October 2019

To Proactively Manage Pay Equity, Companies Must Take These Three Steps

To proactively address pay equity issues, firms across industries must move beyond treating it as a one-time audit exercise and instead manage risks on an ongoing basis.

Pay equity is arguably one of the most important compensation conversations of our time, spanning firms of all sizes, industries, maturity levels and geographies. While some organizations face systemic pay equity challenges, others see more pronounced risks in specific pockets of the business, such as job families, functions or regions. Regardless of how complex or widespread the issue may be, leading firms need to proactively address risks by tackling pay equity on an ongoing basis by adopting systematic and sustainable strategies.

Pay equity risks within an organization are dynamic in nature. Every business is like a living organism — as it grows and changes, so does its workforce composition, causing shifts in the position of pay equity within the firm. For some organizations, mitigating pay equity risks solely involve a one-time process of collecting data at one point in time; this time frame is then used to run pay equity models to assess gaps.

There are flaws with this common approach though. By the time the firm completes the study, determines the extent of changes required, and implements those changes, often several months will have passed since the date at which the data was collected. This sizable lapse in time could mean some of that raw data is now irrelevant. For example, some employees may have left the organization, others may have joined, and there may have been promotions within the firm. These business-as-usual activities affect an organization's pay equity position. If the firm undergoes significant structural adjustments or participates in small or large mergers and acquisitions, the change can be even greater.

Given these complexities, how can an organization effectively manage continual dynamic change in the context of addressing pay equity issues? We recommend looking at pay equity not just as a one-time, or even an annual, audit exercise, but more as a holistic ecosystem that enables firms to dynamically manage risk on an ongoing basis.

Here are three steps every organization should take to proactively manage pay equity on an annual basis.

1. **Track.** Organizations can track their risks in two ways. First, they can make sure their pay equity position is monitored continually rather than as one-off studies. If a firm experiences above-average attrition rate, is in a high-growth industry with a large number of new hires, or goes through M&A, then the business will

Empower Results®

need to check pay equity positioning on a quarterly or monthly basis. This will help ensure the organization has an up-to-date snapshot of the risks and can proceed to manage these risks effectively.

Second, it's critical to understand how workforce representation affects the pay equity position within an organization. Aon has conducted over 80 pay equity audits in the last 18 months. Many times, we have found that pay inequities are a result of failed diversity and inclusion practices. If a firm has any specific department, job families or grades where the workforce representation is lopsided, it should assess the relationship between its representation and pay equity risks. A focus on attaining deeper insights into workforce representation will help uncover the root cause of many pay equity challenges. By properly tracking and monitoring diversity metrics, the firm will be able to proactively manage the issue before it becomes a problem.

2. **Manage.** Businesses must continually manage the changes that occur in their workforce, with a focus on how these changes will impact pay equity. Pay equity risks often originate when making hiring or promotion decisions. Depending on how centralized or decentralized the firm's compensation processes are, pay decisions made during this time can adversely affect the pay equity position within the organization. Having the ability to assess the implication of short-term pay decisions on longer-term pay equity risks will help mitigate any larger pay equity discrepancies in the future.

3. **Sustain.** We seldom see firms with the budget or appetite to address all pay inequities upon completion of the first audit. When making any pay adjustments, organizations should assess the relationship between their spending appetite and risk appetite. There is not one clear-cut answer to remediate pay equity risks within an organization. The ideal solution will be uncovered by using a series of scenarios that fit each firm's risk-reward profile on a multi-year basis.

Whether a small 200-employee organization or a large multinational firm with over 200,000 employees, it is equally critical to think of pay equity solutions as a well-rounded ecosystem that doesn't just stop with an annual audit. By deploying smart tools to track, monitor and sustain solutions, organizations can achieve and maintain long-term parity in pay and minimize any potential pay equity challenges.

To learn more about how Aon can support your organization in conducting pay equity audits or developing a well-rounded ecosystem, please write to rewards-solutions@aon.com.

Author Contact Information

Ranjan Dutta
Partner, Rewards Solutions
+1 202.659.7143
ranjan.dutta@aon.com

Rajiv Ramanathan
Associate Partner, Rewards Solutions
+1 212.441.2196
rajiv.ramanathan@aon.com

About Rewards Solutions

The Rewards Solutions practice at Aon empowers business leaders to reimagine their approach to rewards in the digital age through a powerful mix of data, analytics and advisory capabilities. Our colleagues support clients across a full spectrum of needs, including compensation benchmarking, pay and workforce modeling, and expert insights on rewards strategy and plan design. To learn more, visit: rewards.aon.com.

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance. For further information, please visit aon.com.