

Linking Diversity to Pay Equity: Part of an Emerging Governance Model?

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Changing Perspectives

Much has already been written on why Diversity is becoming a critical Talent Management strategy in today's rapidly changing business world. With socio-demographic changes just around the corner, companies are starting to realize the importance of sustaining their talent pipeline. Future talent shortages have given rise to encouraging an "all hands on deck" approach covering all segments of the working population including the increasing reliance on women to fill the skill shortages.

*"Change doesn't just happen.
Everyone has a role to play in
levelling the field for women and
advancing top talent.*

*When our economy (and your firm)
can reap the benefits of our
national's diverse talent, everyone
wins – men, women and business"*

Deborah Gillis – NA VP, Catalyst

Over the past few decades, female workplace participation has grown significantly in comparison to their male counterparts. According to Stats Canada, women in the workforce have grown from a 42% participation rate in 1976 to 63% in 2007 while men have continued to hover around the 65% to 70% plus participation rate over the last 30 years. The increase in female participation rate has changed the workplace landscape with increasing pressure to equal the playing field as well as optimizing the potential benefits from resulting productivity gains whether from a national and corporate perspective. If female labour force participation and employment rates plus average incomes equaled those of males born in Canada, personal incomes would be some \$168 billion higher!* (*Diversity Advantage: A Case for Canada's 21 Century Economy—RBC Financial Group) This type of contribution could significantly impact Canada's productivity and bottom line. Therefore, there are economic as well as business reasons to encourage

women's continued participation in the workforce as well as closing the current wage gaps.

Historically, the notion of existing gender wage gaps has been anchored in equality and the right to equal pay for work of equal or comparable value. It is a fundamental right that is well known from a regulatory and compliance perspective. In addition to these historical values, there are now changing perspectives to understand the value of equaling the playing field for women from economic and business reasons.

Linkages with Talent Management and Diversity

In the last few years, a number of Corporate Canada leaders have focused on gender diversity as a cornerstone of their talent strategy as well as satisfying employment equity requirements. This year's CEO of the Year, Ed Clark, president and CEO of TD Financial has stated that adopting a Diversity perspective is not about favoritism but is "about removing explicit and implicit barriers, leveling the playing field so that everybody gets to play and they get

to play at their best.” By their very nature, diversity programs encourage social equality but as importantly, point to the need for successful firms in the future to adopt a diversity agenda to cope with labour shortages.

If women are encouraged to seek and remain gainfully employed, increasing pressure on re-dressing current wage gaps will continue especially since women are becoming a predominant share of the current and future workforces. Given recent legislative changes on pay equity in Quebec and recent steps taken by the Pay Equity Commission in Ontario (see section below entitled “Hot off the Press”), it would appear that governments are becoming more pro active in promoting the need for compliance. Also, the Quebec government recently launched an advertising blitz urging eligible workers to file pay equity complaints before May 30, 2011. (The Gazette, January 19th, 2011, “Ads push pay equity”)

Becoming Pay Equity Compliant

The objective of any Pay Equity legislation is to address the systemic discrimination that contributes to the compensation gap between jobs that have traditionally or historically have dominated by female workers and may



have been undervalued and therefore, underpaid. The process involves testing for “equal pay for work of equal value or comparable value”, through a systematic job evaluation process that establishes the relative value of jobs within an organization. Ontario and Quebec Pay Equity have the same mandates but with differing requirements and it’s important to take these into consideration. Both provinces require that job evaluation plans need to measure four main factors: skill, effort, responsibility and working conditions. Job Evaluation systems need to be gender neutral meaning that it must be structured and applied in a gender

neutral way. A trained team of evaluators or an evaluator applies the system in the workplace.

A job leveling process based on salary market data alone would not be considered to be Pay Equity compliant since it replicates existing historical gender bias in the marketplace.

Key Considerations in Pay Equity Analysis & Maintenance

Significant analysis forms part of the process as set out in the legislation (Ontario and Quebec), which includes the following steps:

1. Identify male and female dominated job comparators—consideration includes current gender composition in a job, historical and stereotypical incumbency.
2. Determine the value of jobs, using a gender-neutral evaluation system and the criteria specified in the legislation.
3. Compare male and female dominated jobs and identify any wage gaps taking into consideration base salary including other possible elements such as incentive pay, commissions, tips, benefits, etc.

4. Prepare and post a Pay Equity Plan document in accordance with the criteria specified in the legislation.

Once Pay Equity is achieved, employers have the obligation to maintain Pay Equity. Employers must ensure that gender wage gaps are not reopened or widened as a result of changes to job values or job rates/range midpoints. Unions also must understand that any renegotiated change might change the Pay Equity implications. We recommend that employers revisit their Pay Equity programs annually, as part of their salary planning process and maintenance program. Certainly Pay Equity Plans must be revisited whenever an organization is restructured, when there are mergers/acquisitions or significant organizational/bargaining unit changes.



Is Pay Equity an Emerging Governance Issue?

Will Pay Equity be achieved in the next few decades? Is it becoming an emerging governance issue for many organizations? Currently many employers who have operations in Ontario and Quebec may not be fully aware of their Pay Equity requirements. Now that Diversity is clearly considered a significant “wave of the future”, it might become more opportune to focus and understand legislative requirements pertaining to Pay Equity. It may also be opportune to visibly commit to Pay Equity within the context of adopting an Employee Value Proposition which allows companies to clarify their commitments to employees. Boards are also becoming more involved in HR related governance issues ensuring that all policies and practices follow socially acceptable norms, business practices, mitigate risk and ensuing liabilities.

As a result of these changing forces, there has been a growing interest in ensuring Pay Equity through development and adoption of specific governance frameworks which support both Talent Management and Diversity objectives. This is not surprising given that Pay Equity adjustments could amount to significant liabilities for any organization that has not paid attention to existing requirements given the potential retroactivity of awards if wage gaps exist. Organizations have a choice: either embrace social responsibility or risk reputational damage. The question one has to ask themselves is whether such a choice is still a viable choice given all the socio-demographic changes, including increasing influence coming through social networks as the millennials enter the workforce!

Hot off the Press:

Ontario's Pay Equity Commission launches a Gender Wage Gap Program

The Pay Equity Commission's role includes compliance, responding and handling employee/union complaints, education and monitoring in Ontario. The Commission also conducts research on various aspects of the Pay Equity Act. Currently this latter effort is focusing on employers with 100+ employees. **Select employers are being requested to respond to a Gender Wage Gap Program launched in January 2011.** As a part of this process, the selected organizations are requested to complete a schedule detailing pay rates by job title and job class gender. Providing employee names is optional. Note however that in addition to the research component, the data will be used for **monitoring purposes**, and therefore a Review Officer can be assigned to oversee Pay Equity compliance at the selected organization.

We highly recommend that all employers work towards ensuring compliance at all times. Those organizations who have posted a Pay Equity Plan must ensure that they are actively maintaining under the Act so that if your organization is selected for the Gender Wage Gap Program, you can respond with confidence.

McDowall Associates is a recognized leader in assisting public and private sector employers understand and comply with their obligations under the Pay Equity Act in Ontario. We would be pleased to respond to any questions that you may have regarding this recent Gender Wage Gap Program or any other matter relating to your Pay Equity obligations.