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# Pay equity: A critical step towards workplace equality

Our point of view on the EU's equal pay and pay transparency directive

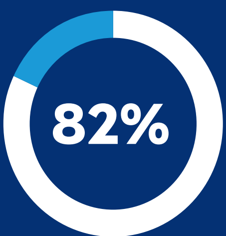
**Mercer has been at the forefront of diversity, equity and inclusion work for more than 25 years, helping hundreds of pioneering organisations to address the effects and sources of gender disparities in the workplace. Our research shows that formal pay equity processes drive gender diversity. For the greatest impact, pay equity analyses should rely on statistical analysis, identify process owners and include formal remediation protocols. Far too few organisations have such processes — making this the most significant area of opportunity to enhance workplace equality.**

Mercer welcomes the European Commission's proposal published on 4 March 2021, for an EU directive on pay transparency and improved enforcement of equal pay legislation.

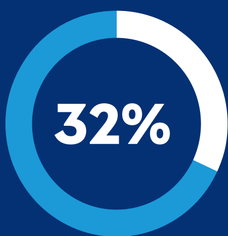
We understand that the EU proposal aims to provide a legal framework for identifying unexplained pay inequalities, and give workers the right to access relevant pay information. It will also potentially increase the consistency in the approach across different jurisdictions in Europe. For example, France, Spain, Sweden, Ireland and Germany either already have, or are in the process of installing, national pay equity disclosure requirements. The standards, the process and what exactly the employers are allowed to take into account when reporting vary significantly at the moment. By setting a minimum threshold, the EU directive will not only expand the footprint of pay equity disclosures but also ensure a more consistent approach across countries.

**Directive key highlights:**

- Employers with 250 or more employees must report annually on their gender pay gap and make public certain pay information related to gender pay gaps and pay levels at job interviews.
- Pay differences are permitted, but must be based on legitimate and objective criteria unrelated to gender, such as an individual's competence and performance. If the pay gap exceeds 5%, and it cannot be explained by legitimate factors, employers must conduct a joint pay assessment with employees' representatives. The results would have to be shared with employees and the appropriate authorities.
- To evaluate and compare work of equal value, employers can consider criteria like education, professional and training requirements, skills, effort, responsibility and the nature of work. Pay differences are allowed, as long as they are driven by objective criteria unrelated to gender.
- Employees will be allowed to ask for, and employers will have to provide, the mean pay levels by gender for categories of workers doing the same work, or work of equal value.
- Employers will also have to let their employees review the business-related, legitimate criteria used to make decisions on pay and career progression.




of companies say that they address pay equity as part of their compensation strategy.




have a formalised process for remediating inequities.

Employers with a significant number of EU-based employees should also welcome the proposal, as it may lead to a streamlined approach with regard to how pay equity is measured and mediated across the continent without interfering with legitimate business practices. This is important, because the proposal has the potential to enhance or replace a mix of local regulations that do not necessarily take into account how pay is set at these companies.

We understand that there has been some resistance to the EU directive from countries with a strong tradition in collective bargaining agreements and workers' rights. However, it is important to consider the challenges of implementation for multinational organisations, given that they operate across multiple jurisdictions. Having different requirements country to country, or union to union, creates an inefficient implementation process and may hinder large companies' attempts to pursue pay equity effectively across multiple countries. Furthermore, collective bargaining agreements often do not cover management or executive levels, where there is limited representation of diverse talent and, potentially, larger pay equity gaps.

Many companies across EU member states still have a long way to go when it comes to implementing a pay equity process. According to Mercer's Let's Get Real about Equality 2020 research, 82% of companies say that they address pay equity as part of their compensation strategy. However, only 32% have a formalised process for remediating inequities.

Mercer's research shows that organisations that are close to gender parity (across all levels) have an annual pay equity process and ensure pay gaps do not recur. Moreover, that same research shows that the strongest driver of balanced gender representation at the top management level is the existence of pay equity processes within the organisation. Put simply, if there is one thing companies should prioritise in order to drive balanced gender representation, it's pay equity!

**Mercer's approach to pay equity:**

- Mercer performs pay equity analyses for more than 100 multinational companies every year.
- Our modelling-based approach allows for isolating the part of the pay gap that is caused by legitimate, business-related factors and the part that is not.
- Mercer's approach is grounded entirely in employers' business practices to eliminate (or at least minimise) the possibility of introducing potential biases brought in by incomplete or substandard analyses.
- Mercer's approach not only allows for company-wide evaluation, but also permits the assessment of pockets of risk within the company and provides the mechanism to address individual discrepancies in a way that focuses on addressing aggregate goals. Remediation scenarios are tested for impact prior to being rolled out.
- Finally, Mercer's approach provides employers with a platform for communicating the extent of pay inequities, their sources and actions taken to redress them.

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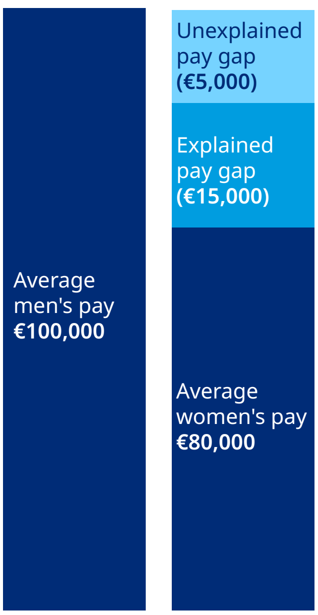
**The evolving legislative landscape and increasing demand for accountability from activist shareholder groups are pressing many companies to accelerate their progress towards an equitable workplace.**

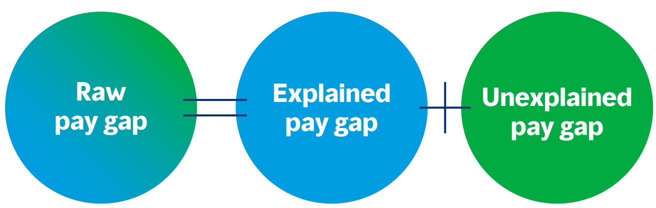
The growing commitment to sustainability and corporate social responsibility is also helping companies to recognise that achieving gender pay equity and equality in work opportunities is good for business. More and more organisations are proactively choosing to be publicly transparent in their efforts and progress towards pay equity and diverse representation.

> **Measuring and addressing the "unexplained" pay gaps is the most important first step but should not be the only long-term goal.**

### What do we mean by pay equity?




**Raw Pay Gap (€20,000 or 20%) or "Gender Pay Gap" a.k.a. "women earn 80 cents for every dollar men earn"**
In this example, the raw pay gap between men and women is driven mainly by the explained pay gap (€15,000), with a smaller portion (€5,000) left unexplained.




How average or median pay differs between women and men

How pay differs because men and women are in different roles or have differing amounts of labour market experience etc.

Residual pay gap that cannot be explained and may be due to pay inequities

The primary objective of the pay equity analysis is to measure an organisation's unexplained pay gap and close it where appropriate.

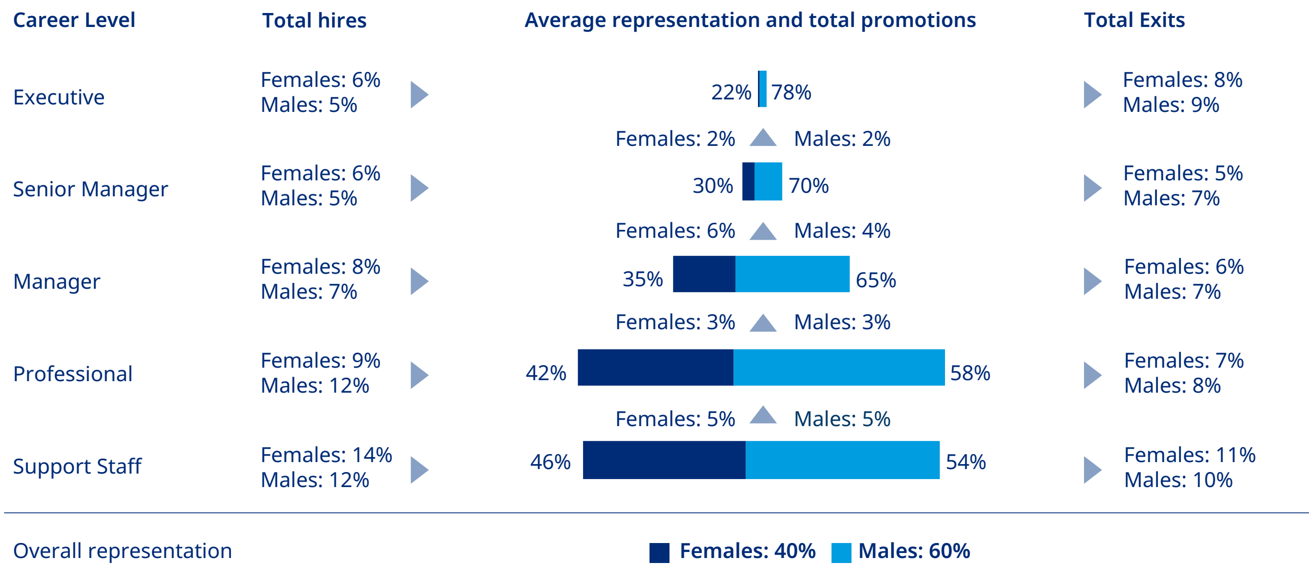
The proposed EU directive is especially helpful in calling out the distinction between pay gaps brought through potential biases in implementing pay polices ("unexplained" pay gaps) and gaps brought about by different levels of accumulated experience, skills, role etc. The latter can be traced to poorer access to career opportunities for women when compared with men. In our experience, the two sources of pay gaps are driven by different phenomena, and as a result require very different mechanisms for assessment and remediation.

Measuring and addressing the "unexplained" pay gaps is the most important first step but should not be the only long-term goal. **Focusing solely on pay transparency and equal pay without equal access to career opportunities does not go far enough.** As companies make progress towards eliminating the unexplained pay gap, they must also try to remove underlying impediments to career advancement, which sustain persistently high pay differences for women. To that end, they should focus on improving representation of women in higher-level roles.

Our research from 2020 shows that 76% of organisations in the EU say that women have equal access to roles that facilitate advancement into leadership positions. However, on average the percentage of women in senior manager and executive roles is 30% and 22% respectively. Moreover, the same research shows that bias in the recruiting processes, talent reviews and promotions, as well as limited access to strategic, high-growth roles in organisations, are all factors that impede female progress into higher level, better-paid jobs.

As organisations work towards equal representation of women in management, they should also look further down the hierarchy, ensuring equal access for women to the roles that are more likely to lead to higher-paid senior management roles.

### EU countries reporting for Europe or home country only internal labour market map (n=57 organisations)




As with pay equity, tools developed by Mercer, such as the internal labour market (ILM) map shown above, can help employers assess the extent to which representation issues exist and further diagnose their sources. An ILM map shows talent flows within the organisation, helping to visualise blockage points and identify systemic causes of inequity and focus areas for organisational systems and culture. For example, the map above depicts the talent flows for 57 organisations across the EU in 2020. The map shows the average representation, promotions, hires and exits of men and women. Although there is an overall 40%/60% representation between women and men, the data indicate that the higher the career level, the fewer women are represented, with only 30% women at senior manager and 22% women at executive levels, respectively. While the talent movement in, out and upwards in the organisations is relatively balanced, the map indicates that it will be a long time before there is a balance between women and men at senior manager and executive levels.

In our view, workplace equality should be embedded in the EU directive on a par with increased transparency and equal pay. More specifically, Mercer proposes to include public disclosure on the representation rates for men and women at all career levels of the organisation, and at a minimum for board, executive and managerial levels.

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https://www.mercer.com/our-thinking/career/pay-equity-analysis.html

## About Mercer

Mercer provides insights, advice and technology-driven solutions to help build brighter futures for our clients, colleagues and communities. Together, we are redefining the world of work, reshaping retirement and investment outcomes, and unlocking real health and well-being. Mercer's more than 25,000 employees are based in 44 countries, and the firm operates in over 130 countries.

Mercer is a business of Marsh McLennan (NYSE: MMC), the world's leading professional services firm in the areas of risk, strategy and people, with 76,000 colleagues and annualized revenue approaching $17 billion. Through its market-leading businesses, including Marsh, Guy Carpenter and Oliver Wyman, Marsh McLennan helps clients navigate an increasingly dynamic and complex environment.

Marsh McLennan is in the EU Transparency Register: 117683115792-20

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