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Pay Equity

Category Guide

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TABLE OF CONTENTS

INTRODUCTION:

Equal pay for equal work - sounds simple... but pay equity isn't easy.

Pay equity means everyone gets paid fairly for their work, regardless of who they are. These efforts help companies attract and keep good employees, and it also helps to fix the problem of certain groups being paid less than others for doing the same job.

Pay equity continues to confound employers, employees, and governments. Research by ADP finds that 1:3 of workers believe their pay isn't fair.[1] Women lose hundreds of thousands of dollars during their careers due to the gender pay gap.[2] And 55% of Black employees feel under-compensated.[3] Clearly, we have work to do.

All companies likely have some form of pay inequity; it's not just you, and you're not alone. 1:4 employees report that their company is entirely unsuccessful at pay equity, and 62% say it doesn't have a plan in place, or they are unaware if one even exists.[4] It's not that companies want to pay unfairly; it's that identifying the causes of inequity are challenging.

Different groups may be underpaid for various reasons. Discrimination, occupational segregation (assuming one group to be a better fit for certain types of jobs), social or personal situations leading to less experience or qualifications, less likely to negotiate salary or ask for a raise, job market conditions leading to pay compression, lack of consistency and transparency in pay scales and compensation structures, and more - all lead to the result of pay inequity. With so many factors contributing to unequal compensation, it's a puzzle to identify the root cause and implement effective solutions.

Events of the past few years have added to the struggle. The "War for Talent" contributed to already-present wage compression. The "Great Resignation" upended long-standing job descriptions and organizational structures. And the current wave of layoffs is causing many companies to cut back on employee experience and DEI initiatives.

And then there's the legal side of things. In recent years, several high-profile cases of pay discrimination have brought the issue to the forefront of the national conversation in the United States. State and local governments are responding through pay transparency and reporting legislation, adding public accountability to agency efforts. With mounting public pressure and regulatory scrutiny, companies can't afford to simply post EEO statements on job descriptions and call it a day.

Evolution of Pay Equity

Government pay equity efforts in the United States trace to the mid-1900s in response to gender and racial discrimination. During World War II, when women took over jobs on factory floors, companies paid them lower wages than men for the same positions. The US passed the Equal Pay Act of 1963, prohibiting employers from paying men and women different wages for doing substantially similar work, despite opposition from business organizations. Then, the Civil Rights Act of 1964 prohibited employers from discriminating based on race, color, religion, sex, or national origin. Executive Orders 11246 and 11375 followed, prohibiting hiring and pay discrimination for federal contractors and workers. But pay equity isn't just a US issue.

The topic of pay equity has received widespread international attention in the last 15 years. Several leading countries passed or expanded pay transparency laws requiring employers to disclose specific groups' pay indexes or undergo regular equal pay audits. Some laws require reporting to government entities, while others call for public reporting, increasing transparency and public accountability. For example, the UK requires companies with 250+ employees to publicly disclose the gender pay gap annually.

Despite these efforts, pay disparities continue today. In 2020, US women earned only 83 cents for every dollar paid to their male counterparts,[5] and over 1 million women have yet to return to the workforce post-pandemic.[6] Globally, women earn 20% less than men.[7] These disparities often are not intentional. Systemic issues and standard increases over time hinder opportunities for equal work, exponentially widening the pay gap. So while legislation prohibited *policies* of pay inequity, *practices* persist, often hidden from employees and employers alike.

It's all in the data,
but you have to look
and commit to solutions.

Pay gaps are easier to see, and the solutions are more straightforward than other workplace inequities. We can run the numbers on pay. It can be measured and analyzed in conjunction with other data to provide a clear picture of where the problems are. These persistent problems usually come from doing things the way they've "always been done" or not knowing what or how to change.

Recently, there have been concerted efforts to ensure fair pay, which have shed light on systemic biases that exist within organizations. These efforts are not intended to shame leaders, but rather to encourage reflection and promote change. Modern HR technology can play a crucial role in identifying and addressing these biases, as well as ensuring compliance with pay equity laws.

The issue of pay disparities transcends language and speaks to a universal business concern - money. Focusing on pay equity has a concrete impact, drawing attention from both leaders and employees alike. By prioritizing fairness in compensation, companies can differentiate themselves and gain a competitive advantage in attracting and retaining top talent.

KEY INSIGHTS.

01 Pay gaps are easier to see, and the solutions are more straightforward than other workplace inequities.

02 There are five elements of the modern approach to pay equity: Widen the circle of stakeholders, communicate problems and progress transparently, make pay equity a continuous priority, increase transparency about pay, and enable equity efforts with real-time data.

03 Pay equity can help companies attract top talent, improve retention, and increase job satisfaction and morale, leading to increased productivity, profitability, and success.

04 Almost half of HR tech buyers are uncertain about what pay equity technology is or what it does.

05 Pay equity and pay transparency must be a regular part of discussions in all areas of the company to provide a positive employee experience.

PART 1: PAY EQUITY TODAY

Companies are increasingly urged to tackle workplace inequities, and pay equity is a great place to start. You can use your data to analyze the issue, and while some reporting requires complex calculations, basic analysis can begin the process.

Types of Pay Equity.

Pay equity typically involves comparing pay between men and women, but it is not limited to this; it also looks at various other social groups and factors.

Internal Equity

Employees within a company with similar levels of responsibility, experience, and skills receive similar compensation regardless of personal characteristics. This goal is the original idea of equal pay for equal work. The goal is to create a level playing field for all employees.

Local Market Equity

Companies compare their employees' salaries to those in the same geographic or labor market. This pay equity type ensures an organization can attract and retain top talent by offering competitive compensation packages. Factors such as cost of living, local economic conditions, and supply and demand for specific skills can impact regional market pay equity.

Wage compression **is when new employees are paid the same or more than experienced staff, creating internal pay inequity. This is often caused by companies offering high salaries to attract talent, but it can harm morale and affect pay equity analysis.**

Group-Specific Equity

Companies compensate employees of two groups who perform the same or similar jobs equally, considering factors such as experience, skills, and performance. This type of equity also aims to increase representation in industries or roles traditionally dominated by one group.

Initially focused on gender and race, group-specific equity has expanded to include a broader spectrum of characteristics, including age, disability, LGBTQ+ identity, and veteran status. Emerging characteristics to consider are caregiving responsibility, refugee status, and the intersectionality of groups. In fact, 52% of companies conducting pay analysis include the intersection of race and gender.[8]

A43 Approach to Modern Pay Equity.

There are five elements of the modern approach to pay equity. This approach assumes that legal requirements are in place, and the company wants to go beyond that. These components focus on positively affecting the candidate and employee experience with fair and equitable compensation.

Widen the circle of stakeholders.

Interest in pay equity spreads beyond legal, risk, and compensation offices. Pay equity impacts all HR and business areas, so more stakeholders need more information and should be part of these conversations. Talent Acquisition, Talent Management, Payroll, and Finance need insight into a company's pay equity strategy. In order to achieve success in promoting pay equity, it is essential to increase the involvement of businesses in these efforts. Presently, 35% of companies encounter challenges in securing leadership support for pay equity initiatives.[9] To make progress in this area, it is critical to cultivate more champions for pay equity throughout the organization.

Communicate problems and progress transparently.

Don't be scared to share what you find. It is important to identify it and try to correct it - then communicate it. Share what you're doing and how it's being effective - that's where the data comes in. If you've made decisions based on the data, then the data can measure improvement.

Make pay equity a continuous priority.

Pay equity is not a fixed target; it is more like a barometer that adjusts to the atmosphere of the workforce. It is ever-changing to current conditions, so you must diligently check it, revise goals, and adjust strategies. It would help to do a pay equity analysis more than once a year. According to Payscale's recent report, 44% of companies are moving toward an ongoing pay equity strategy.[10]

Increase transparency about pay.

Pay transparency is having publicly available, clear salary ranges for positions and roles. While most pay transparency efforts focus on open positions, true pay transparency addresses all positions within a company. The concept of transparency also expects the company will base its offer and compensation on that range and the candidate's prior experience - without regard to their previous salary. A recent study shows that increased transparency led to a 20% decline in the gender pay gap.[11]

Enable equity efforts with real-time data access.

Companies traditionally approach their pay equity strategy in one of two ways: either manage it in-house, usually through the Office of General Counsel or Risk & Compliance, or fully outsource it to an audit/consulting firm annually to prepare required reports. With the rise of pay equity technology, we see a hybrid model emerging. Companies use this technology to maintain their ongoing efforts and to prepare for their collaboration with a consulting firm, reducing the frequency and cost of the consultation. Pay equity factors change too often to rely on once-a-year data.

PART 2
THE BUSINESS IMPACT OF PAY EQUITY

While pay equity is the right thing to do, that's not the only reason to do it. Fair pay offers tangible outcomes that positively impact the business's top and bottom lines. Pay equity can help companies attract top talent, improve retention, and increase job satisfaction and morale, leading to increased productivity, profitability, and success. Additionally, pay equity can help businesses meet compliance requirements, reducing potential legal and reputational risks.

Hiring

Prospective candidates want to be paid fairly and expect businesses to discuss pay openly.

Pay is a foundational part of the hiring process, so it makes sense for pay equity efforts to start here. 70% of job seekers rate compensation as a top priority when evaluating a company,[12] and even more are more likely to apply if a company has a reputation for fair pay.[13] Pay transparency in job postings attracts more and better quality candidates and increases recruiting productivity.

A position's salary is as fundamental as the job responsibilities, so include it in the posting. Even if it's not the highest pay in the market, posting pay attracts candidates. According to LinkedIn's recent survey, 91% of American participants stated that the presence of salary information in job postings would influence their decision to apply.[14]

Posting the salary increases the quality of applicants you receive. This one seems only relevant if you are a high-paying company, but it actually works for all companies. A quality applicant is one who can provide the work you need to be done in a salary range you can pay. If you get 100 superstars you can't afford to hire, are they really quality applicants? The people who have applied to you already fit the comp range and chose to apply to you. This means you can focus on skills and role match vs. determining compensation fit - saving time during the hiring process and getting the right person hired quickly.

The hiring process can be expensive, and pay transparency can help lower these costs by making recruiters more efficient and effective. Salary is the top reason for rejecting job offers. By being open and upfront about salary expectations from the start, recruiters can focus their time and efforts on the most suitable applicants. Being clear on pay upfront also improves the candidate experience. When the company preemptively shares the salary range for a job, the perception of fairness in the interview process increases by 30%.[15]

Making pay transparent from the outset is essential for securing suitable applicants, streamlining the hiring process, and enhancing the candidate experience. Ultimately, pay transparency benefits both businesses and job seekers, and it is an essential step toward achieving pay equity for future and current employees.

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Retention & Employee Experience

Employee turnover is expensive for businesses as it can take time and money to replace workers. Pay equity initiatives can improve morale, job satisfaction, and employee experience, which reduces turnover.

While the hiring process involves discussing pay at length, the conversation often ends there. Employees expect to be paid for their work, but how compensation is determined and how it compares across the organization often remains a mystery. Secrecy around pay practices creates gaps in knowledge for employees that fill in with misunderstanding and misinformation. Most Americans believe they are underpaid, even though they are compensated at or above the market.[16] These gaps can also lead to allegations of discrimination. Most employees may not discuss the issue for fear of retribution or feel nothing will be accomplished, yet they will act upon it - they will look for other jobs or file claims.

Workers who believe their pay is fair are 2.8x more likely to recommend their employer.

Employees who feel treated fairly and paid equitably for their work are likelier to stay with the company. This helps improve engagement and productivity and ultimately leads to better employee retention. Employees who feel they are underpaid are twice as likely to plan to leave their job. But, workers who believe their pay is fair are 2.8x more likely to recommend their employer to friends and family as a place to work.[17]

Pay equity is essential for building trust with your employees and increasing retention. Companies fail to recognize the potential for bias when they base compensation on the last salary or drastically increase wages for those who change positions. These practices inadvertently marginalize certain groups and leave existing employees unsure of their worth to the organization. Usually, the most significant pay gap is between longer-term employees and newer employees. Pay transparency is necessary to identify and address these issues before a competitor does. Conversely, the more secretive pay practices are, the more likely employees are to leave.[18]

Pay equity that is practiced and communicated fosters a positive team environment where all employees feel respected and included, leading to engagement and retention.

Diversity, Equity, and Inclusion

Pay equity is critical to your organization's commitment to diversity, equity, and inclusion. Fair pay efforts make it easier for traditionally underrepresented groups to find and retain employment. This approach creates a more diverse workplace, and research proves that diversity makes for good business, increasing financial performance and innovation.[19]

One aspect of DEI efforts is closing the gender and racial gaps in leadership and pay. Reports indicate that female representation in top leadership positions is drastically low, with women holding only 1:5 C-level positions in the United States.[20] The gender leadership gap is even wider for women of color, with the same report finding they hold just 4% of US C-suite positions. However, pay equity affects change: the World Economic Forum found that the proportion of women in senior management roles increased by 3% when companies improved their gender pay gap.[21]

Occupational segregation continues to plague DEI efforts in select industries, widening the leadership gap. Occupational segregation refers to the concentration of groups in occupations. It occurs when specific jobs or industries are dominated by one gender, race, ethnicity, or other characteristics. Occupational segregation can significantly impact equity and access to opportunities in the labor market. The gender pay gap can be attributed in part to the fact that jobs typically held by women tend to pay less than those usually occupied by men. We see this demonstrated in graduate degrees for certain fields. When considering graduates in all fields, Information & Communication Technologies is 1.7% women vs. 8.2% men. 1:4 men graduate from the field of Engineering & Manufacturing while only 6.6% of women do.[22]

Analyst Note: Occupational segregation is a priority of the EEOC’s 2023-2027 Strategic Enforcement Plan, so expect to see increased government regulation and enforcement in this area.

Leadership gaps, occupational segregation, and perception of pay rate contribute to employees’ sense of inclusion. There is a strong correlation between an individual's perception of pay equity and their sense of inclusion in the workplace. Those who feel Strongly Connected are 2.5x more likely to believe they are paid fairly, whereas those who feel Not Connected are 2.5x more likely to feel their pay is unfair.[23]

You not only need to have pay equity efforts as part of your DEI strategy, but you also need to prove that they're effective. Compliance requirements call for these reports and are a good starting point to prep the proof.

Compliance

Pay equity compliance has moved beyond once-a-year audits protected by attorney-client privilege into continuous efforts published for all to see. Applicants, investors, and employees want to know how your company measures up on pay equity, and governments demand you audit your organization. So everyone needs to know what's required, when required, and what it means to keep the company compliant.

In the US, companies must conduct a basic pay equity audit to prove non-discrimination, as employment discrimination based on race or gender violates federal laws. The OFCCP and EEOC enforce these laws and require pay equity analyses for federal contractors. Companies that violate these laws may face investigations, fines, settlements, and the loss of federal contracts. Some states have similar laws, such as the California Equal Pay Act. Companies must be aware of state and local requirements to avoid costly errors.

AUDIT VS. ANALYSIS

Companies often use "pay equity audit" and "pay equity analysis" interchangeably, but they have distinct meanings. Both tools can help organizations evaluate their compensation practices and identify pay disparities, but the choice of method depends on goals, legal requirements, and resources available.

Analysis
Proactive approach to identify potential areas of pay inequity and determine plans for adjustments. Analysis data and findings tend to be more widely available since the analysis is voluntary and usually for planning purposes.

Audit
Formal review of current data to identify any existing pay disparities; usually conducted to meet regulatory requirements. Because the audit is a formal process related to official accountability, companies often conduct these within the bounds of attorney-client privilege.

State and local governments began rolling out pay transparency laws in 2016. We are on track for nearly two dozen states and local regions to have them in place by the end of 2023, and we expect this to expand even further in 2024. Governments recognized the lack of information's negative impact and started questioning the reasoning behind the secrecy. Governments made it illegal to ask for prior salary history, required companies to provide a candidate or employee with a salary range for a role if they request it at any time during the interview process, and made the range public.

The specifics of the laws and regulations vary by state and locality (for now). As we move into a more remote-first work environment, what happens in one state directly affects even small companies. Many of these laws even apply to companies with fewer than five employees.

If you are a company of any size located in, hiring in, or even posting a remote position online where someone from one of these states/localities may apply, you need to start following the guidelines for compliance and best practice.

California and Illinois have taken efforts a step further and require companies with 100+ employees to report the pay data of their employees and contractors by race, ethnicity, and gender. This step is similar to laws in the UK, Germany, Australia, and Switzerland, which mandate employers publish pay gap metrics.

Whether you are a global or local company, pay equity requirements are coming soon to a government near you!

Your best next step is to take a proactive approach to be prepared and compliant.

Analyst Note:
Germany's Federal Labor Court (Bundesarbeitsgericht - "BAG") ruled in February 2023 that varying salaries based on an employee's negotiating ability is unacceptable. While there is still much to clarify, this shows a shift in what is considered a legitimate reason for unequal pay.[24]

EEOC 2023-2027
Strategic Enforcement Plan (SEP)[25]

Every five years, the EEOC unveils its priorities for legislation, education, and enforcement, and pay equity made the list for 2023-2027. Companies should be "on notice" that pay inequities will be scrutinized more closely, and that evidence of effective efforts is required.

Priority: Advancing Equal Pay for All Workers

The EEOC will continue to focus on combatting pay discrimination in all its forms—on the basis of sex under the Equal Pay Act and Title VII, on other protected bases covered by federal anti-discrimination laws, including race, national origin, disability, and age, and at the intersection of protected bases. Because many workers do not know how their pay compares to their coworkers' and, therefore, are less likely to discover and report pay discrimination, the Commission will continue to use directed investigations and Commissioner Charges, as appropriate, to facilitate enforcement.

The Commission will also focus on employer practices that may impede equal pay or contribute to pay disparities and may lead to violations of statutes the Commission enforces, such as pay secrecy policies, retaliating against workers for asking about pay or sharing their pay with coworkers, reliance on past salary history to set pay, or requiring applicants to specify their desired or expected salary at the application stage.

Implementing SEP Priorities

The EEOC will use SEP priorities to inform charge prioritization, selection of litigation and amicus briefs, federal sector enforcement, and all other activities across the agency including guidance, outreach, and research.

PART 3
TECHNOLOGY & SERVICES SUPPORTING PAY EQUITY

As demand for pay equity increases, companies need help implementing and communicating their progress in this area. Fortunately, technological advances are creating new tools and solutions to assist with these efforts. However, almost half of HR tech buyers are uncertain about what pay equity technology is or what it does.[26]

Many companies need to be equipped to tackle pay equity. They face numerous challenges, including a need for more transparency in data, complex implementation across roles and regions, and difficulty meeting existing requirements due to job architecture, salary bands, and many positions. These obstacles prevent executives who want to prioritize pay equity from moving forward with future plans.

The more immediate problem is companies are unable to meet requirements already in place. Nearly 1:3 of companies today are unprepared for pay transparency requirements due to complex job architecture, a lack of salary bands tied to roles, or just a high volume of internal and external positions. [27]

Technology can help businesses address the challenges associated with pay equity, such as collecting and analyzing data, modifying traditional pay practices, and ensuring compliance with laws and regulations. The software can identify pay gaps and assist businesses in establishing the causes. Once companies identify pay disparities, they can use pay equity software to adjust pay rates. Rather than conducting once-a-year, months-long analysis projects, today's tech solutions provide real-time data access, many of which include capabilities to measure and share progress.

Embedded Solutions

Some payroll, compensation, and analytics products offer pay equity reports as part of the solution. A few embedded solutions have dedicated efforts to bolstering pay equity components. These offer easy-to-read dashboards; many provide division, department, and even manager-level ability to identify inequity issues in specific areas. Usually, these reports provide one user profile and are accessible only to leaders.

In one year of using the Pay Equity Storyboard product, ADP clients have corrected over $1 billion in pay equity.

Stand-Alone Solutions

Stand-alone solutions are emerging for businesses that want to take a broader and deeper approach to pay equity. These solutions overlay your payroll, HRIS, and compensation data to provide the tools and insights for a more transparent compensation system. These tools use statistical algorithms to identify pay gaps based on job title, location, experience, performance, and other factors. They may offer benchmarking, data visualization, and reporting to help businesses make data-driven decisions and track progress over time. The user personas for these solutions are expanding beyond legal and compensation to include talent management, talent acquisition, and managers. Including more user types expands the reach of a company's pay equity strategy, exponentially increasing its positive impact.

Complementary Solutions

In addition, to pay equity solutions, you should also consider complementary technologies that support pay equity efforts. Compensation management solutions analyze employee data and market trends to ensure consistent pay across job roles and levels. The software gathers data from various sources to provide insights into labor market trends, competitor hiring practices, and talent available to help companies ensure pay alignment with industry standards. People analytics technology offers insights into multiple workplace equity factors. Diversity and equity software helps track and measure diversity and inclusion efforts based on employee characteristics, including pay and promotion.

Services & Solutions

Most companies that are required to conduct pay equity audits and file regulatory reports use outside services offered by pay equity specialists. These specialists are experts in pay regulations, statistical analysis and interpretation, and report preparation. Hiring the services of a pay equity consultant brings expertise and objectivity to the process while saving in-house resources. These consultants often have access to technology beyond standard spreadsheets and external data. However, hiring a pay equity consultant can be expensive, especially for small businesses or non-profit organizations. With the advancement of pay equity technology, many companies are implementing a "both-and" approach. They implement a pay equity solution with the support of consultants to guide the configuration and ensure data is correct, intending to move to self-service in the future. Some businesses employ consultant services to validate the self-prepared annual audit and reporting and use the tech to manage ongoing equity efforts throughout the rest of the year.

Case in Point

A multinational software company wanted to improve pay equity and increase diversity, equity, and inclusion (DEI&B) in its workforce. They combined their pay equity processes with a single solutions and services provider, Affirmity. With the software, DEI&B and HR teams can access global pay equity information in an easy-to-understand format and use it to make meaningful changes. The company paired reports with expert services to save 300+ hours of in-house resources and gain unbiased perspectives. These efforts brought the company closer to its zero inequity goal.

Despite these features and options, 74% of respondents to our Insights at Work survey are uncertain about or disinterested in buying pay equity technology. When we asked vendors and practitioners about the root of this hesitation, they shared some of the pushback they received. Some employees have been the only point of information for years and fear being replaced by technology. There are concerns that users outside Legal and Compensation may not have the necessary skills to apply the data correctly. They also worry about liability. Outside services share the compliance liability, which falls solely in-house with self-service solutions. These are valid concerns and may indicate that a collaborative approach to services and solutions is an excellent first step.

CONCLUSION

Pay is the top concern that keeps employees up at night, one of the top challenges in hiring[28] and one of the hottest regulatory topics this year. Consequently, containing pay equity to annual audits with limited organizational involvement is not a sustainable strategy. Pay equity and pay transparency must be a regular part of discussions in all areas of the company to provide a positive employee experience.

Identifying and correcting pay gaps must be a financial priority. Your budget reflects your values - it tells who and what you care about. And a commitment to pay equity tells your employees you care about them. It is a financial commitment, so leadership must be on board to make it happen. It isn't a one-time investment; pay equity must become a foundational principle in how the company consistently cares for its employees. It has to be planned for in the budget every quarter and every year, and the plan should be communicated.

Ultimately, it is up to companies to make the necessary changes to achieve true pay equity. Technology can help with some aspects of this process, but it is not a silver bullet. Businesses must be willing to change long-standing practices and commit to investing in pay equity initiatives. They should also be open to feedback and criticism and strive to create a workplace where all employees are respected, valued, and compensated fairly. This can create a more productive and collaborative working environment and, ultimately, a more successful business.

About The Authors

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Aspect43 is a leading Strategy & Analyst firm focused on the HCM market.
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Custom research, focus groups, buyer feedback sessions, innovation & strategy workshops and thought leadership/market training programs are available.

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We are grateful to ADP for sponsoring this important research.

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