

PAY EQUITY RESOURCE GUIDE: ASSESSING COMPENSATION DATA TO ACHIEVE RACIAL PAY PARITY



WASHINGTON
EMPLOYERS

FOR
RACIAL
EQUITY

Historical and embedded systems of inequity and marginalization based on race have resulted in significant pay and household wealth gaps for Black workers in Washington state and across the nation.¹ Over the last three decades, the wage gap for Black workers in Washington state has worsened considerably compared to workers overall.² The median income for Black households was \$48,297 in 2021, 68% of the median for all households.³ Closing these gaps is fundamental to achieving racial equity and ensuring that all Washingtonians—regardless of race or ethnic identity—have an equal opportunity to thrive.

In December 2020, CEOs and senior leaders from companies and institutions across Washington state joined **Washington Employers for Racial Equity** to demonstrate a clear commitment to advancing racial equity in the area where they have the most influence—the workplace. A specific goal of the coalition is to achieve racial parity in average compensation for employees in similar job categories by 2030.

To reach that goal, employers must assess compensation data (comparing pay of employees doing “like for like” work and accounting for reasonable differentials, such as work experience, credentials, and job performance⁴), disaggregate that data by race, investigate the causes of differences that cannot be otherwise understood or justified, and address those differences with a time-bound management plan to close pay gaps.

PAY EQUITY AUDITS:

- Essential to reach equal pay outcomes.
- Central to social impact, market competitiveness, and compliance goals.
- Foster trust, employee engagement, retention, communication, and policy objectives.
- Promote leadership engagement and development in addressing equity concerns.

PAY EQUITY AUDIT STEPS

OUTCOMES

- 1 **Make executive-level commitment to review compensation data and address inequities based on race.**
- 2 **Consult council based on pay equity analysis scope and complexity.**
- 3 **Gather workforce data on comparable skills and pay levels and disaggregate by race.**
- 4 **Perform regression analysis to identify pay equity gaps based on race.**
- 5 **Conduct management review of regression analysis results to inform timebound plan to close pay gaps based on race.**
- 6 **Identify operational gaps of systemic practices that lead to pay discrepancies by race.**
- 7 **Develop and execute a management plan for addressing operational and systemic gaps.**
- 8 **Make pay adjustments as needed to close race-based pay gaps per the management plan.**
- 9 **Implement a continuous review cycle.**



FAIRNESS



COMPLIANCE



TRANSPARENCY

PAY EQUITY RESOURCE GUIDE

1. Make an executive-level commitment to regularly review compensation data and address inequities based on race.

Successful and sustained pay equity efforts require a commitment across executive leadership teams with the help of skilled experts to drive a continuous improvement effort aimed at closing racial pay gaps. According to a 2020 Harvard Business Review article, “As leaders, it is a matter of integrity to be able to look your employees in the eye and give them your word that you value their work—and can prove it by paying them equitably. Pay transparency is the number one thing employers can do to build trust.”⁵

2. Consult employment lawyers regarding pay equity concerns, depending on scope and complexity.

Numerous federal, state, and local laws prohibit pay discrimination based on race, sex, and other protected class characteristics. After organizational leadership make the commitment, employment lawyers with experience and expertise may be needed to help organizations determine the scope, structure, time, and cost required to complete a pay equity audit and build a management plan to close any pay gaps.

3. Gather accurate workforce data based on comparable skills, levels, and racial data.

Organizations conducting pay equity audits should ensure that auditors, management, and involved stakeholders are working with accurate and comprehensive employee data. Example data should include employee length of service, compensation level, education, certifications, performance evaluations, job classification, race, gender, and other demographics.

4. Perform regression analysis with quality data to identify pay equity gaps based on race.

Regression analysis is a specific statistical technique used in pay equity audits to analyze the relationship between a dependent variable (compensation) and independent predictor variables (race, gender, age, and national origin). The most common statistical method uses multivariate regression analysis to determine whether, after controlling for certain variables, any statistically significant pay disparities exist between employees with a particular protected trait and similar employees not sharing that trait.⁶

5. Conduct management review of regression analysis results to inform a timebound plan to close pay equity gaps based on race.

The results of your regression analysis should uncover where racial pay equity gaps exist in your organization. Management should use these results to understand operational and strategic implications for the organization, align to equity goals, and develop a detailed management plan to close equity gaps with pay adjustments.

6. Identify operational gaps or systemic practices that lead to pay discrepancies by race.

A variety of operational gaps and systemic practices can lead to pay discrepancies, such as those common in hiring processes not aligned with equity and inclusion goals, incorrect job classifications, the tendency to hire people who look like the hiring team (similarity bias⁷), and other implicit and explicit biases. The critical outcome of this step is to look objectively at why pay gaps exist at a process level and adjust those processes to ensure that pay gaps cannot occur for similar work and skillsets simply based on race. Adjustments may include implicit bias training, structural changes to hiring processes, or changes to performance measures that align with organization inclusion goals.

7. Develop and execute a management plan for addressing operational gaps or systemic practices.

Include a broad spectrum of internal stakeholders in developing a management plan to close pay equity gaps. An effective management plan will be timebound and represent a commitment to achieving and maintaining racial pay parity. It demonstrates how you will invest in increased employee satisfaction, retention, performance progression, learning, and development in ways that support racial equity priorities. The management plan should be integrated into standard operations of the organization.

8. Make pay adjustments as needed to close race-based pay gaps per the management plan.

Once the regression analysis and management plan are complete, make the necessary compensation adjustments per your plan. Compensation adjustments may need to be phased in or staged according to other operational efforts. This will vary from organization to organization. Consider budget cycles, compensation review cycles, and other operational cycles to determine when to make appropriate compensation adjustments.

THE IMPACT OF PAY INEQUITY:

According to 2021 research conducted by the Society for Human Resource Management, about 1 in 5 employees discovered someone of a different race or ethnicity at their organization was paid more than they were, despite having the same job and experience.⁸

9. Implement a continuous review cycle.

Reassess compensation and job role data for gaps on a periodic basis. According to Harvard Business Review, a best practice is to spot inspect on an annual basis with a full review every 2-3 years.⁹ Use the management plan you created as the framework to evaluate your processes. Assessing compensation disaggregated by race and job classification to identify pay gaps should not be a one-time project. It is a continuous process focused on eliminating racial pay gaps consistent with a commitment toward equity.

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- [Equity Methods](#), accessed Oct. 2023
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The opinions and quotes herein are those of the authors, and do not necessarily represent official positions or policies of individual WERE member organizations.

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