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The new age of pay transparency

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Abstract A new age of pay transparency began on January 11, 2016, when Executive Order 13665 took effect. Applying to employers who have contracts valued over $10,000 with the U.S. government, the order prohibits them from retaliating against employees for disclosure and discussion of compensation information. This effectively increases pay transparency for an estimated 20% (28 million workers) of the labor force. As a result, the difference in pay between men and women and between white and minority employees is now under increased scrutiny. This article aids employers in this new era of heightened attention to their compensation practices. We begin with an overview of the current dimensions of pay gaps in the U.S., providing a societal level perspective. Pay transparency is emphasized as a means to help narrow earnings gaps at the firm level. Legal, regulatory, and social aspects of pay disclosure are discussed and employers currently using pay transparency are highlighted. We also present management responsibilities and practices for the new age of pay transparency.

1. Pay transparency: A challenge and an opportunity

The legal and regulatory environment of the U.S. supports pay transparency—that is, openness about the pay of workers—yet many private sector employers continue to discourage or avoid discussions about pay among their labor force. Implementation of Executive Order 13665 opened a door to greater pay transparency for millions of federal contract workers beginning in 2016. Although U.S. laws prohibit discriminatory pay based on gender, race, and ethnicity, persistent pay gaps exist (BLS, 2016). The gender wage gap is defined as the difference between male and female earnings, with female earnings expressed as a percentage of male earnings (AAUW, 2014). Racial and ethnic wage gaps are based on similar comparisons with the earnings of white males. The size of and reasons for these gaps is generally based on studies of median pay levels across a full range of occupations in the U.S. economy. The real focus for employers is their own

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organization; regardless of the employer's approach to pay transparency, pay gaps may or may not still exist. Pay transparency can be viewed as an important step toward narrowing a gender, racial, or ethnicity-based pay or earnings gap, should one exist in an employing organization.

In this article, we aim to help managers navigate this new age of pay transparency. We begin by describing the concept of a pay, wage, or earnings gap and review the factors that may account for such a gap. These factors explain a substantial portion of the gap, leaving that which is unexplained to include discrimination (Blau & Kahn, 2007; Borass & Rodgers, 2003). Pay discrimination is supported by pay secrecy and is more difficult to sustain under conditions of pay transparency. There are legal and regulatory issues related to pay transparency in the U.S. that most employers should follow and that many will be required to comply with in coming years. Social factors are contributing to interest in pay transparency among employees, especially younger workers. Pay transparency can impact employee morale and motivation and should therefore be carefully implemented and managed. We highlight employers who lead in pay transparency as examples of openness in today's organizations. Recommendations are offered for employers and managers who want to be properly equipped in the new age of pay transparency.

2. Pay gaps in the U.S.

Much has been written about the differences in women's and men's earnings. The inequity of pay between men and women is described in published reports (Pew Research Center, 2013; World Economic Forum, 2013) and the related literature (Blau & Kahn, 2007; Lips, 2013; Stickney & Konrad, 2007). When compared to white, non-Hispanic males, white women working full time earn 80% of what men earn in the U.S. (BLS, 2016), implying a gender pay gap of 20%. This percentage varies depending on which snapshot of the economy is used, but it is generally close to this number based on the most recently available data. When we examine the data in terms of race and ethnicity, wage disparity is greater (National Women's Law Center, 2013). Compared to the same group of white males, Black/African American women earn 67% and Hispanic/Latina women earn 61% of what white men earn (BLS, 2016).

There are other pay gaps in the U.S. economy that are not as widely scrutinized. Consider, for example, pay differences within racial or ethnic groups wherein Black/African American women earn 92%, Hispanic/Latina women earn 84%, and Asian women earn 80% of their male counterparts' earnings (BLS, 2016). Within gender groups, Black/African American men working full time earn 72% of what white men earn (BLS, 2016). Thus, pay gaps do exist for various groupings in our economy and explanations for these differences vary. The focus of this discussion will be on the gender pay gap, simply because the research is more extensive. Some of the factors identified in this work may be helpful in understanding pay gaps for other groups.

It is uncertain how much of the gender pay gap is attributable to discrimination as compared with other factors. Dey and Hill (2007) state that the only way to establish discrimination as a reason for pay differentials is to eliminate the other possible explanations. In an attempt to do this, Blau and Kahn (2007) provide a breakdown of the factors causing the gender wage gap including occupation, industry, labor force experience, union status, and race/ethnicity, leaving an unexplained portion of 41%. To be clear, this suggests that 41% of the 20% gender pay gap would possibly be accounted for by discrimination. A more recent research study for the U.S. Department of Labor (CONSAD, 2009) narrows the unexplained portion when it identifies key explanatory variables for the gender wage gap, which include: occupation; human capital development (education); work experience; career interruption; motherhood; industry sector factors; full-time versus part-time work; and total compensation packages including fringe benefits of value to women, family friendly policies, and job tenure.

The researchers concluded that the remaining portion of the gender wage gap that could be attributable to discrimination is 4.8%—7.1% of the overall 20% gap (CONSAD, 2009). These and other studies demonstrate that several factors can help to explain the gender pay gap and that one of them is most likely discrimination (Goldin, 2014; Newman, Gerhart, & Milkovich, 2017). It is important to understand that based on aggregate data across the U.S. economy, the 20% difference in pay between women and men is due to a number of factors that may include discrimination. Discrimination may be direct (e.g., specifically against a person's gender) or indirect (e.g., related to social forces that affect career and life choices).

The gender pay gap has been narrowing at the societal level over the past few decades but has remained relatively constant in recent years (World Economic Forum, 2013). However, it varies in size according to the way in which data are analyzed (public versus private sector, full versus part time, hourly versus weekly or yearly wages, and mean versus median statistics). Some researchers have