ChartHop

# How to Offer **Fair, Equitable Compensation**

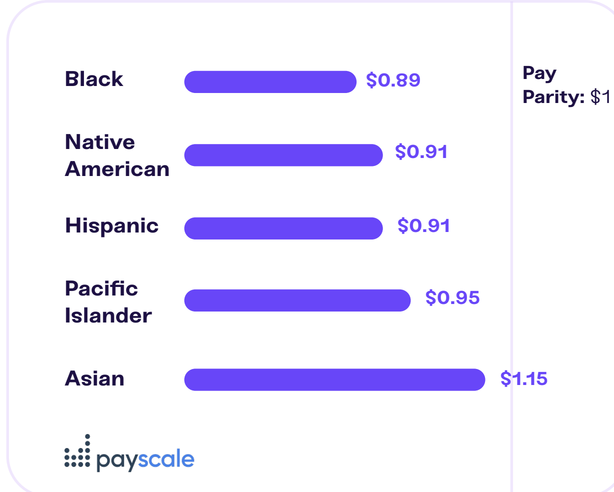
Prior to spring 2020, most corporations hadn't publicly aligned with the Black Lives Matter movement. But after dozens of recent incidents of police brutality from across the United States surfaced in national news and social media, many brands voiced their support for the cause.

Many companies have donated large sums of money to the cause. Others are pledging to sell more products from Black-owned businesses in their stores. Some brands have even suspended advertising campaigns or cut ties with organizations perceived to have taken little action to combat systemic racism.

All are positive steps for the movement at large. But while the recent protests have drawn global attention to systemic, structural racism in the United States, these serious problems are anything but new. For many years, inclusivity issues have been stubbornly prevalent within many companies, especially regarding compensation.

As of now, we have a significant way to go in making pay more equitable. PayScale reports that Black men receive $.87 for every dollar that white men earn. The disparity is even greater between white men and Black women; for every dollar a white man earns, a Black woman earns just $.61——a gulf that equates to lost earnings of $946,000 over the course of a 40-year career.

Racial pay disparities go beyond salaries and hourly compensation. Similar inequalities are common in capital finance.




A study by Carta found that women receive $.49 of equity for every dollar that men get. While 2019 saw a record-high investment of $3.3 billion in startups founded by women, this accounted for just 2.8% of all venture capital investment activity in the U.S. that year.

These gender and racial pay gaps are wrong and, in many cases, against the law. Not to mention, they threaten company performance. Pay gaps can have a significant impact on employee motivation. They may even decide to quit and take their skills and talent elsewhere. This creates damaging vacuums of talent within organizations and further perpetuates the inequalities with which many companies are already struggling.

In this ebook, we'll show you how to keep your pay equitable by planning for compensation with inclusivity in mind. We'll break down how to gather and assess your payroll and employee data so you're able to identify unfair disparities and address them head-on, as well as potential complications that could skew your data.

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# Centralizing compensation, employee, and performance data

Before companies can tackle compensation inequality in a meaningful way, they need a single source of truth in order to accurately identify disparities.

Combining payroll, employee, and performance data gives managers a holistic overview of compensation across their organizations.

## Compensation data

Tackling disparities in compensation means examining all types of compensation data in detail.

Payroll data is crucial in solving compensation disparities because it's the most direct indication of how each individual employee within an organization is compensated. As such, exporting payroll data should be the first step in your compensation planning process.

Ideally, this data should be exported directly from whichever payroll solution your company uses. This will reduce the likelihood of errors caused by manual data entry and ensure that the data you're working with will be current.

In addition to the base payroll data, you should include the following metrics for each employee (if applicable), regardless of seniority or role:

- **Base salary**
- **Overtime pay**
- **Variable pay**
- **Bonuses**
- **Benefits**
- **Equity**

Of the metrics above, equity may be harder to accurately quantify and to get because it often lives in a separate system from payroll data. Some employees may hold different classes of stock, which can affect the cash value of those holdings, and some employees' shares may be on different vesting timelines. Ensuring that security-holder information is up to date and that ownership stakes are correctly verified are among the many reasons why it's so important for organizations to maintain clean, accurate capitalization tables.

## Employee data

Next, you'll need to export your employee data from your human resource information system (HRIS). This will allow you to organize compensation data across a range of criteria, such as race, gender, and seniority, to begin to identify commonalities in compensation disparity across your organization.

In terms of specific metrics, you should have the following data for each employee:

- **Job Title**
- **Seniority and/or role level**
- **Department**
- **Hire and/or start date**
- **Employee status (full time, part time, or contractor)**
- **Location (if compensation varies between locations)**
- **Race**
- **Gender**

Exporting and synthesizing employee data is also an excellent opportunity to review how your organization approaches gender identification. Approximately 12% of millennials identify as transgender or gender nonconforming, and while some companies are taking a proactive approach to transgender andnonbinary representation in their workplaces, there is still a lot more work to be done.

## Performance data

Of the three data sets you'll be working with, performance data is arguably the most subjective. As a result, it can often be the most difficult to quantify.

Despite the inherently subjective nature of employee performance data, this information provides crucial insights into how individual employees are meeting or exceeding expectations—or not, as the case may be. This, in turn, allows you to see whether performance is being accurately reflected in individual compensation.

Employee performance data will be exported from your performance management software, such as Lattice or 15five. ChartHop users can also run performance reviews directly from ChartHop.

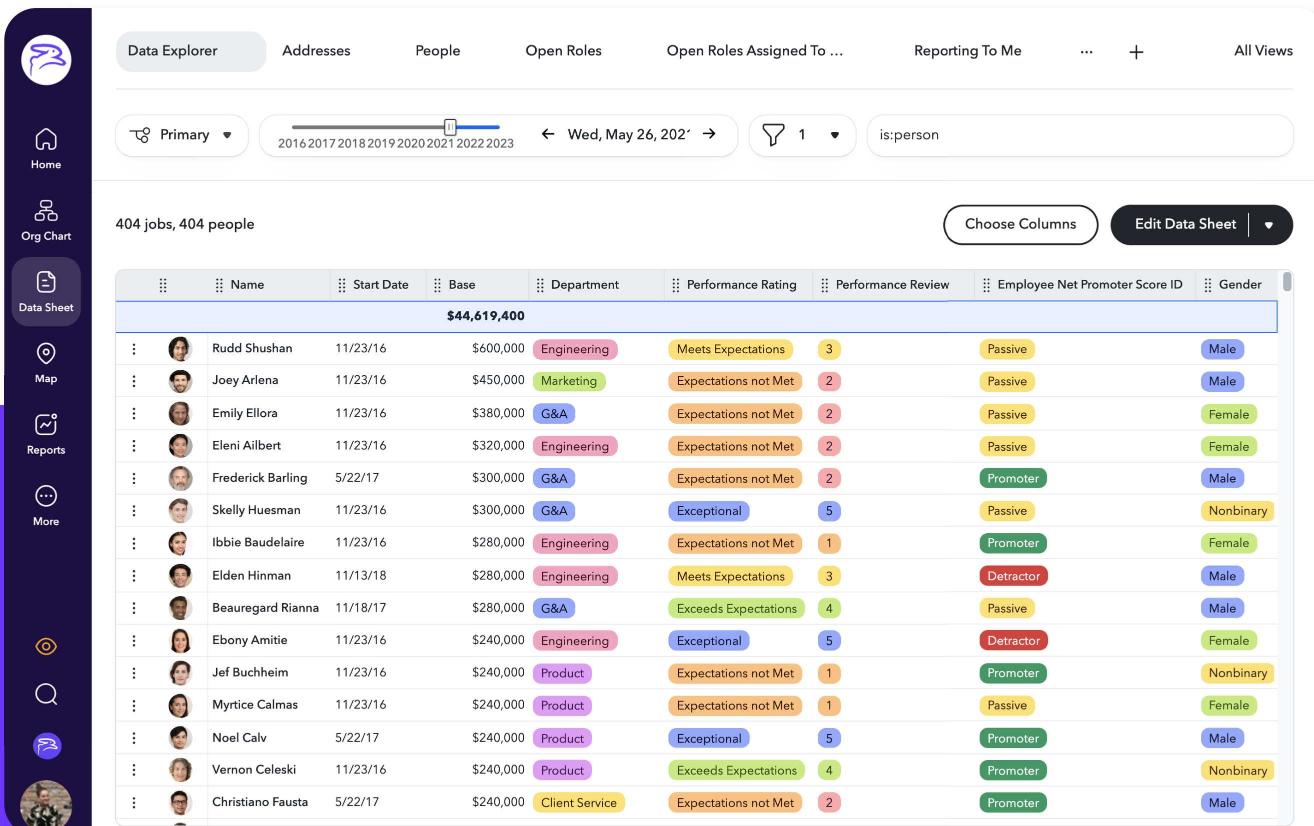
In terms of which data points to export, you should ensure that detailed summaries of monthly or quarterly performance reviews are included, as well as managers' scores and progress evaluations. The more supporting data you can include, the more complete the overall picture will be.

## Compiling payroll, employee, and performance data

Once you've exported these three data sets, you'll need to compile them in a single document for further analysis.

If you're working with a spreadsheet tool to compile this information, you should ensure that all three data sets are unified into a single spreadsheet to avoid excluding important information from broader analysis. It's also important that each employee be assigned a unique, consistent identifier (such as an ID number) in each tool from which you're exporting your data. This will make aggregating the data that much easier later on.

If you're a ChartHop user, you won't need to export or compile any data. ChartHop's integrations with popular payroll systems, HRIS platforms, and performance management tools mean that employee profiles are automatically updated with the relevant data.



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# Identifying race and gender-based pay disparities

Once you've compiled the necessary data, the first step in identifying pay disparities based on race or gender is to average compensation across all employees within comparable role groups.

Once this is done, you can compare averages for the following figures according to race and gender:

- **Base compensation:** cash compensation; fixed salary or hourly wage.
- **Variable compensation:** cash compensation; bonus, commission, and other performance-related compensation.
- **Equity compensation:** noncash compensation; represents ownership in the firm; includes options and/or restricted stock units.
- **Total compensation:** sum of cash and noncash compensation (base + variable + equity)

## Determining the true value of equity compensation

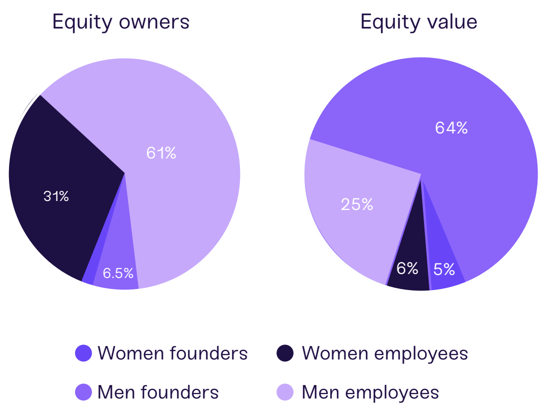
Currently, there is no broad consensus on how equity value should be calculated.

Some firms calculate the value of employee equity based on the fair value of options at the time they're issued. This ignores the possibility that different employees may be on different vesting schedules; if an employee doesn't stay with the company long enough for their options to fully vest, they'll never realize the benefit of those options.

Other companies use the amount included in an employee's taxable income as a means of calculating the value of equity compensation. This is also problematic, especially for international or fully distributed companies. Different countries—as well as individual states or provinces—have different tax regulations, which can affect individual tax liabilities; exercising options in one country may come with certain tax obligations that may not apply in another country or state, which can further skew the data.

We recommend comparing only the value of equity held, not the total number of shares or options. In a study of the 13,000 private companies and 800,000 equity holders on its platform, Carta discovered that while male founders represented just 6.5% of equity ownership in 2019, they accounted for 64% of equity value.

**Distribution of equity wealth**




Men founders represent 6.5% of equity owners, but they own 64% of all equity

carta

Disparities in the distribution of equity wealth are much harder to identify if you focus only on the number of shares held, as opposed to the value of those shares. By all means, include the number of shares held in your analysis, but be sure to examine the value of those shares as well.

## Assessing trends across the entire organization

At this stage, you'll be reviewing the compensation of all employees across the organization.

Base pay and wages are often used as benchmarks when evaluating disparities in employee compensation. This is largely due to the fact that base pay data is plentiful and somewhat easier to calculate. However, base pay doesn't tell the full story. With employer provided benefits accounting for up to 30% of the average employee's total compensation, focusing on base pay alone is potentially misleading.

At this stage, it's also important to evaluate whether there are significant disparities in benefits across racial and gender groups. This includes PTO, retirement benefits such as 401(k) matching, health benefits (including preventive health subsidies and wellness programs), hardware or transportation stipends, and other benefits.

You'll also need to examine whether there are meaningful differences in performance evaluations across racial and gender groups. This is very important, but it can also be very difficult because it's almost impossible to accurately account for implicit biases that can have a subtle yet significant impact on individual employee evaluations.

This is true even when working within well-developed, ostensibly neutral evaluation frameworks. Research has shown that Black employees have to perform significantly better than their white counterparts to be considered of equal skill and ability, are typically subject to much greater scrutiny in the workplace than white employees, and are frequently assessed more negatively in performance reviews than white employees in similar roles. Eliminating bias in performance evaluations is very difficult, particularly when traits commonly viewed as positive and desirable in men are often viewed negatively when exhibited by women. That said, establishing consistent, quantifiable evaluation criteria is a solid first step, as is mandating that managers complete regular training on conducting objective performance reviews.

## Assessing trends within comparable role groups

Next, you'll need to evaluate possible trends within comparable role groups. But before you can do that, you'll need to define what a comparable role group looks like.

When it comes to something as important as creating fair and equitable pay structures, it may be tempting to rely on federal definitions of precisely what constitutes "equal work," particularly for companies with employees in multiple states. But doing so may be overly restrictive, because federal guidelines on equal work are narrower than those of many states, particularly those that have taken a proactive approach to reducing pay inequality. Focusing on the concept of "substantially similar" work, which is used as the basis for many states' equal-pay legislation, may be more appropriate for many organizations.

One of the core concepts of most "substantially similar" work clauses is the idea that two employees can perform substantially similar work on the basis of the **effort**, **responsibility**, and **skill** necessary to perform the duties of a particular role:

**EFFORT** describes the amount of physical or mental exertion required to perform the duties of a specific job. For example, jobs in the service sector that require employees to stand for much of their shift, such as retail staff, require greater physical effort than sedentary roles, such as those held by most office workers. Similarly, jobs that demand intense cognitive focus for prolonged periods of time, such as software engineers, require greater mental effort than jobs relying primarily on manual labor.

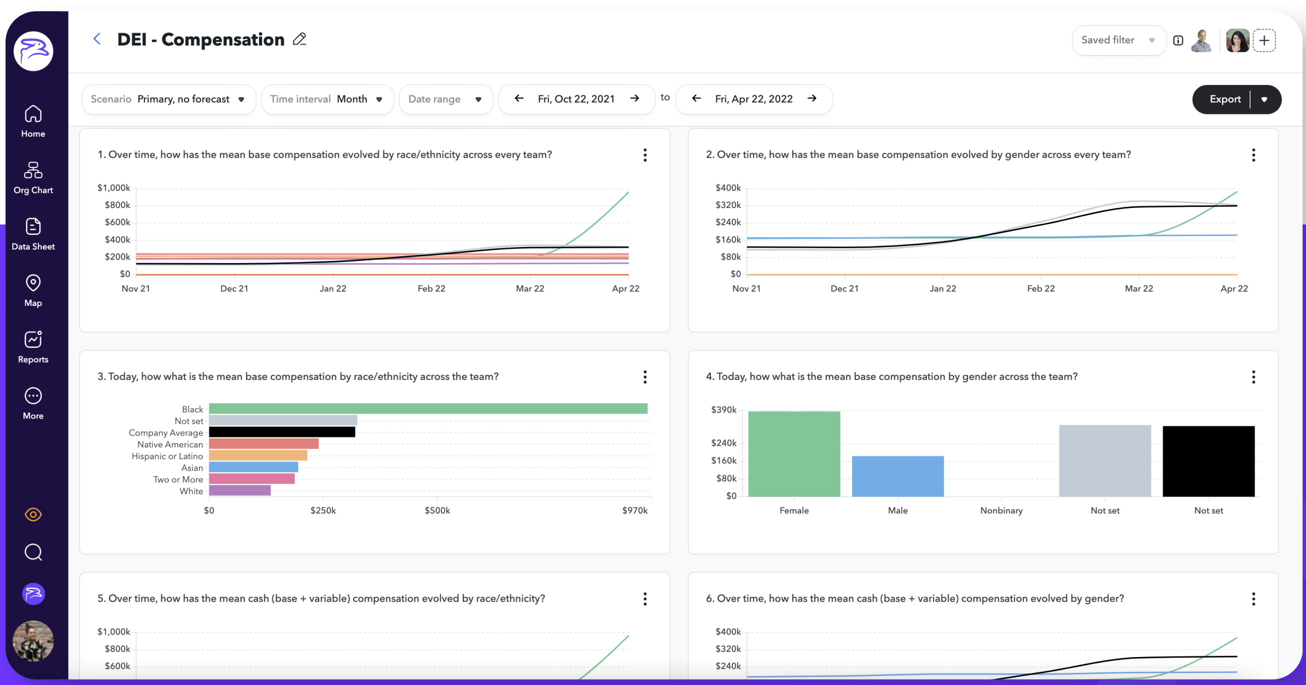
**RESPONSIBILITY** refers to the level of individual autonomy and discretion an employee has over how their work is carried out. Executive level roles, for example, have significantly more responsibility than those of a frontline customer support representative because executives have the power and authority to create and implement policy at an organizational level and are held to a much higher standard of accountability.

**SKILL** refers to the abilities, education, experience, and training necessary to perform a specific job. In many "substantially similar" work clauses, this refers explicitly to the skills necessary to successfully complete the duties of a given role, not skills or education that many people performing that role happen to have. For example, some software engineers have graduate degrees in computer science, yet this level of academic qualification is not a prerequisite for a majority of programming roles and therefore may not be considered a core skill required to perform the job of a software engineer.

As you define comparable groups, keep in mind that two job roles do not have to be the same for the two positions to be considered substantially similar. For example, a hotel housekeeper and a hospital porter perform very different duties during the course of their day-to-day work, yet the two roles require similar skills and training, share similar levels of responsibility and autonomy, and involve similar levels of physical and mental effort. Once you've set comparable role groups, you should compare average pay figures, benefits, and performance review scores by race and by gender within each one, using the same principles as those in the last section to guide your analysis.

If you're using a spreadsheet tool to analyze your data, be sure to use its filtering features to isolate employees by race, gender, and role group.

Alternatively, ChartHop customers can **download this free bundle** with prebuilt reports that can surface this data in just a few seconds.



03

# Investigating why these pay gaps exist

By now, any disparities in pay across racial or gender-based lines should be clearly evident. The next step is investigating the reasons behind these disparities so that the situation can be remedied if these gaps are problematic or potentially illegal.

This part of the process is likely to be among the most difficult. Confronting disparities in pay that are potentially based on race or gender means acknowledging serious problems about implicit racism and sexism and asking tough questions about how and why such biases have been permitted to continue.

If there are racial or gender-based disparities in compensation across the entire organization, but not within specific groups, the first step you should take is determining whether you're consistently hiring certain groups for lower-paying roles and excluding them from higher-paying roles. Examine the breakdown of employees along racial and gender-based lines within role types as well as by role levels.

If you find compensation disparities between comparable role groups, your next task will be to determine whether those disparities are legal.

Before we go into the legality of differences in compensation, it's important to note that just because something is legal doesn't necessarily mean it's right. Even if you can confidently say that disparities in pay across your organization aren't in violation of state or federal law, it doesn't mean those disparities aren't unjust or shouldn't be addressed. Much of the structural, institutional, and systemic racism faced by people of color in the United States is legally protected and directly enabled by laws purposefully designed to preserve existing social and political power structures. As such, legality is an important consideration, but it's far from the only consideration.

According to the U.S. Equal Employment Opportunity Commission, pay differentials in the workplace are legally permitted when they are based on one or more of the following:

- **Seniority**
- **Merit**
- **Quantity or quality of production**
- **A factor other than sex**

Let's take a look at three of these four affirmative legal defenses. Since you're already on the lookout for gender-based discrimination in your data, we'll be examining seniority, merit, and quantity or quality of production.

## Seniority

Disparities in pay are usually legally permitted if the rationale for those disparities is seniority, or the length of time an individual has worked for the organization.

There are many advantages to tenure-based advancement programs. If consistent across an organization, seniority-based promotions are objective, and employees can be confident of predictable pay increases during their time with the company. Such programs often cultivate a strong sense of loyalty among employees, which can reduce staff turnover. Tenure-based advancement also reduces the potential for favoritism or nepotism.

However, seniority isn't a perfect metric. Without performance-based incentives, there is little reason for employees to work harder than necessary, which can adversely affect company performance over time. Genuinely talented and driven employees may also find the lack of performance-based incentives discouraging, which can lead to decreased productivity or increased turnover if they seek more fulfilling roles elsewhere.

If the compensation structure of your organization is based on tenure, it should follow that the highest-paid employees will be those who have been with the company the longest.

However, if there are instances in which employee compensation does not appear to be correlated with seniority, then the affirmative defenses of merit and/or the quantity or quality of production may apply instead.

## Merit

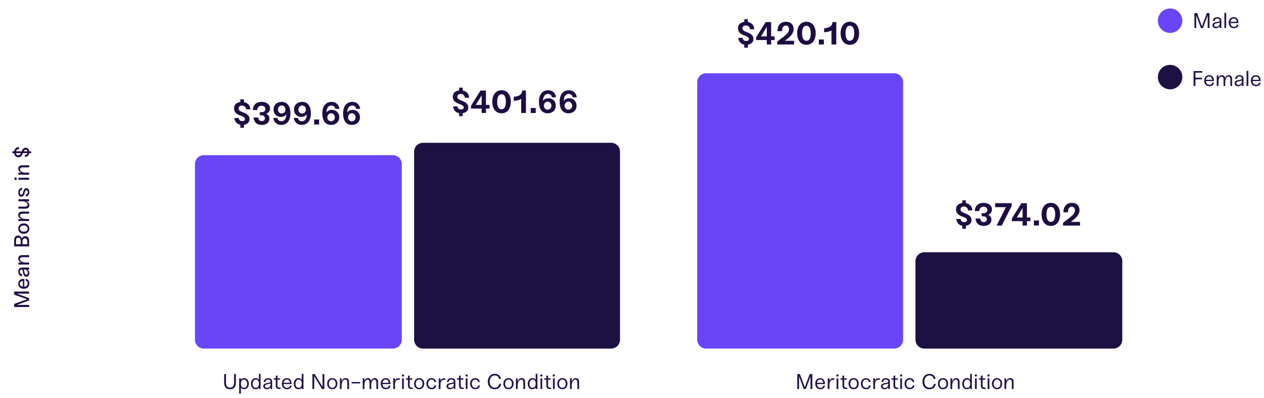
Arguably the most ambiguous factor in determining whether pay differentials are considered legal is merit.

Many workplaces and organizations like to see themselves as true "meritocracies," in which an employee's talent and contributions to broader goals are the sole basis for professional advancement. This idea is particularly prevalent among technology firms in Silicon Valley.

Unfortunately, this is rarely—if ever—the case.

Research shows that, in many instances, workplaces that believe themselves to be true meritocracies often exhibit and perpetuate the same biases that proactive, progressive hiring policies are designed to mitigate and prevent. Emilio J. Castilla, a professor of management at MIT's Sloan School of Management, calls this the "paradox of meritocracy."

**The paradox of meritocracy with updated non-meritocratic condition, study 3 (N=101)**




2 x 2 factorial design: ANOVA F-test (Gender x Meritocracy interaction) = 1.997 (p= . 161).
Updated non-meritocratic condition: $2.00 Bonus difference (not sig.) (t-test = -.075, p = .94, one-tailed)
Meritocratic condition: $46.07 Bonus difference (t-test= -2.153, p= .018, one-tailed).

Determining merit in the workplace, particularly in a legal context, is difficult and highly subjective. If discrepancies in pay appear to be the result of individual merit—whatever that might mean to your organization—approach these situations with caution and skepticism. One of the first questions to ask when assessing an employee's merit is to evaluate that employee's performance in direct relation to their peers. To do so, revisit the performance management data you gathered earlier, and evaluate both qualitative data, such as performance reviews, and quantitative data, such as sales or revenue figures.

Investigate whether employees' apparent merit has been matched by their advancement within the organization thus far or by the frequency of previous promotions. Individuals who are frequently promoted—such as those deemed to be on "the fast track to management" —can be unfairly perceived as being more talented than employees with a steady, proven track record of success, a cognitive bias known as the "halo effect." In turn, this can create false or misleading perceptions that an individual's repeat promotions are justified, even if that is not the case.

## Quantity or quality of production

Another factor that can be used as legal justification for differences in compensation isthe quantity or quality of production.

In terms of objectivity, quantity of production is easier to justify. If one employee routinely exceeds expectations in terms of their workload while another merely meets those same expectations, differences in pay can often be legally justified. This argument essentially boils down to the fact that employees who work, say, twice as hard as their peers are justified in receiving higher compensation than those who do only the bare minimum.

Quality of production typically refers to the standard of an employee's work. While this metric may be more subjective than quantity of production, especially in knowledge-based work that isn't necessarily measured in terms of raw output, it can still be used to justify disparities in pay from one employee to another.

One of the first questions to ask when evaluating pay gaps from the perspective of quantity or quality of production is whether employees' individual responsibilities have changed over time within the scope of the same role. Have some employees' duties evolved over time, even though they've kept the same title? If so, this may be an indication that employees who should have received an increase in compensation, seniority, or both have been unfairly overlooked——intentionally or otherwise.

Another consideration to factor into your analysis is whether employees within the same role group are receiving similar performance reviews yet different pay. If both are meeting or exceeding their role expectations, yet compensation differs significantly, that could be evidence of implicit or explicit bias in action.

If you've identified disparities in compensation that seem particularly unfair or that can't be legally justified using the affirmative defenses above, you'll need to flag and prepare to act upon them.

# 04 Taking action to correct unfair pay disparities

Now it's time to take action to rectify any unfair and potentially illegal disparities in compensation. This step can be broken down into short-term decisions and long-term decisions.

## Correcting pay differentials in the short term

Any disparities in compensation that are either illegal or legally ambiguous should be your top priority.

If two employees are being compensated differently for substantially similar work, federal law prohibits employers from reducing the pay of the higher-paid employee; the lower-paid employee's compensation should be increased to match instead.

One way to address disparities in pay in a proactive way that minimizes employee confusion is to make information surrounding compensation transparent and visible to all employees. Transparency as a cultural value can take time to cultivate, particularly in workplaces in which competition is either part of the business or actively encouraged, such as sales. However, many companies believe that greater transparency in the workplace translates into long-term success, and transparency surrounding compensation is becoming less of a workplace taboo. Transparency has also been shown to correlate strongly with overall employee happiness as well as significantly reduced stress in the workforce.

If your analysis has revealed that certain groups are typically restricted to lower-paying roles and/or job levels, you should evaluate your current hiring policies to increase representation in high-level roles. Social image-sharing service Pinterest pursued this approach when, in 2015, it set annual, publicly visible hiring goals designed to increase diversity—an approach that has had a significant, positive impact over the past five years.

In 2015, 19% of Pinterest's engineering personnel were women. In 2019, that figure stood at 25%. Similarly, just 3% of Pinterest's total workforce belonged to an underrepresented minority in 2015, compared to 10% in 2019, including 7% of all engineers. While Pinterest has yet to publish data on the percentage of its workforce that identifies as transgender or trans nonbinary, the company published a public guide to support employee gender transition in November 2019, becoming one of the first major tech companies to do so.

## Representation

ETHNICITY

| 2019 Ethnicity | Asian | Black | Hispanic or Latinx | American Indian, Alaskan Native, Native Hawaiian, Pacific Islander | Two or more races | White |
|---|---|---|---|---|---|---|
| All | **44%** | **4%** | **6%** | **1%** | **1%** | **45%** |
| Tech | **63%** | **3%** | **4%** | **1%** | **1%** | **29%** |
| Engineering | **68%** | **3%** | **4%** | **1%** | **0%** | **24%** |
| Business | **25%** | **5%** | **8%** | **2%** | **1%** | **61%** |
| Leadership | **30%** | **1%** | **2%** | **0%** | **3%** | **64%** |
| Engineering Interns | **76%** | **3%** | **6%** | **0%** | **0%** | **14%** |
| Sales Interns | **20%** | **20%** | **30%** | **0%** | **10%** | **20%** |

GENDER

| | Female | Male |
|---|---|---|
| All | **47%** | **53%** |
| Tech | **30%** | **70%** |
| Engineering | **25%** | **75%** |
| Business | **62%** | **38%** |
| Leadership | **25%** | **75%** |
| Engineering Interns | **46%** | **54%** |
| Sales Interns | **80%** | **20%** |

This figures may add up to over 100% due to rounding.

***Tech** includes engineering, product design and product management organizations.
**Engineering** includes full-time employees that report into the engineering organization excluding executive assistants.

Pinterest

If your analysis shows that specific groups are consistently receiving lower performance scores in regular reviews, review representation at the management level. If necessary, follow Pinterest's example and set public hiring goals for improving racial and genderbased representation in your organization's leadership roles. Transparency drives accountability.

## Correcting pay differentials in the long term

Short-term strategies such as those above can succeed only if there are also longer-term plans in place to complement those initiatives.

Conducting regular pay-equity self-audits is one way to ensure that compensation structures are both equitable and legal. However, selfaudits may be impractical for larger or more complex organizations, or those with complex compensation structures across multiple roles and levels. If that is the case for your company, consider using a professional pay-equity audit service to complement regular internal evaluations. Such services often use regression analysis to identify the underlying factors that may be leading to inequities in compensation.

Another measure worth considering for your executive team and human resources personnel is training on implicit bias, with the goal of promoting fair, balanced performance reviews.

Google's resources on identifying bias in the workplace are an excellent starting point for executives and hiring managers seeking to understand and mitigate the impact of bias in their workplaces.

The company's Bias Busting @ Work presentation is a strong primer for why bias training is so important, and its Work Facilitator guide offers detailed, step-by-step instructions on how to create and deliver the Bias Busting course within your own organization. Google adapted its Bias Busting @ Work program from materials developed by the Ada Initiative, which has trained thousands of people to recognize and combat bias.

## WAYS BYSTANDERS TAKE ACTION

**Be prepared**
Change your language, listen positively, set goals to reduce unconscious bias

**Be visible**
Join a group, get a sticker, wear a t-shirt

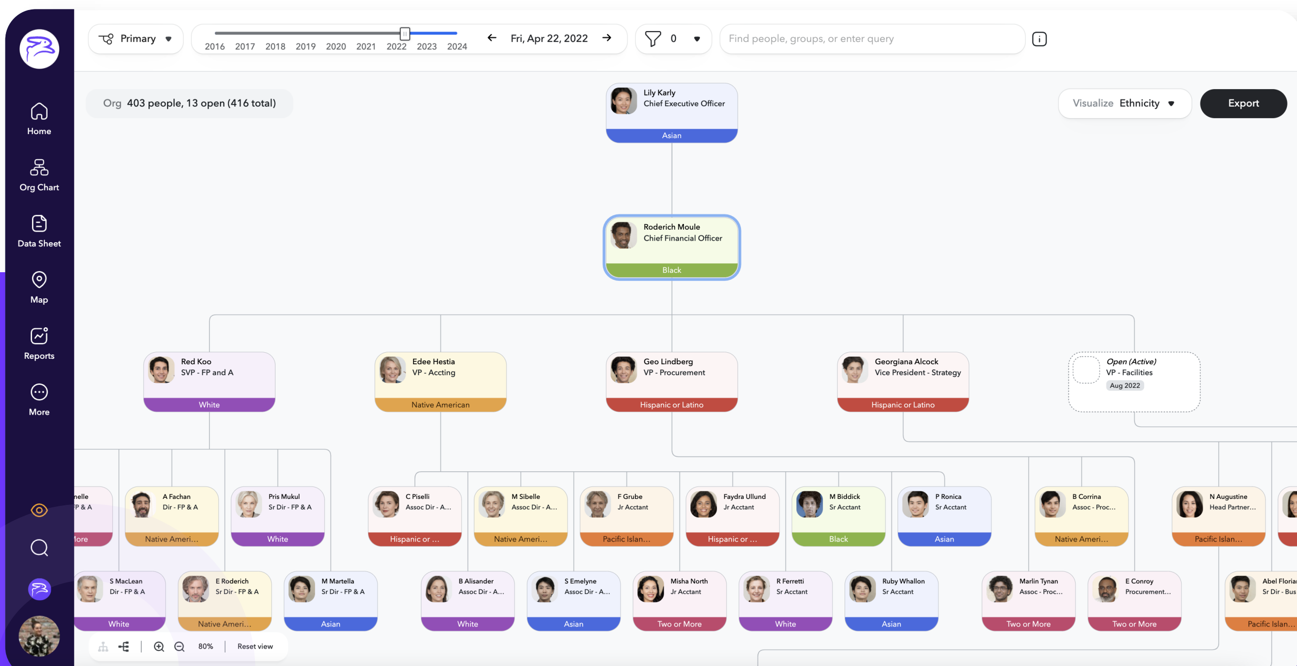
**Bring it up**
Share articles and stories, start conversations to educate others

05

# Setting fair pay is an ongoing effort

It’s easy to commit to diversity and inclusion when the news highlights injustice and many companies are taking a stance on contentious issues. But to build an equitable workforce, organizations need to focus on these goals in the long term. When it comes to pay, that means regularly evaluating compensation to make sure it’s fair.

Return to this guide regularly to ensure that employees are being justly compensated. To add another check, consider sharing the results of your pay analyses with employees. If team members know how their pay differs, they can help the company identify unfair disparities it may have missed and advocate for themselves.



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