



# DOES PAY TRANSPARENCY CLOSE THE GENDER WAGE GAP?

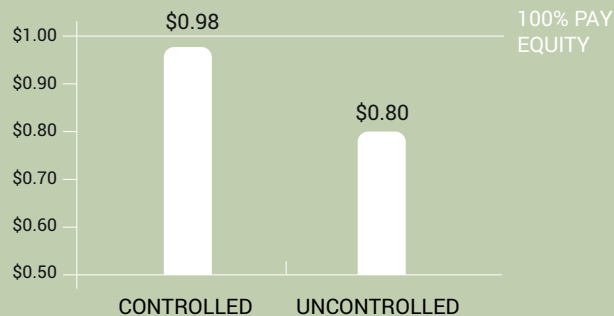
PAY EQUITY FOR MEN AND WOMEN



## INTRODUCTION

At the end of 2019 and moving into 2020, the [gender wage gap](#) is still in force, with women in the U.S. earning less than men overall — \$0.98 for every dollar when all compensable factors other than gender are controlled, including education, company size, occupation, and work experience.

Although a difference of \$0.02 may not seem like much, this is a statistically significant gap, especially when you consider that discriminating against employees based on sex, race, color, national origin and religion was prohibited by law in 1964, over 56 years ago, and still hasn't gone away. Compounded over the course of a career, even nominal differences in pay add up to substantial losses in total wealth.



Meanwhile, when data are not controlled, the gender wage gap is \$0.80 for every \$1 a man makes. What this means is that women are less represented in high-level, high-paying jobs than men, resulting in lower pay statistically overall for women. Although this number has improved since 1963, when women made \$0.59

to every \$1 a man made, progress in recent years has stagnated. According to the [Global Gender Gap Report for 2020](#), it will take [257 years for the economic gender gap to close](#) at the current pace of change (up from 202 years in the 2019 report).

One method thought to close the gender wage gap is [pay transparency](#), an approach to compensation that removes the mystery of how much employees make by establishing data-informed pay ranges for job roles that are not cloaked in secrecy.

The thinking is that with pay transparency, employees are more likely to be paid fairly. Pay transparency also supports regulatory compliance with the Fair Labor Standards Act (FLSA) and the Equal Employment Opportunity Commission (EEOC), ensuring that employers are not underpaying employees or discriminating against a protected class, which in turn protects the organization from lawsuits. But it does more than this. To achieve pay transparency, organizations must first develop a philosophy around compensation and commit to a compensation strategy. This forces organizations to think about how they value employees and what they offer as part of a total rewards package to attract top talent. The result is employees feeling more secure, valued and invested in an organization that has mutually invested in them.

And it works. Past studies on pay transparency have shown that pay transparency when combined with a well-communicated compensation plan has a positive effect on [job satisfaction](#), [employee engagement](#), and [productivity](#). This translates to higher employee retention and increased profits. As a result, pay transparency has been gaining popularity in recent years.

## EXECUTIVE SUMMARY - PAY TRANSPARENCY DOES CLOSE THE GAP

The high-level results of this research show that when respondents agree that pay is transparent in their organization, the gender wage gap vanishes for women doing similar jobs to men when all compensable factors are adjusted.

Analysis of the gender wage gap by industry and occupation largely follows the same trend. However, there are a few notable exceptions where pay does not quite equalize, mostly in industries with a larger gender wage gap to overcome or in occupations that are significantly male dominated.

However, a gender wage gap is still evident at the job level, with women at manager or higher levels being paid slightly less than their male peers. The most significant wage gap is for women in the director level at organizations where pay was not transparent (\$0.91). However, the gender wage gap completely closes (\$1.00 to \$1.00) for women directors who agree that their organization is transparent about pay. In fact, the gender wage gap disappears for all job levels with pay transparency.

The overall results are definitive: Transparent pay policies narrow the gender wage gap when all other compensable factors are accounted for and controlled, and completely closes across the majority of industries, occupations and job levels.



The overall wage gap for women in 2019 is \$0.98 cents for every \$1 a man earns. For women who strongly disagree that pay is transparent at their organization, the gender wage gap is more pronounced, with women making only \$0.96 for every \$1 a man makes. For women who strongly agree that their organization is transparent about pay, the gap disappears completely, with estimates of what a woman makes ranging between \$1 and \$1.01 for every \$1 a man earns. This closing of the gender wage gap holds true over time and across generations.

# UNDERSTANDING PAY TRANSPARENCY

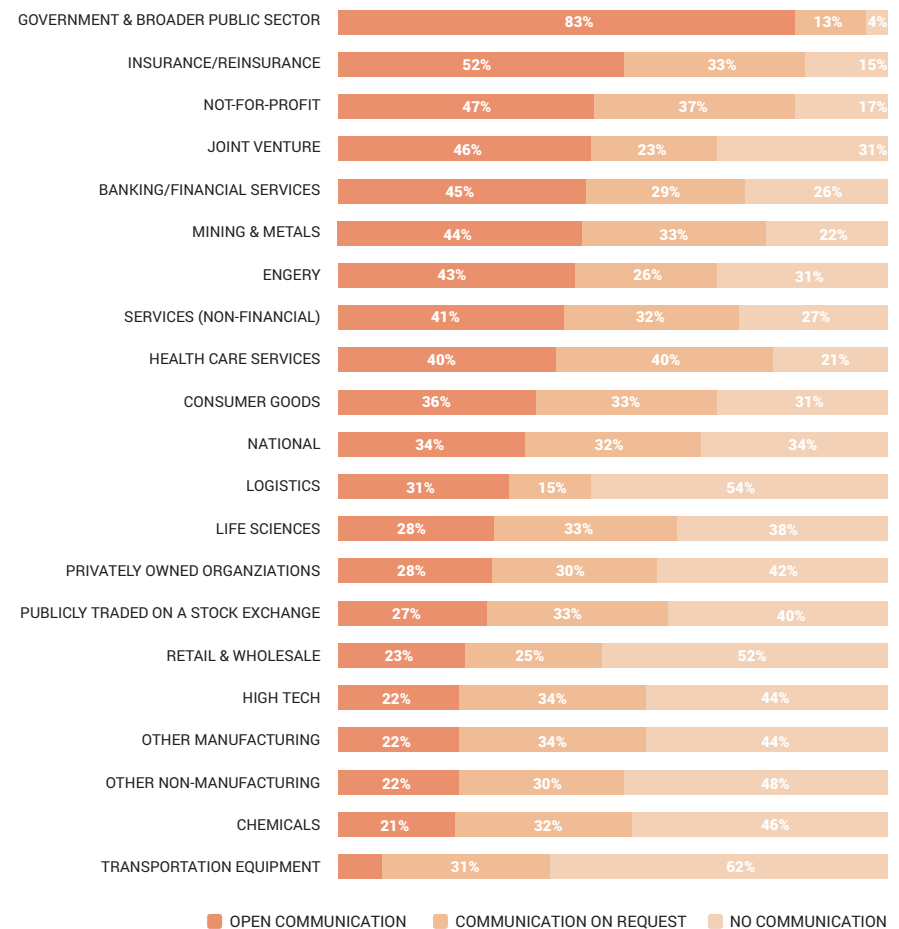
## PAY TRANSPARENCY ADOPTION

Salary used to be tightly concealed and taboo to discuss, but salary information is becoming increasingly available online – whether retrieved from strong data-driven sources like [PayScale](#), perused on self-reporting websites like Glassdoor, or learned through social media conversation. Discussion of salary between employees is protected by law. Employees are also increasingly becoming legally entitled to know the pay range of their position when they interview.

As the whole world becomes more open and transparent with information in general, business executives, HR leaders, and compensation professionals have to ask themselves if pay transparency is soon going to become the norm and, if so, whether and how to get with the times.

But we're not there yet, at least not in the private sector. According to [Mercer's 2019/2020 US Compensation Planning report](#), pay transparency is still predominant only in the government and broader public sector. In the private sector, there are many trailblazers and champions of pay transparency, but holistically, it's a mixed bag. Here's how pay transparency breaks out across industry:

## COMMUNICATION OF PAY RANGES



Source: Mercer

## THE PAY TRANSPARENCY SPECTRUM

In previous studies, PayScale has found that [pay transparency increases job satisfaction, productivity, and employee retention](#). The primary reason that employees quit their jobs is in search of a salary adjustment, and this has been true for many years.

Of course, pay transparency can backfire, especially in organizations where compensation is not fair or not understood and employees feel underpaid compared to their coworkers or peers.

The way to avoid this is through a compensation plan that is well-communicated to employees. Where there are differences in compensation for people in similar roles, there needs to be a logical, transparent and data-supported rationale that has been shared with the team members it impacts. Base compensation is usually tied to established pay ranges or salary bands. Additional compensable factors might include location, education, years of experience, size of the organization or specific skills. What matters is that employees understand how they are compensated and why.

The other important thing to understand about pay transparency is that getting there is a journey. For this reason, we tend to look at pay transparency as a spectrum with brackets for different levels of investment in pay transparency practices. Full pay transparency falls at the far right-end of spectrum and is usually only in effect at organizations with highly mature compensation strategies and an evolved employer brand.



## PAY TRANSPARENCY SPECTRUM



### HERE'S HOW THE LEVELS BREAK DOWN

**Level 1:** In the first bracket, transparency is restricted to what employees see on their paycheck. Conversation about pay is limited and may be discouraged or even prohibited amongst coworkers. [PayScale's 2019 Compensation Best Practices Report \(CBPR\)](#) revealed that 46 percent of organizations fall in the Level 1 bracket.

**Level 2:** In the second bracket, the organization is consulting market data or conducting a limited study to inform compensation for at least some of their positions. The organization may share some of their policy around compensation with employees, but the philosophy might be high level, limited in scope, or only applicable for specific jobs that are of particularly high value to the business. According to PayScale's CBPR data, 23 percent of organization are in the Level 2 bracket.

**Level 3:** In the third bracket, the organization has the basics of a compensation plan in place, including philosophy, strategy and pay ranges. The organization likely shares at least some of its plan with employees, especially pay ranges. Employees likely have some idea of where they fall in the range and have a sense of what they have to do to move upwards. 18 percent of organizations fall into the Level 3 bracket.

**Level 4:** In the fourth bracket, organizations are taking an intentional and thorough approach to compensation strategy. This level requires transparency at least through the manager level, which requires the organization to be consistent and have sound data supporting their decisions. About 8 percent of organizations fall into the Level 4 bracket.

**Level 5:** In the fifth bracket, the organization is fully transparent about its compensation strategy, philosophy, and pay. Some organizations in this bracket publish pay either internally or externally. Examples of organizations with this level of transparency include the U.S. government, [Buffer](#) and the NFL.

Understanding where you fall on the spectrum of pay transparency is important. Most organizations want to become a little more transparent than they are, with the majority looking to at least have a compensation plan and fall somewhere in the Level 3 or Level 4 bracket.

This is important to consider when looking at the positive impact of pay transparency on pay equity, as closing the gender wage gap can be a powerful motivator for management to put more focus on compensation strategy. Of course, it is important to note that pay transparency does not automatically ensure pay equity. Compensation still must be monitored for challenges and adjustments made for outliers.

# THE IMPACT OF PAY TRANSPARENCY ON THE GENDER WAGE GAP

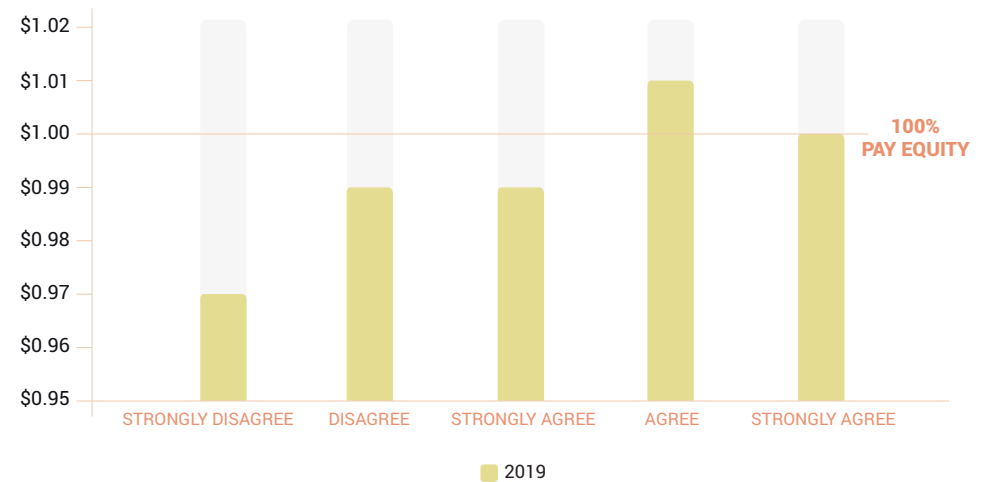
The data are undeniable. Pay transparency positively impacts the gender wage gap. In fact, it closes it. Completely. At least when the data are controlled for variables that affect pay other than position. In other words, women are getting equal pay for equal work in organizations with pay transparency.

Let's break it down.

According to our most recent pay data, women earn \$0.98 cents for every dollar a man earns when data are controlled for variables such as education, company size and position. This constitutes a \$0.02 gap. When we studied respondents that answered either agree or strongly agree that their organization had a transparent pay process, this gap vanishes, meaning that women are estimated to earn between \$1.0 and \$1.01 for every dollar a man earns in 2019 for organizations that have enacted transparent pay practices.

These findings also hold true historically when analyzed over the last three years.

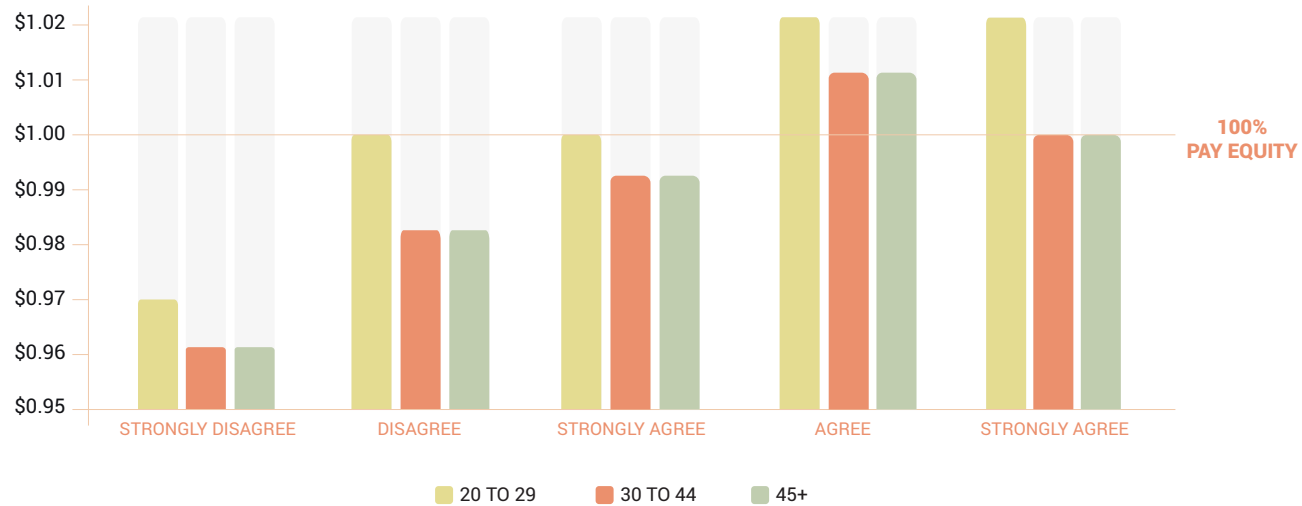
### IMPACT OF PAY TRANSPARENCY ON THE GENDER PAY GAP



## INSIGHTS ACROSS GENERATIONS

When cutting the data across generations (age groups), we can see that pay transparency improves pay equity outcomes for women of all ages. All generations from Millennials to Baby Boomers are getting equal pay for equal work with pay transparency. Millennial women who work in a transparent pay environment do slightly better (\$1.02) than other generations of women.

### GENDER WAGE GAP IMPACT ACROSS GENERATION / AGE

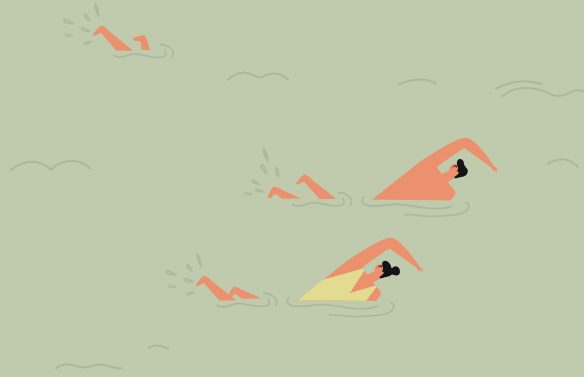




# INSIGHTS ACROSS JOB LEVEL

Impact on the gender wage gap is most interesting at the job level. Women in every job level category in the control group, from individual contributor to executive, benefited from pay transparency, but not all levels definitively achieved total equality in compensation across gender.

**WITHOUT PAY TRANSPARENCY, THE WAGE GAP GRADUALLY WIDENS AS WOMEN CLIMB THE CAREER LADDER. WITH PAY TRANSPARENCY, THE WAGE GAP CLOSSES.**

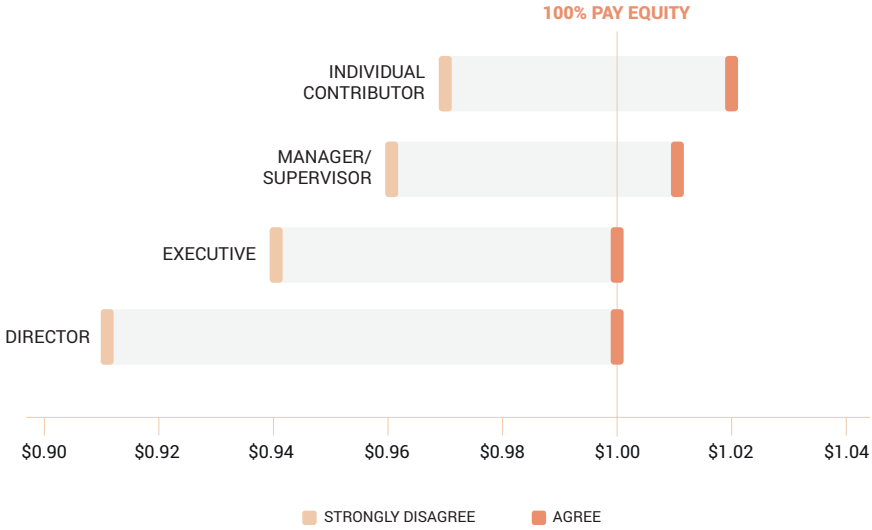


Women experience the most pay inequity at the director level. Defined as being a manager over other managers but not a VP or higher, women directors earn \$0.96 for every \$1 a man makes when all compensable factors are controlled. The second highest discrepancy in pay equity for women occurs at the executive level, where women earned \$0.97 cents for every \$1 a man earned.

Notably, women directors who strongly disagree that their organization is transparent are estimated to earn \$0.91 for every \$1 a man makes while women who agree that their organization is transparent earn \$1. This is a statistically remarkable jump of 9 percent and evidence that pay transparency can have a strong and positive impact on women's pay and pay equity across genders.

Indeed, all levels achieve 100 percent pay equity for participants who agree that their organizations have transparent pay policies. Curiously, participants who strongly agree that their organization is transparent are estimated to have slightly less pay equity at \$0.99 cents for every \$1 earned by a man than participants who merely agree that their organization is transparent, where pay equalizes completely between \$1 and \$1.02. This may be explained by highly transparent organizations paying a little less overall than non-transparent organizations where the comparative factor (men's pay) is a constant regardless of transparency.

## IMPACT OF PAY TRANSPARENCY ON THE GENDER PAY GAP ACROSS JOB LEVELS



## INSIGHTS ACROSS INDUSTRIES

The gender wage gap narrows across industries for respondents who agree that their organizations offer transparent pay. However, the gap does not close completely or equally across all industries.

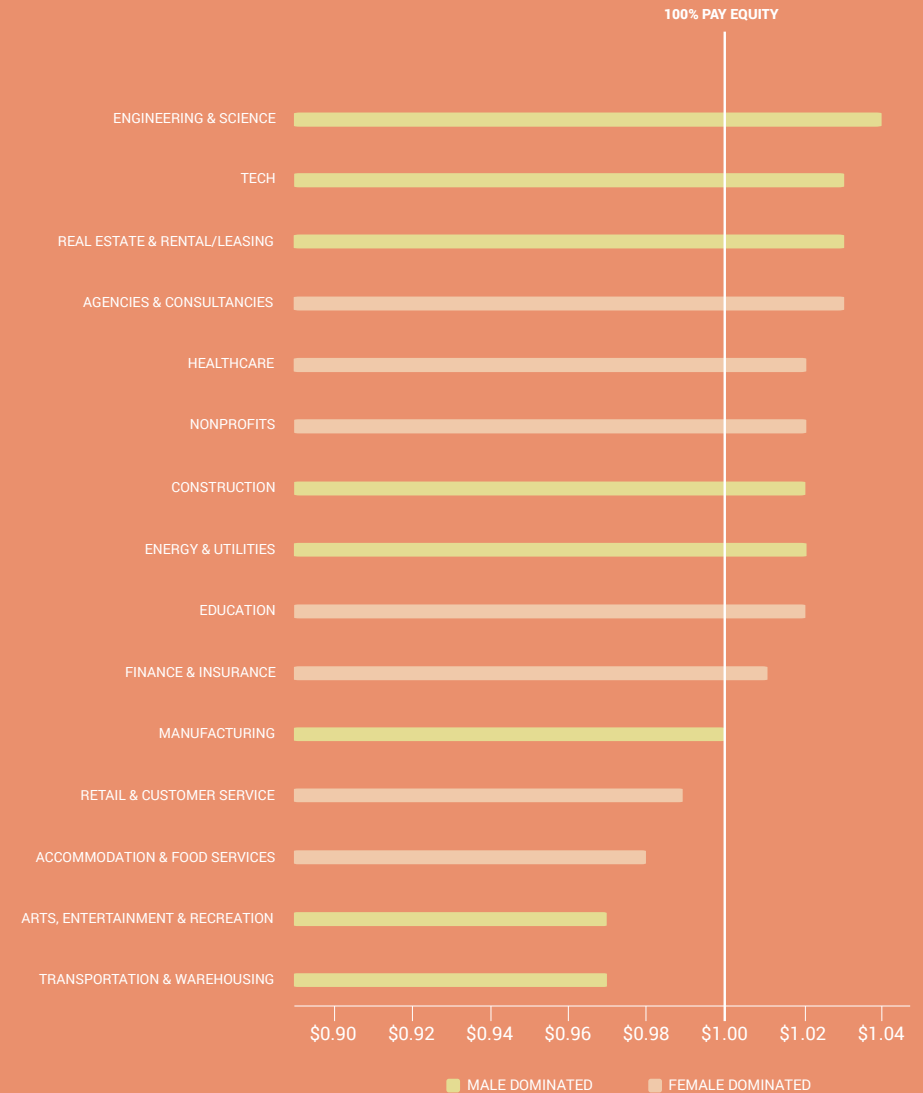
Of the 15 industries studied, 11 (73 percent) show a complete vanishing of the gender wage gap when layered across those who agreed that their organization has pay transparency. Those that did not completely close include:

- Retail & Customer Services
- Accommodation & Food Services
- Arts, Entertainment and Recreation
- Transportation & Warehousing

*Transportation & Warehousing* was among those with the highest gender wage gap as well as seeing the least impact from pay transparency, moving from 0.94 percent for people who strongly disagreed that their organization was transparent to 0.96 percent for people that agreed their organization was transparent. *Accommodation & Food Services* and *Retail & Customer Service* showed more of an impact from pay transparency, moving from 0.93 percent for people who strongly disagreed that their organization was transparent to 0.98 percent for people who agreed that their organization was transparent.

Whether or not the industry was male dominated or not had no definitive impact. Although *Transportation & Warehousing* and *Arts, Entertainment & Recreation* are more male dominated and didn't reach full pay equity with pay transparency, other industries like *Construction*, *Energy & Utilities* and *Technology*, which are also male dominated, did reach pay equity with pay transparency. Although not true for absolutely every industry, the degree of pay inequity overall – the higher the climb – was the greater differentiator for the success an industry will experience with pay transparency. This is somewhat different for occupation.

## IMPACT OF PAY TRANSPARENCY ACROSS INDUSTRIES



Source: BLS (bureau of labor statistics)

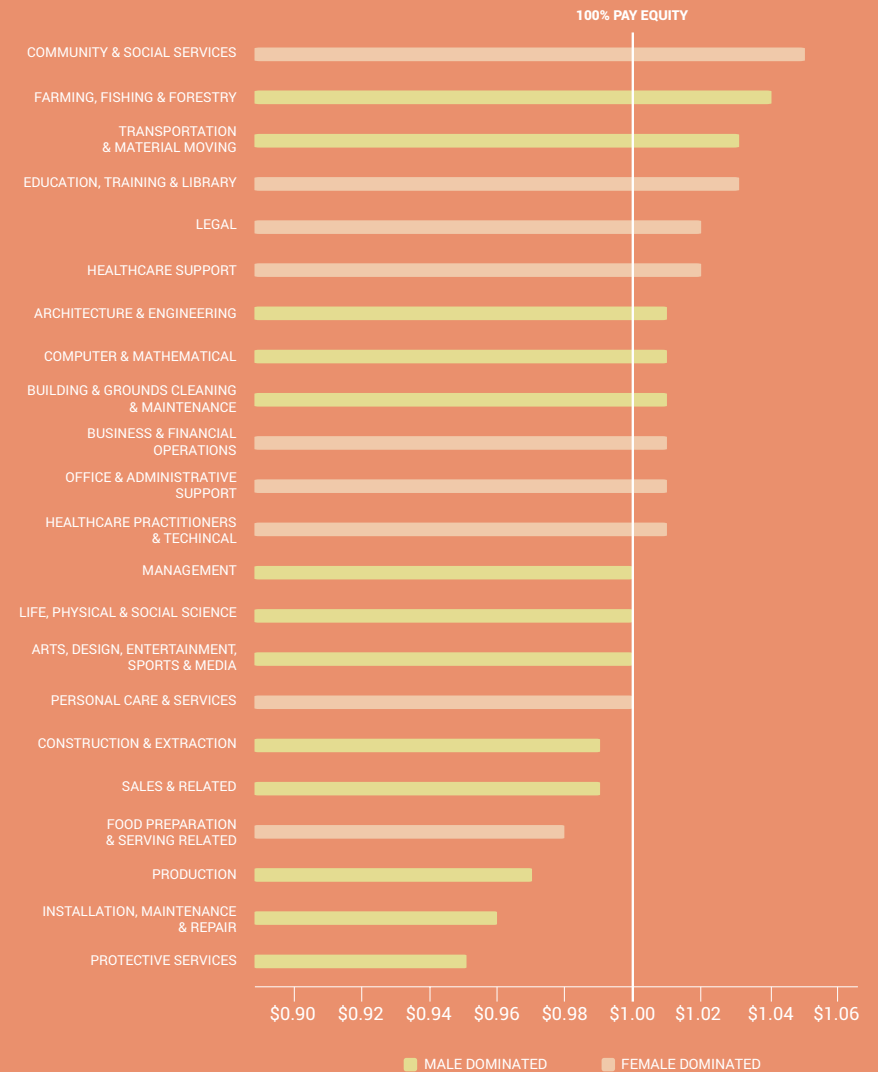
## INSIGHTS ACROSS OCCUPATIONS

The gender wage gap also narrows across occupation when factoring in transparent pay, but the gap only closes completely for 16 of the 22 occupations studied (73 percent) whose respondents agree that pay policies are transparent. Occupations that did not quite close the gender wage gap with pay transparency include:

- Construction & Extraction
- Sales & Related
- Food Preparation & Serving Related
- Production
- Installation, Maintenance & Repair
- Protective Services

Unlike the analysis of industries, the analysis of occupations shows that positions less likely to close the gender wage gap with pay transparency are those with more adherence to gender norms. With the exception of *Food Preparation*, all of the occupations that didn't meet pay equity with pay transparency are male dominated. However, there are outliers. *Farming, Fishing & Forestry, Transportation & Material Moving, Architecture & Engineering, Computer & Mathematical* as well as other male dominated occupations did meet pay equity with transparency.

## IMPACT OF PAY TRANSPARENCY ACROSS OCCUPATIONS



Source: BLS (bureau of labor statistics)

## WHY CLOSING THE GENDER WAGE GAP MATTERS

According to the US Department of Labor, in 2018 there were about 75 million women age 16 or older working in the civilian labor force, representing almost 47 percent of the total labor force.

According to data from the [National Center for Education Statistics](#) and analysis by [Catalyst](#), women have earned more bachelor's degrees than men since 1982, more master's degrees than men since 1987, and more doctorate degrees than men since 2006.

Women also have a positive impact on profits, especially when present in the executive suite. A [2016 study by Peterson Institute for International Economics](#) researched over 21,000 companies globally and found that companies that went from having no women in leadership to a 30 percent representation of women in leadership yielded a 15 percent increase in profitability. Unfortunately, women are generally [less represented the higher they climb the corporate ladder](#). Among the S&P 500, fewer than 21.2 percent of board seats are occupied by women and only 5 percent of CEOs are women.

When data are not controlled, one of the reasons for the \$0.20 wage gap is women leaving their positions or choosing lower paying jobs in order to become mothers, especially in their 20s and 30s, which effectively shortchanges their capacity to be promoted later. However, as we've already seen from our research, the wage gap still exists when data are controlled. Women in leadership positions in particular—from manager to executive—are paid less than men in similar positions, even when all variables for compensation differences other than gender are accounted for.

The wage gap disappears in organizations with transparent pay policies, but it's important to understand the impact of the gender wage gap on total wealth to understand the severity of the pay inequity problem and why this finding is exciting. According to the [National Women's Law Center](#), women stand to lose \$406,760 over the course of a 40-year career. This estimate more than doubles for women of color. And according to the Global Gender Gap Report for 2020, it will take [257 years for the economic gender gap to close](#) at the current pace of change, an increase from the widely reported 208 years in the 2018 report.

The solution is more complicated than paying women more. It requires consciously advancing women to management positions, changes to workplace culture, reversal of the motherhood penalty to encourage more women to participate in the labor force, and employment benefits that support women who are also mothers. In short, the solution has to be tied to compensation strategy and a total rewards package that is modernized for a changing world in which the value of work is measured differently and with more accessibility for women.

Adopting transparent pay is one step toward this future, correcting inequity and improving the lives of women everywhere. Pay transparency is proven to be effective and demonstrates that an organization values the contribution women make to the workplace.

## ADDITIONAL BENEFIT OF PAY TRANSPARENCY

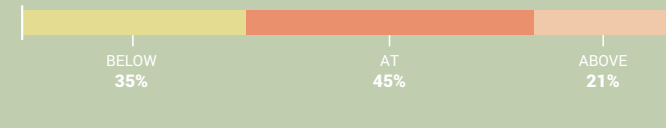
Pay transparency benefits both employers and employees for reasons other than the gender wage gap. It is a social contract grounded in principles of fairness that honors the value that both parties bring to the commitment of employment.

As we move toward a data-driven world built on increasingly sophisticated technology, pay transparency is a natural evolution for compensation management, and not just for equity.

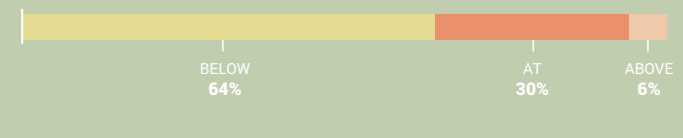
We're all connected now. Access to information has never been easier. Communication has never been so convenient. Everything is now data-driven — or will be in the near future. The notion that you can keep compensation secret in an internet and app-connected universe where people share everything about themselves in online, publicly consumable spaces is simply unsustainable. The incoming generation of workers, Generation Z, will have the least expectations of privacy of any workforce in living memory. They will also have the most evolved ideas of equity, inclusion and fairness of any working generation in living memory.

More to the point, when pay is not transparent, employees are likely to wonder why. Compensation research by PayScale shows that one of the top predictors of employee sentiment, such as "satisfaction" and "intent to leave", is tied to an organization's communication about compensation. [Most people don't know if they are paid fairly](#), and if they don't know, they are more likely to assume they are underpaid, which puts them at risk of leaving. Afterall, if the truth isn't ugly, why hide it?

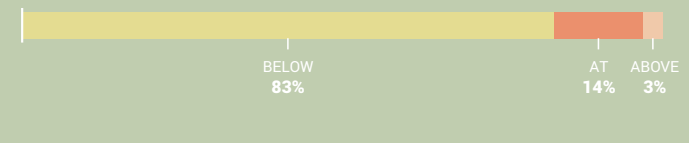
PEOPLE WHO ARE  
ACTUALLY PAID **ABOVE**  
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THEY'RE PAID:



PEOPLE WHO ARE  
ACTUALLY PAID **AT**  
**MARKET** BELIEVE  
THEY'RE PAID:



PEOPLE WHO ARE  
ACTUALLY PAID **BELOW**  
**MARKET** BELIEVE  
THEY'RE PAID:



## CONCLUSION

Enacting pay transparency protects the organization from biased and discriminatory practices, but it's really about developing an evolved compensation strategy for improving the employer brand, boosting productivity through greater employee engagement, and attracting and retaining top talent. Organizations that enact transparent pay policies will be well-positioned as leaders in a future where fair, equitable, transparent and data-driven compensation practices will be expected.

Our analysis of compensation data in this study demonstrates that pay transparency works to close the gender wage gap. This conclusion suggests that organizations who enact pay transparency policies will be well-positioned to attract and retain one of the most educated and underutilized workforces available: Women.



## RESEARCH METHODOLOGY

For this report, PayScale analyzed 1.6 million survey responses on compensation collected over the last two years (September 2017 to September 2019) and compared it to previous two-year data sets going back three years to analyze historical relevance. People who took PayScale's online salary survey provided information about their industry, occupation, and other compensable factors. They also reported demographic information.

To calculate the gender wage gap, PayScale measures how much women make compared to men as a percentage of the dollar. Data was controlled for this research, meaning that we accounted for factors that result in non-discriminatory differences in compensation such as position, education, location, company size, etc. to ensure we are drawing conclusions about men and women doing similar jobs with similar compensable factors (i.e. equal pay for equal work). Data was further cut by generation, industry, occupation and job level for additional insights.

To answer the question as to whether transparent pay impacts the gender wage gap, PayScale analyzed around 400,000 responses from women on the following Likert scale question:

"How pay is determined at my company is a transparent process."

- Strongly Agree
- Agree
- Somewhat Agree
- Disagree
- Strongly Disagree

We compared responses from the questionnaire to the gender wage gap to determine if the gap changed for each answer group. Essentially, this methodology measures whether participants who work in organizations with transparent pay experience a wider or smaller gender wage gap than participants who answered to the contrary.

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