

How Can Organizations Help Close the Pay Gap?

6 STEPS TO IMPROVE EQUITY

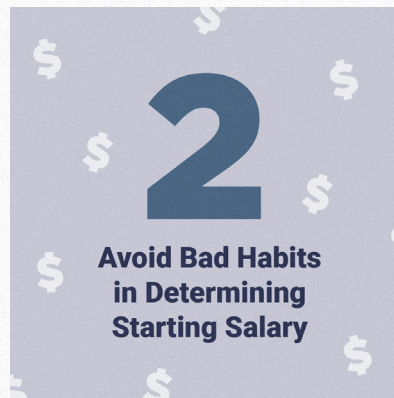
Organizations are increasingly focusing their efforts to ensure that they are paying their employees fairly and not discriminating based on gender or race/ethnicity. This increased focus is due to a combination of a desire to do the right thing, to comply with federal and state equal pay laws, and to respond to pressure from shareholders to narrow the pay gap. Commonly published national statistics indicate that the 2023 median salary for women is only 84% of the median salary for men. In reviewing these statistics, it is important to keep in mind that these national statistics do not control for such important factors as job title, education, and experience. When these factors are controlled for, the gap narrows to about 1–7% (CONSAD, 2009; Payscale, 2024).

Regardless of the actual size of the wage gap, we know that it is not zero. Fortunately, there are many steps an organization can take to narrow or eliminate the gap.



1. Annually Monitor Sex and Race/Ethnicity Differences in Pay

Each year, an organization should conduct a study to ensure that its employees are being paid in a non-discriminatory manner. Most federal contractors are already required by law to annually conduct such a study. Although there are many ways in which these studies can be conducted, the typical study uses a regression analysis to determine if there are unexplained sex and race/ethnicity differences in salary after controlling for job-related factors thought to be related to pay.



2. Avoid Bad Habits in Determining Starting Salary

My experience has been that starting salary is the root of most salary evil. If an organization can avoid sex and race/ethnicity differences in starting salary, it is less likely that they will have group differences in salary down the line. Two bad habits, in particular, should be avoided: basing starting salary on an applicant's prior salary and allowing the applicant to negotiate their starting salary. Multiple states have banned the practice of asking for an applicant's salary history.



3. Monitor Hiring Decisions

As alluded to previously, much of the national wage gap is due to sex and race/ethnicity differences in the jobs in which people are employed (CONSAD, 2009; Payscale, 2024). For example, engineers are more likely to be men, and clerical staff are more likely to be women. Thus, recruiting and hiring women and minorities into higher paying jobs is an essential step toward closing the wage gap. Toward that end, organizations should annually evaluate their hiring data to determine the extent to which their hiring practices have adverse impact (disparate group rates of being hired). If adverse impact is observed, the organization must ensure that the hiring practice is job related and consistent with business necessity. Furthermore, employers should compare sex and race/ethnicity differences between the people it employs (utilization) and the percentage of each group in the qualified workforce (availability).



4. Avoid Steering

Steering is the practice, usually unconsciously, of placing applicants in particular jobs due to sex, race/ethnicity, or age stereotypes. Steering differs from traditional hiring discrimination in that the person is hired but is placed in a job based on the stereotypes previously mentioned. For example, an organization might hire two laborers and place the male employee in a warehouse job and the female one in the assembler job based on the stereotype that men are stronger than women and women have better dexterity than men. Steering can especially affect the wage gap if women are steered into lower paying jobs or jobs with a lower probability of upward movement. To avoid potential steering, have applicants apply for a specific job or assignment rather than to a general opening. If a general requisition is used, randomly assign the new employee to the available assignments.

5. Monitor Promotions

In addition to conducting salary equity analyses, you can also conduct studies to determine if there are statistically significant sex or race/ethnicity differences in the percentage of employees that are promoted as well as the average time it takes to receive a promotion. Organizations should also evaluate how promotion opportunities are announced. For example, are all employees made aware of an opening or does a supervisor tell only a favorite employee about the opportunity?

6. Monitor Performance Ratings

Because annual merit raises are typically based on supervisor ratings of an employee's performance, an important step in closing the pay gap is to monitor sex and race/ethnicity differences in these ratings as well as to monitor the actual pay increase that is recommended based on these ratings. That is, if a male and a female employee each receives a rating of 4, are their actual salary increase percentages similar?

Clearly, taking each of the six steps discussed in this blog will involve considerable effort and expense. But isn't paying people fairly worth that effort and expense?

Reference: CONSAD Research Corporation (2009). An analysis of the reasons for the disparity in wages between men and women. <https://www.shrm.org/hr-today/public-policy/hr-public-policy-issues/Documents/Gender%20Wage%20Gap%20Final%20Report.pdf>

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