



International
Labour
Organization

PAY EQUITY

A KEY DRIVER OF GENDER EQUALITY



In order to be competitive and to succeed in the marketplace, companies have to attract and retain the best talent. A person's sex is not an indicator of either talent or competence, and this simple truth must be a key component of diversity strategies that reflect the world we live in.

Valuing employees by ensuring pay equity should be an important component in a company's hiring and retention strategies. However, women continue to earn less than men for work of equal value and the existing gender pay gap threatens to slow down efforts to achieve gender equality in the workplace. The imbalance in pay can be traced back to gender biases against women that seep into human resource processes in organizations.

Actively managing pay equity should be a priority for companies aiming to close the corporate leadership gap – not only because paying women and men equally

is the right thing to do, but also because it makes good business sense. Pay equity is an important tool for companies to advance women into leadership positions. An equitable pay system allows companies to retain the best talent, boost participation of women in the workforce, and build a positive company image. It can also avoid reputation risk and potential legal claims.

Companies can address the gender pay gap and drive pay equity by promoting transparency in terms of pay disclosure, setting objective criteria for pay and promotions and by increasing awareness of the barriers women face in reaching higher positions.

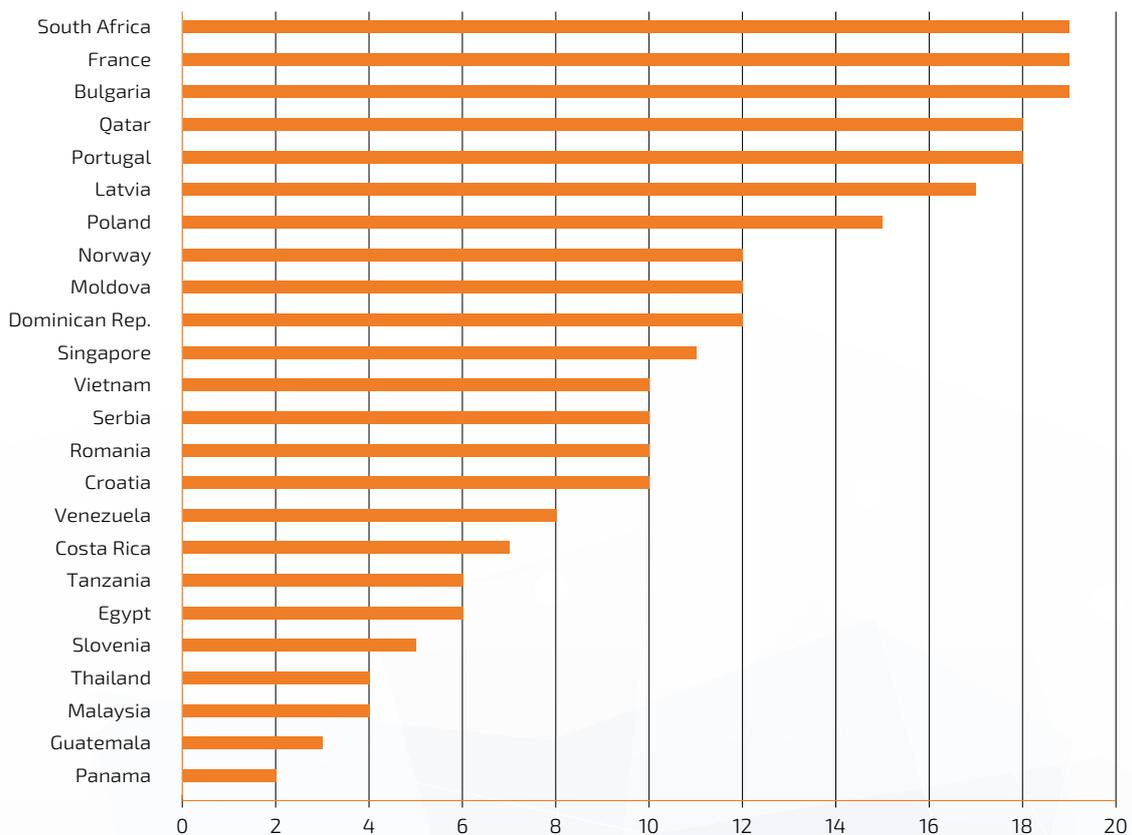
“Pay equity appears to be a critical driver of gender diversity, perhaps because it not only improves the value proposition for women but also can put women on a more equal footing with men in the household – with the effect that women are more likely to stay in the labour force.”¹

When Women Thrive,
Businesses Thrive, 2014, Mercer

The gender pay gap

Gender inequalities in pay are often assessed through an indicator known as the gender pay gap. The gender pay gap measures the difference between male and female average earnings as a percentage of the male earnings.² Overall, features such as differences in educational levels, qualifications, work experience, occupational category and hours worked account for the “explained” part of the gender pay gap. The remaining and more significant part, the “unexplained” portion of the pay gap, is attributable to the discrimination – conscious or unconscious – that is pervasive in workplaces.³

Countries with less than 20 per cent gender wage gap, ILO, Latest years



Source: Table gender wage gap by economic activity, ILO statistical database, June 2014.

All countries 2012, except for Latvia, Norway, Portugal and Qatar (2013), Bulgaria, Croatia, France, Moldova and Slovenia (2011), Poland (2010).

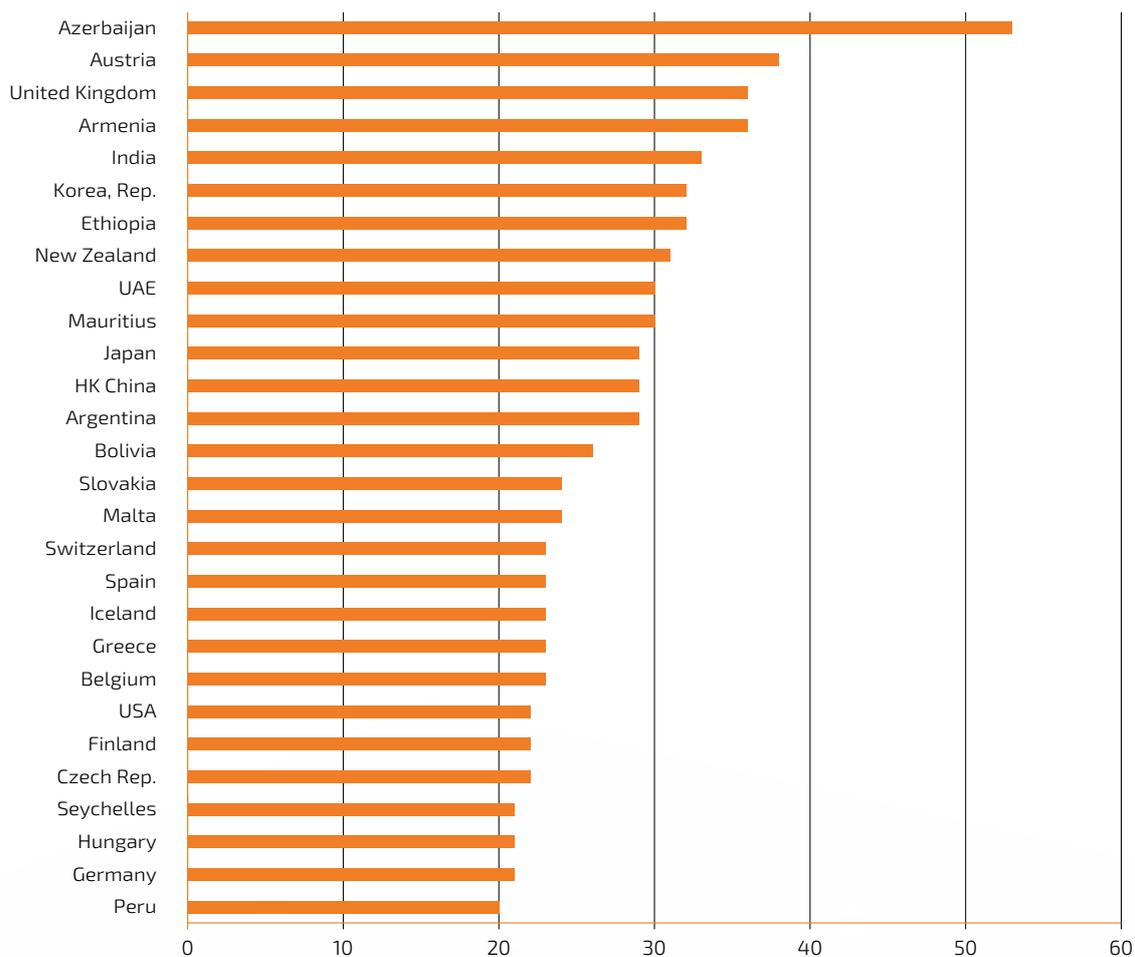
↘ Globally, the gender pay gap is estimated to be at 22.9 per cent.⁴

While the gap has been gradually closing over the last decades, there is still a substantial gender pay gap in many countries, ranging from a few per cent to over 40 per cent. Figures 7.1 and 7.2 show the gender wage gap between men and women for selected countries in recent years.⁵

↘ The gender pay gap widens for higher-earning women.

ILO data shows that higher earning women are more adversely affected by the gender pay gap. It also shows that the “unexplained” portion of the gap tends to be bigger for higher-earning women.⁶ A recent Wells Fargo report confirms this trend and shows that there is a gender pay gap favouring men at every stage and the pay gap widens as employees climb the corporate ladder.⁷

Countries with 20 per cent or more gender wage gap, ILO, Latest years



Source: Table gender wage gap by economic activity, ILO statistical database, June 2014.

All countries 2012, except for Czech Republic and Ethiopia (2013), Austria, Belgium, Bolivia, Finland, Greece, New Zealand and Seychelles, Spain (2011), Malta, Switzerland and USA (2010), UAE (2009)

📌 The gender pay gap gets worse when pay includes a discretionary component.

Recent data from the Workplace Gender Equality Agency (WGEA) in Australia shows that when the pay gap was calculated based on total remuneration instead of base salary, the pay gap was higher in all manager and non-manager categories, suggesting that women receive lower discretionary bonuses than men.⁸ Gender bias in the workplace may be a contributing factor.

📌 Men are paid more than women even in traditionally female occupations.

According to recent research by the University of California, San Francisco, male nurses out-earned female nurses by an average of 5,100 USD per year and the gap has remained stagnant for the last 30 years. Men also out-earn women in female-dominated professions such as teaching.⁹

📌 The gender pay gap is worse for minority women.

While women's average earnings are 77 per cent of men's average earnings in the US (2012), African American women earn only 64 per cent and Hispanic women make just 55 per cent of what their white, non-Hispanic male counterparts earn.¹⁰

AT THE CURRENT RATE, IT WOULD TAKE OVER 70 YEARS TO BRIDGE THE GENDER PAY GAP.

What causes the gender pay gap?



WOMEN ARE OFTEN HIRED AT LOWER SALARIES THAN MEN

The gender pay gap arises due to a number of reasons. Age old stereotypes based on the male breadwinner model are a leading cause of the gender pay gap. Women are often hired at **lower salaries** than men, and the gap compounds at each successive stage. A Catalyst study shows that on average, women with MBAs from leading business schools in the United States, Canada, Europe and Asia earn 4,600 USD less than men with MBAs for their first jobs.¹¹ Data also shows that the pay difference becomes much more pronounced three years after graduation, with the gender pay gap increasing to as much as 36 per cent in Africa and Latin America.¹²



LESS FACE-TIME TRANSLATES INTO LOWER PAY

Male-dominated corporate cultures, commonly referred to as “boys’ clubs”, can exclude women from important and influential company networks, especially when decisions are taken after hours. Less face-time due to family responsibilities or flexible work arrangements can also be a factor causing pay inequality even when deliverables are met.¹³



WOMEN FACE A MOTHERHOOD PENALTY

Another factor that contributes to the widening gender pay gap is motherhood. The ILO’s **Motherhood Pay Gap** study shows that mothers around the world face a wage penalty and earn less than women without children.¹⁴ Many women are also penalized in terms of lower bonuses or promotions, for taking time off work or adopting flexible work schedules to accommodate **care giving responsibilities**.



WOMEN ARE LESS INCLINED TO ASK FOR RAISES

Women are often reluctant to **negotiate** for themselves and are therefore less likely to ask for raises, further contributing to the gender pay gap. A study of an MBA graduating class showed that only 12.5 per cent of the women negotiated their job offer compared to 50 per cent of men.¹⁵

Making pay equity the core of the gender equality strategy

Understanding ‘Work Of Equal Value’¹⁶

The concept of “work of equal value” includes but goes beyond “equal work”. Equal pay for work of equal value covers not only cases where men and women do the same or similar work, but also the situation where they do different work. When men and women perform work that is different in content, involving different responsibilities, requiring different skills or qualifications, and is performed under different conditions, but is overall of equal value, they should receive equal remuneration. This concept is critical to eliminating discrimination and promoting equality, since women and men often perform different jobs, under different conditions or



even in different establishments. Women continue to be concentrated in a limited number of jobs, and jobs held predominantly by women tend to be undervalued. Even in management, women tend to be confined to certain areas such as human resources, public relations and administration, which are valued less in monetary terms than areas such as operations, sales and general management predominantly held by men.

THE ILO AND PAY EQUITY

Since its inception, the ILO has been committed to promoting equal opportunities for men and women in the world of work. It continues to dedicate research and technical expertise to understanding the root causes of the gender pay gap and build capacity by examining best practices across the world. Recent publications on equal pay and the gender pay gap include:

- the ***ILO Global Wage Report 2014/15*** that compiles the most recent gender pay statistics and analyzes causes of the gender pay gap;
- the ***Motherhood Pay Gap*** that reviews issues, theories and evidence on the motherhood pay penalty;
- the ***ILO Equal pay: An introductory guide*** that clarifies key concepts related to equal pay and offers insights into how pay equity can be applied in practice; and
- the ***ILO Women in Business and Management: Gaining Momentum Global Report*** that looks at the gender pay gap from a business perspective.

ILO Equal Remuneration Convention, 1951 (No. 100): Equal pay for men and women for work of equal value

- Defines “remuneration” to include the ordinary, basic or minimum wage or salary and any additional emoluments whatsoever payable, directly or indirectly, whether in cash or in kind by the employer to the worker and arising out of the worker’s employment
- Focuses on the central issue of the “value” of work performed rather than just “equal pay for equal work”
- Requires member States to promote and ensure the application to all workers of the principle of equal remuneration for men and women for work of equal value

What can companies do?

Based on insights from companies that have effectively managed to narrow the gender pay gap, companies can develop a pay equity strategy based on the drivers identified in the following section.

PERFORM REGULAR PAY EQUITY ANALYSIS

Companies can identify gendered pay differences within the organization – at different levels and in different functions – by gathering comprehensive pay data and performing thorough pay equity analyses. The results of these reviews are critical for companies to gain insights into prevalent pay gaps in the company and help them to develop intelligent solutions aimed at tackling the causes of pay inequality. Various pay equity analysis tools are available to suit the unique needs of each business, and companies can also benefit from the expertise of external evaluators to conduct independent pay equity reviews. For example, in Germany, an equal pay self-assessment tool “Logib-D”, has been developed that allows companies to generate pay data, conduct evaluations, and identify action points to drive efforts to minimize the pay gap.¹⁷ Conducting reviews periodically is important for companies to be able to consistently drive pay equity.

Telstra, a global communications provider, has placed a strong emphasis on collecting and analyzing pay data to promote pay equity. The company regularly performs payroll analysis and utilizes the results to review and refine policies and procedures. This has enabled the company to track progress and has contributed to the overall effectiveness of the company’s pay equity strategy.¹⁸

Microsoft adopted several measurable diversity goals to ensure that there is “not only equal pay for equal work but also equal opportunity for equal work”. Microsoft has established pay monitoring systems and qualitative scorecard data reviews to ensure that no salary discrepancies arise. Microsoft’s base pay among women and men of all races in the United States varies by less than 0.5 per cent.¹⁹

Determine Equal Value²⁰

It is important for companies to independently assess the value of each job and ensure that the process is free from bias. The ILO guide *Promoting Equity: Gender-Neutral Job Evaluation for Equal Pay* is an effective tool to compare jobs and determine the value of a job in relation to others. Companies should use the analytical job evaluation method to determine the numerical value of the job based on a range of gender neutral criteria including skills and qualifications, responsibilities, effort and working conditions, and ensure equal remuneration for work of equal value. In this way, companies can make sure that jobs held predominantly by women are not undervalued or underpaid.

In Portugal, as part of the “Revalue work to promote gender equality” project financed by the European Commission and with technical assistance from the ILO, a tripartite sectoral committee was set up to develop a job evaluation method (JEM) for the catering sector. The implementation of the JEM has helped reduce the gender pay gap by tackling discrimination against women in female-dominated jobs that were traditionally undervalued.²¹

Create A Fair Reward System

The recent New York Federal Reserve Bank report shows that female executives receive vastly lower incentive pay for performance and business growth than their male colleagues.²² Lack of transparency in structuring compensation or reward packages can worsen the pay disparity between men and women. Setting a clear and objective criteria to determine reward helps companies check for bias in the pay and promotion process. Companies can tackle the pay gap in compensation systems by setting a threshold, target and maximum for pay increases or bonuses to ensure equitable, merit-based reward distribution among men and women. An effective strategy employed by many companies is to discuss and compare employee rewards in a peer group setting. This helps drive accountability and minimise bias in the reward system.



Chaiwatphotos/gettyimages

Google, a multinational internet service company, promoted gender diversity by encouraging women to negotiate. The Google analytics system identified its reward model, based on self-nomination, as a major barrier resulting in fewer women being promoted. Fewer women advocated for themselves as they often encountered pushback. To address this issue, Google organized workshops for its female leaders stressing that they were expected to self-promote and highlighting strategies to do so. As a result, Google has successfully closed the gender gap in promotions.²³

PROMOTE PAY TRANSPARENCY

Achieving pay equity at work requires greater pay transparency. According to the Workplace Gender Equality Agency (Australia), the pay gap is almost non-existent when pay is set transparently as compared to 20.6 per cent when pay information is withheld.²⁴ Deborah Ashton, Vice President – Chief Diversity Officer of Novant Health, suggests that publishing the criteria and formula used to determine pay and merit can help companies ensure transparent and fair processes.²⁵ Recent provisions such as the US Lilly Ledbetter Fair Pay Act 2009 and the UK Equality Act 2010 have been introduced to promote pay transparency.

Transparency is so important because if you know what your salary is and what your colleagues are making that gives women the information they need to negotiate and to ask and be paid fairly and equally to men.²⁶

Deborah Gillis
Catalyst President and CEO

To promote income transparency, the Austrian National Action Plan for Gender Equality in the Labour Market has made it mandatory for all companies with more than 150 employees to publish staff income reports every two years. Companies are required to report the number of men and women classified under each category along with the average or median income for the respective category. This reporting mechanism is aimed at encouraging companies to tackle the gender pay gap in Austria, which is estimated to be 38 per cent.²⁷

SUPPORT FLEXIBILITY

In many companies managers still use face-time as a measure for employee performance. There is a widespread perception in workplaces that only those employees working traditional hours get promoted. This adversely affects women employees as women still undertake the bulk of home responsibilities and more often than men engage in flexible working arrangements to manage work and family responsibilities. Companies can minimize the impact of bias in pay decisions by educating supervisors about how to manage flexible work schedules and making flexible work a real option for both women and men. Flexibility allows women and men to balance their work and family responsibilities and remain productive in the workforce.

“Employers who are committed to creating equal access to opportunities for women and men need to work harder to remove barriers that inhibit women from entering these higher paying roles. A lack of quality flexible work, the legacy of workplace cultures built on the male breadwinner model and gender bias are likely to be among barriers that need to be tackled.”²⁸

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