Enhancing gender pay equity

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Aon Hewitt's previously published white paper *Beneath the headlines: Dispelling the myths around gender pay equity* established the nature and extent of gender pay differences within comparable jobs in Australian workplaces.

The present note builds on the extensive empirical foundation and on Aon Hewitt's consulting experience in this field, to shift the focus towards solutions or; how to reduce the gender pay gap within comparable job roles. While there is no 'silver bullet' to eliminate unexplained gender pay differences, the diligent application of a range of sound remuneration practices (to both genders) can collectively go a long way towards yielding fairer, more effective pay outcomes, which are likely to reduce the gender gap over time.

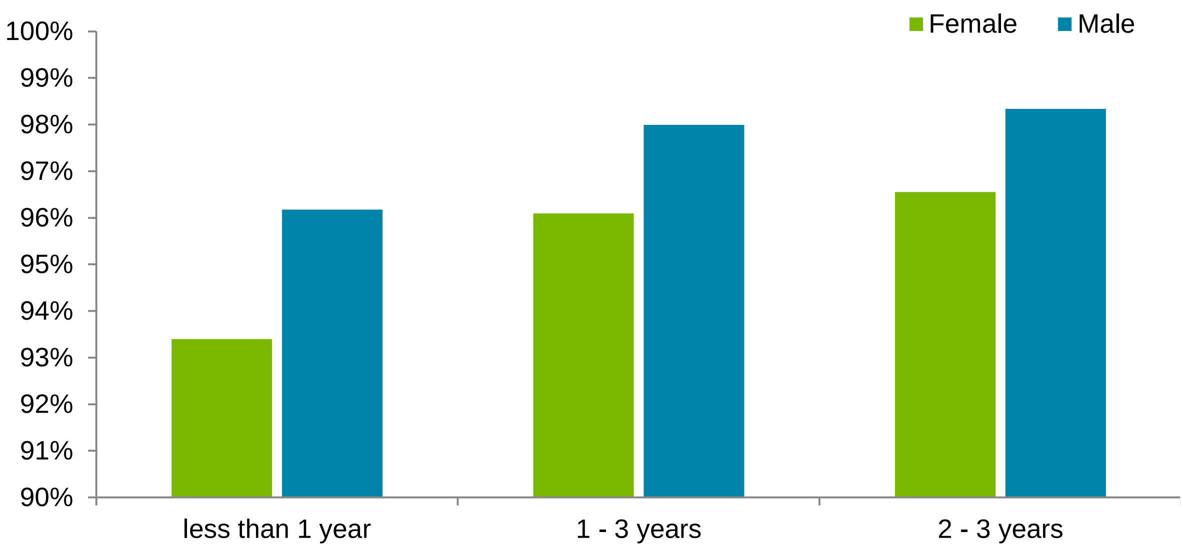
To examine this notion more closely, we consider each of four discrete pay decision or policy points which have been found to contribute to gender pay inequity:

1. Appointments/promotions
2. Annual salary reviews
3. Bonus incentive allocations; and
4. Pay policy for those on extended (particularly parental) leave.

Appointments and promotions

New appointments and promotions provide the ideal opportunity to 'rebase' remuneration and correct legacy gender pay inequities. And yet, Aon Hewitt data suggests that this is not occurring, with a prevailing gender pay gap for those new to a role.

Tenure of workforce



Source: Aon Hewitt General Industry Remuneration Report – June 2014

When job offers are made, gender differences in starting salaries at all job levels have been found to be:

- larger (and more favourable to males) when there is little salary range guidance and salary negotiations are very open-ended
- smaller when there is tight salary guidance and manager discretion is limited within a smaller dollar range.

As a first step, organisations which have no clear market-based salary range for each job should consider building a coherent salary structure which is well known to hiring managers and updating it over time. Organisations that have done this often use key reference points, such as the salary range minimum, midpoint and maximum, to provide a solid foundation for salary decisions.

In more sophisticated organisations this type of guidance may be taken a step further, by breaking up a job's overall salary range (which may be quite broad) into a small number of narrower pay zones, such that each zone:

- has a concise name or label describing the degree of demonstrated proficiency or capability relative to the job competency requirements e.g. Entry, Developing, Competent, Advanced, Mastery
- ideally has a more detailed description of what sort of background, experience and track record would typically align with each zone label
- covers a distinct salary cluster expressed as a percentage of the overall range midpoint e.g. an overall range of 80-120% of midpoint may be divided into four zones such as 80-90%, 90-100%, 100-110% and 110-120% of midpoint.

Entry	Developing	Competent	Advanced	Mastery
80%		100%		120%
Range minimum		Range midpoint		Range maximum
Acquiring new skills and knowledge, learning phase of the position, newly promoted, inexperienced in the role	Growing and developing, expanding depth and breadth of skills and knowledge in role	Solid skills and knowledge, opportunity to continue to acquire additional skills and depth of knowledge in role	Extensive experience, may support and guide others in same or similar roles	Highly competent and experienced in all aspects of position, seen as expert who often coaches/mentors others in the same/similar roles

There is of course still considerable judgement required, in determining which pay zone is most applicable to the appointee. Their prior salary (where applicable) also remains an important consideration. However, this more structured approach goes some way towards reducing the scope for salary bargaining well beyond the appropriate pay zone for the appointee's capabilities.

Annual salary reviews

The current state in many organisations reflects a sizeable salary difference favouring males within the same job role or same job grade/job family combination. Little progress will be made in closing the gap in organisations which give across-the-board increases or adopt other undifferentiated approaches which largely maintain the status quo. Organisations which strongly link salary increases to performance rating, but with little regard for the employee's position in their salary range, will also make slow progress in redressing gender salary differences.

Only when the employee's position in range is given considerable weighting – with those lower in the range receiving somewhat larger annual increases than those placed higher in the range (with comparable performance) – will there be meaningful progress. Merit matrix salary increase models which give at least as much weighting to position in range (or compa-ratio) as they attribute to performance rating provide an opportunity for reducing gender pay differences, in the context that females are, on average, paid lower in their range than males are. In this context, it is heartening to see that up to 77%[1] of organisations are currently employing some form of merit matrix approach.

Arguably, position in salary range could be given more weighting than performance rating (in underpinning salary increases), at least among work groups that have a bonus/incentive plan. It is not the role of salary increases to duplicate the purpose of bonus payments, yet many organisations appear to have difficulty distinguishing the ways in which performance should play a role in determining salary increases and bonuses. Instead of applying the same performance rating to both salary increases and bonus outcomes, a more complementary approach is one in which:

- salary increases are driven by a coupling of position in range with a capability-based notion of 'performance' or cumulative competency (as described under Appointments/promotions above)
- bonuses are driven by a results-based performance rating which focuses on a small number of critical objectives for that specific performance period (which is not the same as sustained whole-of-job capability).

A standard merit matrix favouring high performance and low in range employees

Performance rating	Position in range: >110%	<110% - >100%	<100%
Low	0%	0%	0%
Medium	0%	2.5%	3.5%
High	2.5%	3.5%	5%

A merit matrix favouring position in high competency acquisition and low in range employees

Competency acquisition	Position in range: >110%	<110% - >100%	<100%
Low	0%	0%	0%
Medium	0%	1.5%	2.5%
High	3.5%	4.5%	7%

[1] Aon Hewitt HR Policy & Practice Report (Australia) 2014

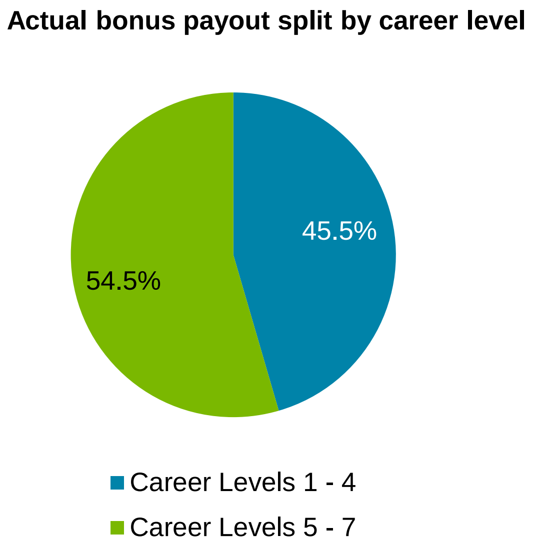
Bonus/incentive allocations

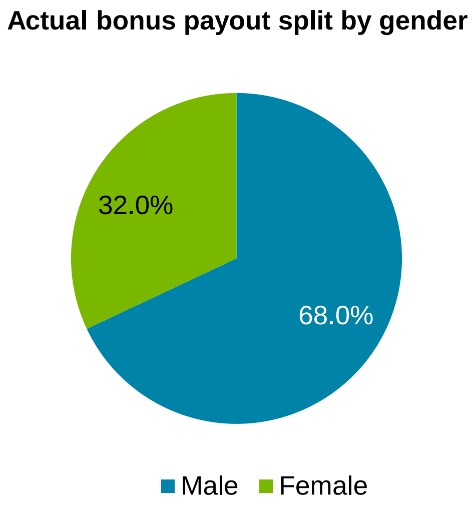
Our investigation of gender differences in bonus outcomes for comparable work has shown that the differences are typically:

- larger when performance ratings are not used or are given limited consideration e.g. when bonuses are largely discretionary
- smaller when performance ratings are given substantial weighting in bonus decisions and discretionary adjustments are limited.

In addition, gender bonus differentials tend to be perpetuated in organisations where new managers have access to employees' previous year bonus outcomes and place too much reliance on preserving individual bonus levels year on year.

Apart from these sources of gender bonus differences within a job role, it is worth also noting the impact that performance rating skew may have on gender pay equity across job levels. Many organisations exhibit a performance rating distribution which is more heavily skewed towards high ratings at the more senior levels. This can result is a disproportionate share of the bonus pool being allocated among senior employees (who in many organisations tend to be predominantly males). Thus rating skew of this nature tends to exacerbate gender bonus differentials.





The messages coming from these findings are:

- ensure there is a robust performance rating system applied to all employees, with discretionary payments playing a minor role (if any)
- encourage managers to treat each performance period on its own merits and refrain from trying to smooth individual bonus payments between years, where performance has in fact changed
- emphasise performance as being relative to what is expected at a given job level, rather than rating performance in absolute terms (under the notion that 'senior managers typically contribute more'), thereby fostering greater similarity of rating distributions among levels.

Pay policy for those on extended (particularly parental) leave

The impact of career breaks is commonly provided as one of the causes of gender pay inequity. With the majority of organisations reviewing remuneration annually, it is intuitive that missing a pay review will have a lasting and compounding impact on pay levels. Extended leave can be taken by both genders, but the most typical form is parental leave taken by mothers.

Organisations that review pay for employees irrespective of their ‘actively at work’ status will be more successful in combating the underlying causes of the gender pay gap. By implementing a policy where for those on unpaid leave, a salary increase is formulated during the remuneration review and applied upon or after a strict designated period when individual returns to the workforce.

Conclusions

Taken together, these findings covering both fixed and variable pay reflect a common theme, that gender pay equity may be enhanced by adherence to sound, structured remuneration practices which guide and require managers to be more accountable for their pay recommendations/decisions. Pay inequity flourishes in environments in which decision guidance and protocols are limited.

Other steps which may be taken include:

- reinforcing the more systematic approach to remuneration decision making with **gender pay difference monitoring in relation to job offers, salary reviews and bonus allocations**, such that there is an opportunity to intervene and influence final decisions before they are locked in (where appropriate)
- considering whether there is a case for a **one-off, out-of-cycle salary increase given to a limited number of people** (of either gender) found to be paid substantially below their applicable salary benchmark – the odds are it will predominantly (though not universally) be female employees who benefit from a targeted pay gap reduction initiative of this nature.

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