Pay equity audits: Why and where to start

As part of their commitment to diversity, equity, and inclusion (DEI) initiatives, many companies nowadays conduct pay equity audits. This type of analysis takes a hard, often statistics-based look at how the organization measures up to the fair pay concept of equal pay for equal work.

Companies often consider a pay equity audit an ethical responsibility and the right thing to do. U.S. Census Bureau figures reveal women making about 83 cents for every dollar earned by men, and Pew Research reports that college educated black and Hispanic men earn roughly 80% the hourly wages of white college-educated men. Organizations (or sometimes certain stakeholders inside or outside) want to verify that they are not contributing to these pay inequities.

Taking the major action of a pay equity audit provides a range of benefits. Remedying pay inequities helps with retention and boosts morale. Employees feel valued for their contributions, not penalized for their gender or the color of their skin. A reputation for fair pay practices also resonates outside of the company, generating positive feelings about the business among both the public at large and potential job candidates. Especially in times of low unemployment, staying in the good graces of applicants is incredibly important. Your candidate pool shrinks substantially when job hunters fear pay discrimination.

Pay audits also help employers see where they stand in their efforts to comply with state and federal laws. Litigation brought about by workers – often in the form of collective suits or class actions – can be quite costly, time-consuming, and damaging. Some important equal pay laws include:

- The Equal Pay Act of 1963 (EPA), which prohibits sex-based wage discrimination between men and women in the same establishment who perform jobs that require substantially equal skill, effort, and responsibility under similar working conditions.

- Title VII of the Civil Rights Act of 1964, which prohibits employment discrimination based on race, color, religion, sex, and national origin.

- The Age Discrimination in Employment Act of 1967 (ADEA), which makes it unlawful to discriminate against individuals who are 40 years of age or older with respect to compensation and other terms of employment.

- The Americans with Disabilities Act (ADA), which prohibits private employers, state and local governments, employment agencies, and labor unions from discriminating against qualified individuals with disabilities in regards to compensation and other terms of employment.

In some states, conducting a pay equity audit can be legally helpful. Rhode Island's Pay Equity Safe Harbor, for instance, provides employers with the opportunity to proactively address pay equity and avoid or limit wage discrimination liability through a self-evaluation of pay practices and prompt action to correct any disparities

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that can’t be justified.

According to the Society for Human Resource Management, nearly 3 in 5 (58 percent) U.S. organizations voluntarily conduct pay equity reviews to identify possible pay differences between employees performing similar work. Of those organizations, 83 percent adjusted employees' pay following a pay equity review.

SHRM also found that pay equity audits are more common at organizations with 5,000+ employees than at those with fewer than 100 employees (78 percent vs. 48 percent). Unsurprisingly, organizations with a female owner or CEO are more likely than those with a male owner or CEO to conduct pay equity reviews or audits (67 percent vs. 55 percent).

While worthwhile, pay equity analysis generally involves many challenges. Gathering compensation data takes time and must be done correctly for results to possess meaning. Here, we take a look at what is involved in a pay equity audit.

Conducting a pay equity audit

Prior to embarking, many employers find it helpful to identify what they are trying to find out in a pay equity audit. Are you searching for a potential gender wage gap? Have company review sites posted concern from former employees about pay discrimination based on race and ethnicity? Are you trying to take advantage of a newly passed safe harbor law in your state? Knowing objectives gives the project focus and makes it more manageable.

It also leads to properly assembling a pay audit team. Typically a pay equity audit involves participation from human resources, finance or payroll, IT, legal counsel, and upper management to cover all aspects and pull relevant information.

The validity of a pay equity audit depends heavily on the data sets collected and methods used to interpret findings. To be able to formulate comparable job groups, gather accurate, up-to-date information on the following:

- Job title
- Job description
- Job classification or level
- Department
- Hire and seniority data
- Relevant demographic information (such as race, age, gender, sexual orientation)
- Base wages
- Overtime wages

- Bonuses
- Any other forms of compensation

Sometimes, bringing together such things is not difficult. At other places, it proves quite a process. Data may be outdated, missing, inconsistent, or entered incorrectly. Or, specific information may be stored in different databases that are incompatible with one another. The team must solve these issues before it can proceed.

Challenges faced in pay equity analysis

A pay equity audit aims to uncover potential discrepancies in employee compensation based on differences that are not the result of job-related factors. Educational attainment, certification, experience, skills, tenure, and exceptional performance are among the factors that may legitimately influence pay differences and must be considered instead of immediately assuming unjust pay disparities if numbers run in that direction. Team members must understand compensation policies and their effects.

Teams also should watch out for the credence they give job titles. When the U.S. Equal Employment Opportunity Commission (EEOC) examines cases of potential violation, it considers actual job duties – not job titles or classifications. While statistics may not reveal pay inequities between men and women based on job title, digging into their actual job duties may show discrepancies at your company.

Large organizations usually have sufficient data to conduct regression analysis to demonstrate which factors have the most influence on salary. Small companies face the problem of a limited data set, with a low sample size or the presence of an outlier having an extreme influence on numerical findings. Such employers may need to do more head-to-head analysis of their staff members to judge fair compensation policies for equal or highly similar work.

Outside assistance

As you have likely surmised, pay equity audits can be quite time-consuming and complex. For this reason, many businesses hire consulting firms that specialize in pay and rewards. Their expertise in dealing with data, technology, and compliance can make the process run more smoothly and generate greater confidence in the results. They are familiar with proper methodology and have the software to look at pay inequities from various angles. These firms also can offer action strategies, as having information without knowing what to do with it is not particularly useful.

Having outside assistance also helps with honesty by lowering the chance of altering the results to tell the story you want. When a pay equity audit is performed by members of your own staff, temptations exist to play around with groupings and other information to discover what arrangements yield the most desirable results. While outcomes may look better on paper, this manipulation does not produce the accuracy needed for real change. Furthermore, such results may not hold up in court when carefully examined.

Packages you can purchase from specialty firms may include continuous pay equity monitoring. This type of ongoing service proves especially valuable to large businesses that hire many new employees each month and lose others to turnover. Quickly including this information keeps results up-to-date and signals potential situations worthy of examination before they turn into full-blown problems. The employer always knows the actual composition of its workforce and how salaries compare.

With their pulse on pay equity not just at your organization but regarding things like industry and region, third-party firms can assist with various pay decisions. For instance, they might provide salary range guidance, which

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is becoming common to include in job ads as a way of showing commitment to pay transparency. They also can keep you in the loop about pay equity laws in the increasingly stringent current climate where a number of states, cities, and other jurisdictions are enacting measures beyond federal regulations. Bans on interviewers asking job candidates about their salary history, for example, are becoming more and more prevalent in the effort to stop pay inequities from following people throughout their career.

Taking action

Whether going it alone or hiring a specialist, companies need to do things with the results of their pay equity audit. If a race or gender wage gap exists, pay adjustments should be made. Keep in mind that you cannot reduce the compensation of an employee to remedy a pay disparity.

Another important step going forward is training executives and managers on how to make fair pay decisions with new hires and existing employees. Do not fix inequities only to reintroduce them. Come up with guidelines as to how things like performance-based pay increases are determined or the reasons behind offering a job candidate a certain starting salary. Insist on proper documentation for pay-related actions.

Finally, many companies take an interest in getting to the root causes of pay inequity. While the audit team requires members able to deal with data collection and interpretation, other people within the organization may be enthusiastic about exploring issues such as systemic racism, parenthood penalties, better recruiting of minorities, biases in hiring and promoting, and equal opportunities for advancement. From encouraging the formation of Employee Resource Groups (ERGs) to soliciting ideas through surveys, employers can strengthen the whole organization’s commitment to DEI.

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