Pay Parity and reducing your organisations pay gap

"Measure – Report – Reduce" (Marc England, CEO Genesis)

Pay parity is the same pay for the same job, regardless of who your employer is or what sector you work in. Without pay parity, a pay gap emerges where employees are paid differently for doing the same role. Pay gaps can be measured against different demographic information, typically we have seen gender pay gap assessments, but a growing number of organisations are preparing to measure their ethnic pay gaps too. In Aotearoa studies show that women are paid on average 10.8 percent less than men. For Māori and Pasifika women the gap is greater. Pasifika women earn on average 27 percent less than Pakeha men and wahine Māori earn 25 percent less. (Newshub, 2021). According to a global 2018 report from the World Economic Forum it would take 202 years to close the economic gap between men and women given the current pace of change.

In this guide, we focus primarily on the gender pay gap. However, the recommendations for measurement and levers for reducing an organisation's pay gap apply to the ethnic pay gap as well.

Factors that contribute to gender pay gaps

- More men at higher levels and in higher paying roles and more women and ethnic minorities at lower levels and in lower paying jobs within an organisation (Stats NZ, 2020). This is referred to as organisational segmentation.

- Disproportionately slower career or pay progress for employees who take caregiving breaks, or who work part-time or flexibly (Stats NZ, 2020).

- Men (on average) receive a higher starting pay, discretionary pay, pay increases, or performance ratings than women and ethnic minorities (Stats NZ, 2020)

- Inherited pay gaps from new hires who have been underpaid in other organisations.

- Women (Pazzanese, 2020) and minorities are less likely to self-promote with a discomfort over sharing their skills and experience. Research shows that women apply for less roles and less senior roles (stretch roles) than men (LinkedIn, 2018)

- Undervaluing work that is predominantly or exclusively performed by women (Stats NZ, 2020).

Useful Links

Strategic Pay www.strategicpay.co.nz

WEGA www.wgea.gov.au

ILO www.ilo.org

Ethnic Pay Gap www.mpp.govt.nz

Adoption Drivers:

Stakeholders

- Growing national awareness of pay gaps is leading to increased expectations from multiple stakeholder groups that organisations should be measuring, reporting and improving their pay gaps.

Employer Brand and Talent attraction

- Those searching for new jobs have expectations of being able to see an organisation's pay gap, if that is not available it can raise concerns about the organisation's focus (or lack of) on pay gaps.
- Recent studies show that 3 out of 5 employees won't apply to work at companies with an equity pay gap (Glassdoor, 2019).
- Internationally, there are examples in organisations where there is a lack of pay transparency of employees sharing salary information. A thousand google employees concerned about pay inequity recently shared their salary, job and demographic information which found women were paid less than men across most job types (Stewart, 2021).

Employee retention and productivity:

- Employee engagement is negatively impacted by a lack of transparency on pay equity as well as knowledge of a pay gap. It is importance once a pay gap is measured that organisations provide a clear roadmap of how they will reduce it to ensure employees have a clear perception of pay practices.

Anticipated legislative pressures:

- A trend is growing globally of legislative pressure to fight pay gaps. In the United States several states have banned employers from asking applicants for their salary expectations (HR Dive, 2022). In Aotearoa the Human Rights Commission is currently conducting a Pacific Pay Gap enquiry to better understand why the Pacific Pay Gap exists and how it can be closed. Insights from this enquiry will be available mid-2022.

Three Key Calculation Methods from Stats NZ

1. An 'organisation-wide' gender pay gap shows the difference in pay between all men and women in the organisation. (Also referred to as the median versus median pay gap.)
2. A 'by-level' gender pay gap shows the difference in pay between men and women in levels such as pay bands or tiers, or by groups such as managers or graduates, or by departments.
3. A 'like-for-like job' gender pay gap shows the difference in pay between men and women in the same jobs/work, and in similar jobs/work. If organisations use job sizing, they may choose to measure gaps between jobs of the same size. For example, roles such as Human Resources Manager and IT manager may be like-for-like jobs if they are sized the same.

Measure it: How to calculate your pay gap

Organisations measure their pay gap in different ways. Some organisations start by calculating their organisation wide pay gap (median to median gap) and then progress to level to level and/or like for like pay gap analysis. This toolkit provides a high-level overview of the organisation wide and like for like calculation process.

	ORGANISATION WIDE PAY GAP	LIKE FOR LIKE PAY GAP
STEP 1 **- Identify Data Needed**	List of employees and their full-time equivalent salaries. Some organisations calculate on base salary whilst others utilise total package.	For like for like data you build on the data for calculating the organisation wide pay gap by including employee number, performance information, qualifications, length of service, role type, role classification.
STEP 2 **- Analyse the Data**	To following formula will make a straight forward calculation: **(median Male Salary – median Female Salary) / median Male Salary * 100.** You can utilise this tool from Strategic Pay to help with this process.	Once you have a clean data set, the auditors perform a regression analysis to account for pay differentials based on legitimate factors, such as experience, education, and training. You can use this tool from the Workplace Gender Equality Agency (WGEA) to help with this process.
STEP 3 **- Interpret the Data**	A single figure alone does not allow organisations to gain insights into the areas of the business contributing to the figure. Once a median-to- median figure is calculated organisations typically then carry out level to level or like to like analysis to gain deeper insights.	This can be difficult as multiple factors will contribute to salary differences. Where your data is indicating an outliner, assess line by line to review the differences in order to explore why one person is paid less than another.
STEP 4 **- Root Cause Analysis**		Investigate possible root causes - Is there a legacy compensation practice that treats workers unfairly? Do women receive fewer promotions? Have line managers been trained to ensure they are not biased in their assessment of performance? Until you know what's causing the problem, you can't develop a corrective course (Randstad, 2020).
STEP 5 **- Remediation**		This is the process where those individuals identified as requiring a salary increase receive that increase. The total remediation cost to organisations can add up to 0.1 percent – 0.3 percent of their total salary budget (HBR, 2020). In 2017 Lion engaged in their first like for like assessment which identified a 3.2 percent pay gap. The cost to address that gap was $6million and impacted 270 team members of which 59 percent were women.
STEP 6 **- Review Regularly**	Set up pay equity systems and processes to run regular checks on your pay gap.	

For more detailed guidance on calculating your gender pay gap Stats NZ has a useful document here.

Tips to help get started with measuring your pay gap:

• Organisations have different responses to the pay gap when they identify it. For some rather than immediate remuneration remediation, they will monitor the gap for a period.

• Organisations measure their pay gap differently. Reflect on your organisation, check in with peers and understand industry best practice before you start the process.

Report it: How to disclose your pay gap

Engage with those responsible for communication and change management prior to starting this journey - being proactive in how you will address any gaps is critical and will ensure you develop a clear communication and change management plan. It is critical to communicate the why of this work well to the business as well as enabling your managers to communicate the why well to their own teams too. Organisations can experience resistance from both genders during this process. Men can feel they are being disadvantaged and confused about what it means for their career, while women may feel uncomfortable for receiving a pay increase for being a woman rather than for their great work. It takes time for pay equity to be understood and accepted within organisational culture.

Reduce it: Tips for different teams to reduce your pay gap

Data & Analytics:

- Ensure your data and analytics team has the capability and capacity required to complete this work before beginning.
- Support them to connect with others who are further along in the journey to share insights and learnings. Feel free to connect with SBC if you'd like support connecting with other businesses (sbc@businessnz.org.nz).

People & Culture:

- Stop asking for salary expectations and current salaries when recruiting new employees. This will help prevent you from inheriting other organisation's pay gaps.
- Equip hiring managers with resources and education to understand their pay gap and the impact of hires and promotions on their pay gap. You might develop a pay parity tool to enable managers and recruiters to make better equity decisions. Consider testing this tool and process with a small team first. Get their feedback on the process before rolling it out across the business.
- Offer mentoring, progressive parental leave policies and normalise flexible working. Women and minorities are more often the carers within families, which means they receive fewer opportunities for advancement and pay increases. Organisations can support employees in two ways, the first is to offer mentoring for women and minorities to support them in their career journeys. The second is to remove the stigma and barriers for men taking on the role of a carer and to normalise flexible working practices across your business for everyone.

- If you are exploring solutions to tackle ethnic pay gaps Au Consulting and Indigenous Growth offer culture competency and Maori & Pacific leadership development programmes. Multiple SBC members have been clients of Indigenous Growth including Fletcher Building, NZ Post, Air New Zealand & Sky City. You can read about Sky City's engagement with Indigenous Growth which lead to them winning Deloitte's Top 200 award here.

Build the Pipeline:

- Some organisations may struggle to close their organisational pay gap because they have business units of the business with high numbers of one gender within them such as contact centres, technical teams and HR functions. Areas of the business such as digital and engineering typically have higher proportions of men in roles. Whilst 'poaching' from competitors may solve an immediate pay gap issue it doesn't solve the national problem. This is highlighted in a recent study which showed that only 26% of STEM graduates at Auckland Universities are female.
- Genesis is working to solve this problem at a national level by collaborating with competitors in the energy sector to pool data to find collective insights on what can be done differently to bring greater equity into technical areas.

Case Study – LION

Leadership development programmes for those negatively impacted by pay gaps have helped organisations such as Lion reduce their gender pay gap. Lion have a goal to create gender balanced teams by 2030 Gender balanced teams are teams made up of at least 40 percent men and 40 percent women, with the remaining 20 percent made up of any gender. Lion now have a gender balanced Aotearoa leadership team and continue to work towards their 2030 goal of a fully gender balanced organisation. Learn more about Lion's journey, which earnt Lion a Diversity Works award here.