

# CRACKS IN THE FOUNDATION

## A Global Perspective on Pay Equity

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# benefits

MAGAZINE

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Marginalized groups and women may encounter invisible barriers that hinder their personal and professional development. The author delves into the worldwide gender wage gap and the lack of female representation in managerial and corporate positions.

**T**he gender wage gap has gained recognition globally, and many governments have recently enacted pay transparency and equity legislation to address the longstanding disparity between men and women regarding pay.

Global employers may need to adjust their policies to ensure that they comply and should continue to monitor developments worldwide. Employers that embrace pay transparency may find that these policies improve pay for women and help increase female representation in managerial and corporate positions, thus breaking the glass ceiling.

## The Global Gender Wage Gap

In 1839, the French author Amantine Lucile Aurorre Dupin, best known by her pen name George Sand, used the phrase “Une voûte de cristal impenetrable” (an impenetrable crystal vault) in her play *Gabriel*, one of the earliest attempts to describe the invisible barriers through which marginalized groups can see elite positions they cannot reach. “I was a woman; for suddenly my wings collapsed, ether closed in around my head like an impenetrable crystal vault, and I fell . . .” The statement, a description of the heroine’s dream of soaring with wings, has been interpreted as a feminine Icarus tale of a woman who attempts to ascend above her accepted role.<sup>1</sup>

Fast forward 185 years and many women still grapple with an unseen barrier that can hamper personal and professional growth—the presence of the “glass ceiling”<sup>2</sup> within the workforce. The global gender wage gap and lack of representation in managerial and corporate roles expose this unseen barrier.

Highlighting this, the Organization for Economic Cooperation and Development (OECD) has analyzed its 38 member countries and found that the gender wage gap stands at 13% globally.<sup>3</sup> In addition, a 2022 report by Catalyst highlights the need for more women in managerial positions, showing that women account for only 26% of all CEOs and managing directors globally.<sup>4</sup> A noticeable disparity persists, although there has been an increase from 15% in 2019. According to the Census Bureau, about 42% of managers in the U.S. are women, and 31.7% of top executive positions were held by women in 2021.

An annual study conducted by McKinsey and LeanIn.Org, titled *Women in the Workplace*, has reported on efforts to address disparity for the last nine years. The 2023 report found that for every 100 men promoted and hired to managerial positions, only 87 women experienced the same professional ascent. Women of color fared worse, representing 73 opportunities for advancement for every 100 promoted men.<sup>5</sup>

This raises the question, why are women overlooked for promotions? Sheryl Sandberg, LeanIn.Org founder and chief operating officer, and Rachel Thomas, LeanIn.Org president, explained, “These are all workers at the entry level—They haven’t built long track records, they all have similar work experience and they were all good enough to be hired in the first place. There’s no good reason why so many more men than women are being tapped for promotions, only a bad

one—bias. Because of the ‘broken rung,’ men end up with 62% percent of manager jobs while women hold just 38%. From then on, it’s impossible for women to climb fast enough to catch up.”<sup>6</sup>

As the broken rung impedes women’s progress toward entry-level managerial positions and perpetuates the issue of unequal pay by keeping women in low-paying positions, there is hope the glass ceiling will break once the broken rung is addressed.

## The Role of Pay Transparency

Promoting women earlier in their careers is in the hands of employers, but the government can also play a significant role by creating rules and regulations around pay transparency, which can help foster openness and clarity regarding salary information within the professional landscape. *Pay transparency* has become the key term when discussing work around equal pay in the workforce. When reported on, pay transparency can encompass three key components of the equal pay movement: pay transparency, pay equity and pay equality. These initiatives aim to promote fairness, equity and accountability in compensation practices.

While the following policies may help close the gender wage gap, they can also assist other marginalized groups that have experienced wage disparities.

### Pay Transparency

When reviewing the three terms in context, pay transparency refers to the tools employers can use. These tools can be voluntarily implemented or regulated by a government and include some or all of the following components.

- **Disclosure of pay ranges:** This policy requires employers to disclose salary information and provide a salary range for a position. By providing this transparency, current employees and potential candidates understand the compensation range for a particular role.
- **Detailed compensation structure:** An organization establishes and communicates a comprehensive structure that typically includes the factors and criteria used in determining pay, such as experience, skills, location and performance metrics. When established and communicated correctly, these structures help employees understand and trust the compensation practices.
- **Salary information in job postings:** Including salary information in job postings provides individuals ap-

## takeaways

- Despite significant time passing, many women continue to face the “glass ceiling” in personal and professional growth, evidenced by the global gender wage gap and underrepresentation in managerial roles.
- Pay transparency and pay equity measures may help foster an inclusive and equitable work environment, emphasizing the need for equal pay for equal work.
- Pay transparency tools include disclosure of pay ranges, a detailed compensation structure, the inclusion of salary information in job postings, antiretaliation provisions and prohibition on asking for salary histories from job candidates.

plying for a position with clear visibility into the pay ranges and helps them make informed decisions.

- **Antiretaliation provisions:** To create an environment conducive to open discussions about pay, antiretaliation provisions protect employees who engage in conversations or inquiries about compensation. This encourages a culture of transparency without fear of adverse consequences.
- **Salary history:** This policy prohibits an employer from asking for salary history from a candidate.

### *Pay Equity*

Adding in the components of pay equity helps bring in a measured approach and includes structured reporting, audits and penalties if metrics are not met/reduced. Pay equity practices build on transparency rules to hold companies accountable for reducing the gender pay gap.

- **Equal pay audits:** Regular audits identify and rectify gender or other pay disparities within their organizations. These audits involve a thorough examination of pay practices, identification of gaps and the development of strategies to close them.
- **Reporting requirements:** This practice involves mandates to share pay-related information with government agencies. This may include data on gender-based wage gaps or overall salary distributions broken down by demographic categories.
- **Compensation statements:** These detailed statements for employees may include a breakdown of individual compensation components—such as base salary, bonuses and benefits—offering employees a comprehensive view of their total remuneration package.
- **Penalties:** Monetary fines can be imposed if key metrics are not met in the equal pay audits or reporting requirements.

### *Pay Equality*

Pay equality is often the desired outcome of implementing pay transparency tools and pay equity reporting. Pay equality is based on the concept of parity in compensation for work of equal value. This principle advocates that men and women should receive equal remuneration for performing identical or substantially similar roles. It extends the concept to encompass situations where individuals engage in entirely different occupations, provided that the

work can be demonstrated as equivalent value based on objective criteria.

The crux of pay equality lies in the assurance that both women and men receive commensurate compensation for their contributions to the workforce. This extends beyond job titles and considers an evaluation grounded in measurable criteria, which includes various job-related factors such as working conditions, qualifications, skills and levels of responsibility.

Governments worldwide have reviewed the concept of “work of equal value” in national legislation. The OECD provides a framework in its documentation to guide countries in establishing and refining their policies on pay equality.<sup>7</sup>

Following the outlined criteria ensures that the evaluation of job roles is based on merit and essential job-related attributes rather than subjective factors. This approach fosters fairness and equity in compensation practices but mitigates the potential for gender-based wage disparities.

Countries and governing bodies worldwide have recognized the gender pay gap and written legislation to address the issue, detailed below.

## European Union

The European Union (EU) is taking one of the most significant steps with the Pay Transparency Directive, signed into law in spring 2023. At a minimum, the law will apply to companies with more than 100 full-time employees, part-time employees and contractors. Member states have until June 2026 to incorporate the directive into national legislation. Once fully implemented, the Pay Transparency Directive will set the baseline that an EU member country must follow. A country can enforce stronger regulations, but at a minimum, a company operating within the EU must comply with the requirements set forth by the Pay Transparency Directive. The directive is the first of its kind on a regional basis. As multinational employers put policies and reporting practices in place for the EU, a global policy would be a natural rollout.

Basics of the European Union directive include the following.

### *Pay Transparency*

- **Salary history:** Employers are prohibited from asking candidates about their pay history.
- **Salary information in job postings:** An employer must provide a pay range in the job posting.

- **Disclosure of pay ranges:** An employee is entitled to information about pay ranges upon request.
- **Antiretaliation provisions:** Employers cannot penalize employees who discuss their pay.
- **Compensation statement:** When requested, an employer must provide a comparison of the employee's pay to the average pay by gender and categorically classified by comparable employees.

### Pay Equity

Pay equity measurement reports will also be required, along with the pay transparency tools. These reports will be required to disclose key metrics illustrating the pay gap between workers, categorized by gender and the categorical classification the employee is tied to. Companies will need to maintain a gender pay gap below 5%, and employees can request their company's pay gap measurement reports. The outlined gender pay gap reporting requirements must include the overall gender pay gap, median gender pay gap, and the proportion of female and male workers receiving complementary or variable components. In addition, reporting should include the proportion of workers who received a pay increase upon returning from maternity, paternity and parental leave, categorized by gender.

More pay equality guidance will be provided, but eventually, under the EU directive, companies must define categories of employees based on objective criteria (e.g., effort, skills, responsibilities and other characteristics specific to the job). The concept of equal pay for equal work will apply, and employees providing the same value of work should

be paid equally. Requirements and guidance for defining worker categories will be released in the coming years.

## Pay Transparency in the U.S. and Canada

### United States

The journey toward pay transparency in the U.S. began with enacting the Equal Pay Act of 1963, which aimed to address gender-based wage discrimination. Most recently, the Equal Employment Opportunity Commission (EEOC) reporting requirements took a significant step in 2016. The EEOC implemented a revised EEO-1 form, mandating that private employers with over 100 employees report pay data by gender, race and ethnicity. While no fines are associated, the overarching objective of these and other measures was to bolster pay transparency and proactively identify potential discriminatory pay practices, fostering a more equitable and accountable work environment.

Executive actions and government interventions have aimed to enhance transparency and address discriminatory pay practices. The National Labor Relations Act gave employees the right to unionize and implemented an anti-retaliation law, making it illegal for an employer to retaliate against an employee who talks about pay. Outside of this, no other federal laws govern pay transparency tools, pay equity measurements or pay equality.

Various states have expanded on the National Labor Relations Act and have written pay transparency tools into state law, adding to the complexity of compliance. Employers in California, Connecticut and Maryland may not

request salary histories from job applicants and must disclose salary details to employees and in job postings. Multiple other states have included at least one of these requirements in state law.

### Canada

Canada's efforts toward fostering pay transparency began with early recognition of gender-based wage disparities. The era of the 1970s through the mid-1980s was marked by activism by advocates for women, racialized groups, persons with disabilities, and Aboriginal peoples who were organizing politically and raising demands that the inequality they experienced be addressed.<sup>8</sup> During this time, the Canadian Human Rights Act was enacted and the Employment Equity Act received royal assent. The Canadian Human Rights Act was the first federal human rights law in Canada and the first federal law to protect against discrimination, and the Employment Equity Act was set up to remove systemic barriers from the workforce for women, indigenous peoples, persons with disabilities and members of visible minorities.<sup>9</sup>

In recent years, Canada has made strides toward enhancing pay transparency. As of this writing, British Columbia has the most robust pay transparency legislation, requiring employers to include expected pay ranges in job reporting and provide a pay transparency report.<sup>10</sup> Other provinces have implemented reporting requirements for gender pay gaps and have pay transparency legislation pending enactment.

## Transparency Problems

While pay transparency regulations are forming worldwide, some existing

implemented pay transparency policies have been studied. The American Economic Association<sup>11</sup> tested the impact of pay transparency on the University of California employees after the state of California made salaries public in 2010. In the test, the association randomly chose a subset of employees and informed them of a new website that listed the pay for all university employees. The research found that employees earning below the median salary for their pay unit and occupation tend to report lower pay and job satisfaction, while those earning above the median do not report significantly higher satisfaction. In addition, below-median earners are more likely to consider looking for a new job, whereas above-median earners show no such inclination.

The 2022 *Harvard Business Review* article “The Unintended Consequences of Pay Transparency”<sup>12</sup> suggests pay transparency leads to a compression of pay bands. A study found that average compensation for city managers in California fell by about 7% in 2012 after the state made their pay transparent beginning in 2010.

Often, managers and supervisors become employees’ first point of contact to discuss and negotiate their pay. Supervisors are more likely to negotiate and approve individual perks for employees to keep critical employees motivated and performing their best. Globally, this can include requests for career development, supplemental health benefits, housing allowances, etc., not offered to other employees. Since these arrangements are not in the form of salary, they can increase nontransparent remuneration, thus going against pay equity.

## Summary

The combination of pay transparency and pay equity measures may assist employers in their efforts to create an inclusive and equitable work environment by addressing systemic disparities and fostering a culture of fairness in compensation practices. However, pay transparency tools cannot close the wage gap alone. Employers may want to examine their promotion activities and policies to ensure that women are in the pipeline for advancements to more senior positions. Talented women may be overlooked, thus diminishing an organization’s intrinsic advantage. Many multinational companies will need to comply with the EU Pay Transparency Directive, creating an opportune time to adopt the policies

bio



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He has provided employee benefits consulting services to clients for 14 years and has had the opportunity to help hundreds of companies expand and manage their benefits around the world. He also serves as an instructor for the International Foundation of Employee Benefit Plans Certificate in Global Benefits Management and is a global advisor for the Silicon Valley Employers Forum.

globally. Regardless, if governed by new laws, companies should consider whether women are being paid fairly for work of equal value. 🎯

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