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The best way to close gender pay gaps is to find the source of unfair pay, says study

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Businesses can close gender pay gaps, reward high performance and improve their compensation strategy by identifying the true source of pay inequity and fairly allocating raises to the most underpaid women, according to new research published in *Production and Operations Management*.

The researchers have developed their approach in collaboration with dozens of businesses around the world ranging from 75 to 130,000 employees, supporting most firms in closing the gender pay gap either immediately or over the course of just a few years.

Their new analysis is an improvement over other methods that only focus on reducing gender pay gaps as cheaply as possible. This so-called cost-minimization approach can recommend absurd and unfair pay raises and doesn't identify why pay inequality developed in the first place, leaving firms unable to permanently improve their pay plan.

David Gaddis Ross, a professor in the University of Florida's Warrington College of Business, and his colleagues Margret Vilborg Bjarnadottir at the University of Maryland and David Anderson at Villanova University, call their system the structured approach.

"Because the firm's human resources goals are embedded in the structured approach, you're improving the degree to which people are paid more for high performance, education or other desirable factors," Ross said. "You're also allocating pay in a way that seems like it's the fairest, because the people receiving raises are the people who are most underpaid vis-à-vis the pay drivers that your organization would like to reward."

Bjarnadottir and Anderson are founders of the company PayAnalytics, which has developed a pay equity software platform that supports companies in closing their pay gaps. UF's Ross is an academic advisor to the company. The trio reported their latest findings on how to close the gender pay gap in the journal *Production and Operations Management* on Jan. 5.

Many media reports share what is known as the unadjusted gender pay gap, which compares the salary of all men and women in a field or even an entire country. But social scientists like Ross and his team—and courts and regulatory agencies—focus on adjusted pay gaps, which control for legitimate factors that should affect pay, like job role, education, experience, exposure to risk or overtime.

Although adjusted gender pay gaps tend to be smaller than unadjusted pay gaps, most research shows that women are still paid several percentage points less than men for similar work and experience in most fields. New laws in many countries and pressure from stockholders and employees are pushing companies to report and correct gender pay disparities.

To do that, Ross's team first asks businesses how they want to reward employees at their firms.

"We start by sitting down with senior managers and human resources, brainstorming about what they think should be explaining pay in their organization. What we found is that organizations typically don't know as much as they think they do about what is driving their pay," Ross said.

After conducting this exercise with one company discussed in their newest paper, Ross's team discovered that the business underpaid women by about 1.3%. Although this was a relatively small disparity, the company wanted to achieve complete pay equity.

The firm rejected the cost-minimization approach to closing the pay gap because of its bizarre outcomes.

"Using the cost-minimization approach, it might be cheaper to close the pay gap by massively overpaying a few women, while leaving many other women underpaid. That just produces a different kind of injustice," Ross said. "It can also distort incentives that reward better performance."

A better way to close the gender pay gap

So, Ross, Bjarnadottir and Anderson instead offered up their structured approach. This new approach analyzes how much men are rewarded for a given factor—say, their education level—and compares it to how much women are rewarded for that same factor. The system then repeats this process for each element that should be driving pay at the firm. If there is an inequality, the analysis can then rank employees by how much they are underpaid regarding these factors.

"Then, taking into consideration a firm's budget for raise allocations, the method developed by our team allocates raises starting with the people who are most disadvantaged and stops when one of two things happen: You close the pay gap or you run out of money," Ross said.

If a business can't afford to close the gender pay gap immediately, the researchers found that applying the analysis over several years can close the disparity over time and can also help companies that have closed their pay gaps keep them closed. The same method can address disparities in pay along the lines of race, religion and other demographic factors.

Because the structured approach provides businesses with insight into how they are rewarding employees, it can also improve the alignment between a firm's stated compensation goals and how those goals are implemented in practice.

"Irrespective of the gender pay gap, many of the firms we've worked with have found they weren't achieving the goals they set out to achieve with their stated compensation policies. By applying this system, they're able to enact a compensation plan that does what they always wanted it to do," Ross said.

More information: David Anderson et al, Bridging the gap: Applying analytics to address gender pay inequity, *Production and Operations Management* (2023). DOI: 10.1111/poms.13944

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