze**
Review and update your job architecture
Conduct an internal pay equity analysis

**Strategize**
Identify skills and behaviors that should be rewarded
Use your pay equity results to compare if skills and behaviors that should be rewarded are actually rewarded

**Implement & Communicate**
Formulate your rewards strategy and communicate it to employees
Over time, increase alignment of your rewards strategy with actual pay levels

**Maintain**
Provide tools, rules and training so managers can make fair pay decisions
Annually update your internal pay equity analysis

Update employee pay, taking into account budget, wherever you find misalignments

Thank you!

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