Pay Equity Challenges

MODERNIZE YOUR TOTAL REWARDS STRATEGY TO ACHIEVE BALANCE AND EQUITY

workhuman*

Pay equity is a concern weighing heavily on the minds of HR and finance leadership. How can we ensure not only that everyone is paid an equal wage for equal work, but also that everyone is rewarded fairly, and without bias, for the discretionary effort they expend?

Forward-thinking organizations recognize that unconscious bias – and even conscious bias – is an inherent part of workplace culture that needs to be identified and addressed. While there is no simple solution for mitigating the bias that can lead to pay inequity, a modern total rewards strategy can be a smart step in the right direction.

A global social recognition platform, as an example, can show the volume of recognition and average award value by gender, giving companies insight into potential bias. Tackling the gender pay equity gaps begins with awareness and education through empirical data.

A SPOTLIGHT ON PAY EQUITY

Pay equity is often conflated with pay equality, and not everyone uses these terms the same way. For our purposes here, let's define pay equality as the assurance that everyone is provided the same pay rate for the same work. And let's think about pay equity as leveling the playing field and giving everyone what they need to be successful.

In other words, equity is the framework and the opportunity for earning the same wages, or the same rewards for exceptional work – regardless of gender, race, age, disability, color, creed, national origin, religion, sexual orientation or genetic information.

The conversation about pay equity has expanded exponentially over the past few years. It has become part of the discrimination conversation: where white men still out-earn[1] most other groups. It has become part of the #MeToo[2] conversation: as systemic gender discrimination has been highlighted as a source of

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workplace harassment[3]. It is part of our organizational culture conversations: as companies solving for hostile environments[4] and systemic bias[5] find pay equity a good place to begin.

Recent legislation has also been creating real change around the world. Many U.S. states have introduced broad-sweeping legislation that requires adherence to a process designed to ensure equal pay and carries heavy penalities in the event of non-compliance. Austria, Belgium, Denmark, France, Germany, Iceland, Norway, Portugal, Sweden, and the U.K. have all recently enacted new pay equity laws[6].

In 2018, the Supreme Court of Canada released its decision in two important pay equity cases that are helping to close the gender gap there. The last few years have also been strong ones for pay equity in the United States at the state level: with new laws in California, New York, Nebraska, Maryland, and Massachusetts. And SHRM has predicted[7] that employers in the U.S. should be prepared for sweeping pay equity legislation at the federal level.

Legislation aside, there are also societal factors that are changing how we think and feel about equity. Employees have higher expectations of fundamental equality that are challenging some of our most traditional assumptions about total compensation.

As the status quo shifts, many companies are taking a closer look at our incentive systems – things like MBOs, annual, quarterly, and even spot bonuses – and seeing significant flaws and failures to achieve the intended results.

Here are a few:

They are usually tied to salary rate – Bonuses are often given as a percentage of annual earnings, which means someone with an unequal wage to start with will earn a similarly disparate bonus. These bonuses only exacerbate existing discrimination, perpetuating the problem. According to Goldman Sachs, the average bonus for a woman is 72% lower[8] than it is for a man – often due to the smaller percentage of women in high-earning pay brackets.

They are too infrequent – Annual and quarterly bonuses don't happen close enough to work behavior to be motivational[9], or psychologically linked to that behavior – so even if they are KPI- or performance-based, they end up being seen as entitlements[10]. Infrequency also makes bonuses very high risk. They are "all or nothing," instead of incremental rewards from multiple sources, that might even out over time, mitigate bias, and reduce the stakes.

They are too predictable – Because of their regularity (and often ubiquity), bonuses become transactional[11]. They rarely make an impact as a true incentive to drive satisfaction or behavior. However, this expectation and predictability does provide a reverse incentive when bonuses are withheld. The decision whether to withhold a bonus introduces additional bias. Despite evidence to the contrary[12], men (and in particular fathers) are still widely seen as bread-winners[13] who would suffer disproportionately from loss of a bonus.

They are meaningless – Bonuses not tied to performance are exciting the first time we get them, but after that, we often spend them before they arrive. When they are tied to KPIs – particularly team or company KPIs over which we lack complete control – they can actually produce anxiety. In both cases, rewards rarely provoke[14] the feelings of accomplishment, loyalty, and being appreciated that employers are hoping to inspire.

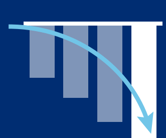
They have a single-source bias – When bonuses are tied to reviews or manager discretion, they are at risk of becoming a single point of failure[15]. If a manager carries a bias (conscious or unconscious), employee equity will suffer. If a manager is perceived to carry a bias, employee engagement and perceptions of fairness will suffer. Sadly, that bias does exist. Studies find that when managers alone determine pay-for-performance systems, women are consistently paid less[16]. Likewise, both gender and race[17] influence pay equity and suffer from significant gaps created by biases that exist between managers and employees.

But as we look at these flaws, we also see the opportunities reward and recognition systems have to better balance equity. Rewards match compensation not to demographics and resumes, but to discretionary effort, not only through the perspective of the company, but through the eyes of colleagues.

RETHINKING TOTAL REWARDS

It is difficult to retrofit equity in a system that has evolved over time to exclude some groups from higher paid professions or roles. Many companies are working hard to audit and address this issue through assessment, recruitment, and promotion – but it will take time to reach true equity.

In the meantime, rewards can be a simple way to triage, and quickly add balance to even entrenched disparities in traditional pay. Five of the biggest barriers to equity in previous reward models are listed above: 1) the perpetuation of a pay rate that is unequal to begin with, 2) predictability, 3) lack of meaning, 4) infrequency, and 5) the manager as sole arbiter of the reward.



The gender pay gap in the U.S. is

69% for incentive pay,

according to ADP.

We need to tap into new reward systems that provide equal opportunity for getting rewarded.

If we are to solve for these issues and build equity and incentive alike, we need to tap into new reward systems that provide:

- Equal opportunity for getting rewarded
- Spontaneity and surprise
- Frequency of positive reinforcement
- Meaning and relevance to our work
- Multiple points of view

The answer to this, for most companies, is crowdsourced incentives.

HOW CROWDSOURCING INCENTIVES INCREASES FAIRNESS

Crowdsourcing – or gathering input from many sources – expands the single manager's perspective to reflect on an employee's performance from many viewpoints, which helps to remove bias. Through an "anyone-to-anyone" rewards and recognition program, an employee in a lower earning role has the potential to earn the same – or more – rewards than an employee in a higher paid position, even if their direct manager carries unconscious bias toward them.

Crowdsourced incentives tend to be smaller, more frequent, and given over time, but they have the power to add up to something even more powerful than a bonus, because they come with recognition and are inspired by good performance. They are authentic and given in real time, so they are more meaningful and motivating to employees – increasing your employees' perceptions of organizational equity. (If you are using social recognition and rewards, they can even have this impact when they are merely witnessed[18].)

As part of a total benefits package, crowdsourced reward systems come in three tiers. Most companies will use them as a powerful complement to an already robust compensation and incentive system (which might still include bonuses) – helping to make them more equitable. Others put more of their total compensation into crowdsourced rewards, using them in lieu of those substantive annual or quarterly bonuses. Still other industries and organizations use rewards as a substitute for base pay, in a full pay-for-performance model.

THREE TIERS OF CROWDSOURCED REWARDS

Here's a breakdown of the three tiers of crowdsourced rewards companies are using to build pay equity and how they work:

ONE
Crowdsourced rewards

Also called micro-bonuses, crowdsourced rewards are commonplace in today's organizations, which set aside a percent of the total compensation budget to be offered as recognition for discretionary effort. The 2018 SHRM/Workhuman Employee Recognition Survey report[19] shows that 70% of companies have a values-based recognition program. Best practice for such programs is to set aside 1% of payroll as a bare minimum, to enable everyone in the organization to both give and receive rewards and recognition.

WHY THEY WORK

- Peer recognition[20] and rewards increase feelings of being "seen" in an organization. Even a supportive manager cannot be everywhere at once. Peers can shine a light on exceptional work that might otherwise not be seen outside a small circle.
- Peer recognition increases employees' feelings of inclusion, trust, and fairness. Studies show perception of equity[21] leads to greater actual equity in companies.
- A stream of continuous, small, but valuable incentives serve as persistent reminders to employees that their contribution is appreciated, improving job satisfaction[22].
- And finally, because rewards are omni-directional and proportional to discretionary effort, they ensure greater equity across the board.

TWO
Crowdsourced bonuses

Some companies have gone farther than micro-bonuses – transferring money that would normally be given as larger bonuses into crowdsourced rewards. These "pay for performance" bonuses take the place of typical annual or quarterly bonuses. The total allocation for these programs can reach 5-20% of salary. While micro-bonuses tend to be accrued in points, merchandise, or gift cards, these macro-bonuses will usually include some cash component.

WHY THEY WORK

- Like micro-bonuses, they feel more authentic, specific, and fair because they come both from leaders and from colleagues who can see and appreciate their work, firsthand.
- Unlike annual or quarterly bonuses, they are not scheduled and expected, so they feel less like an entitlement than traditional incentives.
- Because they are linked directly to behavior and real outcomes, they have more power to act as an incentive to future discretionary effort.
- Because they do not rely solely on approval by a manager, a single point of failure is removed that could otherwise create or be perceived as bias.

THREE
Crowdsourced pay

The highest tier of crowdsourced incentive is probably the least likely to be seen in an enterprise setting, but is nevertheless very common in certain industries. This is basing all – or a significant majority – of pay on crowdsourced rewards. In many ways it is not yet practicable in most workplaces, but in some professions, it is already the norm. In hospitality or any industry where a majority of salary comes from gratuities, staff are effectively being rewarded based directly on performance. With the advent of the gig economy, we expect this model of pay to appear more and more often.

WHY IT WORKS

- A continuous flow of income, in direct proportion to work and effort, and extending from the crowd, can be seen as the most equitable pay solution available – provided care has been taken to ensure the system is not abused.
- The system is entirely merit-based and holds the potential for high gain for employees who put forth large amounts of discretionary effort, which can in turn result in high levels of productivity for organizations.
- Because it can be seen as competitive to the extent that it draws from a finite source, this pay type works very well for industries or departments who are engaged in "coop-eration."

USING REWARDS ANALYTICS TO INCREASE EQUITY

While crowdsourced pay may be a bridge too far for many organizations, even investing just 1% of your payroll through rewards programs can have a significant impact on equity in your organization. This is not only because rewards will directly address equity by compensating those who deserve it, but also because the data gleaned from crowdsourced rewards and recognition – when triangulated against pay and performance data – will give you deep insights into the current equity in your company.

By looking at who is receiving rewards and why, you can spot high performers through the eyes of their peers and highlight them for development or promotion. You can use this data to compare against salaries and performance ratings, audit for equity in pay, and spot possible areas of manager bias. Those who are reviewed highly but have fewer rewards might be lacking in social capital[23]. This is an opportunity to balance the scales or integrate them more into your culture[24] and work community.

WHAT ABOUT BIAS?

Bias is hard-wired into the human brain. Humans are so biased, in fact, that there is even a bias about our biases[25]. Compensation itself is rooted in biases, so you might be wondering if your organization will simply carry their biases with them into a new rewards structure, without impacting equity at all.

After all, pay equity already struggles with manager and institutional biases that impact not only pure compensation but also hiring, promotion, and development. If we add to that the potential for peer-to-peer bias, you can see the potential for rewards to go disproportionately to popular people, similar people[26], or those in support roles. You might even struggle with a conscious or unconscious quid pro quo problem. We have to ask: Is equity even possible?

The short answer is yes. Absolutely. But it requires a combination of qualitative and quantitative effort. This is why homegrown recognition and rewards systems are not up to the task

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of helping you reach equity. Indeed, a poorly run system can actually exacerbate inequality. When managers can hand out rewards without even tracking them, or rewards are not counted as part of total compensation or not visible to other employees, a system is deeply vulnerable to bias.

If you are going to use employee rewards, and you should, it is critical to be able to collect and manage data about how they are awarded. Combined with other quantitative data, such as an internal labor market audit and pay equity analysis, data helps you to adequately measure and benchmark performance against pay, and properly measure and manage your organizational culture. Without reward analytics to reference, bias can even creep into your own assumptions.

It's also critical to train managers on bias, to alert them to diversity and inclusion patterns, and to put checks and balances into your system to alert you to bias. As leaders we should consistently compare performance and rewards, and look for patterns that might alert us to conscious and unconscious bias. Again, data, combined with qualitative inquiry and knowledge, can help you to spot outliers and resolve issues in a way that solves for biases.

If you are aligning your employee reward program with your cultural values – and we highly recommend that you do – you might consider adding a cultural value that aligns with equity, such as diversity, inclusion, and equal voices. This can be a powerful tool to both remind the givers of the rewards that they should be thinking about equity, and to create a moment of self-reflection for those giving awards. This kind of self reflection is also powerful in molding behavior and learning[27], research has shown. In this way, reward programs can also be used as a tool to create equity and reduce the biases that exist in the organization. This is a positive step toward connecting culture to shared purpose.

HOW TO EVOLVE SMOOTHLY

As you walk away from reading here, you may be inspired to use rewards to balance equity in your own organization, and we highly recommend that you do. Rewards are an excellent way to start to balance the scales while you also pursue longer term audits and pay equity measures. We suggest you explore your options for a holistic, human-friendly[28] recognition and rewards solution that offers an equal chance for rewards to all. Find a social recognition platform[29] that allows you to measure and manage equity by easily spotting outliers, and that assists managers in providing equal attention to everyone on their teams.

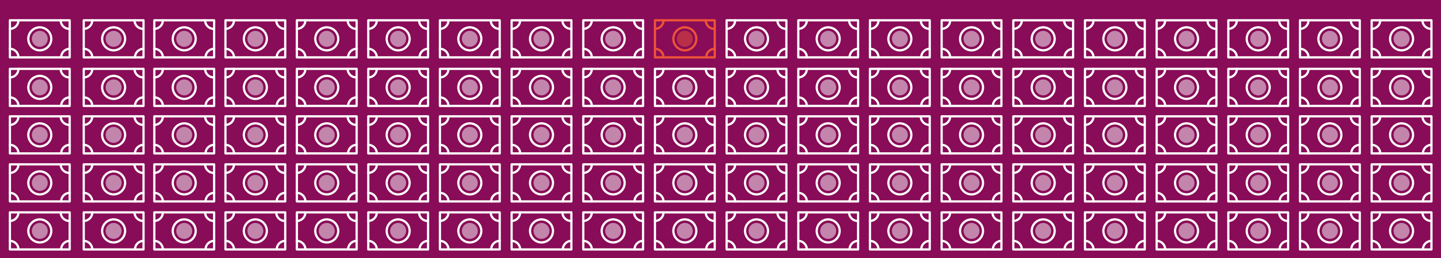
Change is always challenging, so we don't recommend you go from big quarterly bonuses straight to a cold-turkey 100% pay-for-performance reward model. But we do recommend that you benchmark where you stand now, and then allocate at least 1% of your payroll to "anyone-to-anyone" recognition and rewards.

You'll be surprised and inspired by the difference equity through rewards can make in your business and your culture.

1% OF YOUR PAYROLL

or more allocated to "anyone-to-anyone" recognition and rewards

CREATES THE STRONGEST ROI



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