

An hkp/// group approach preventing organizations from pay discrimination and enabling deep-dives into HR data as base for compliant strategic decisions

Fair Pay Analyses assuring Compliance and Fairness



Pay equity or fairness has become a central point of discussion in society – both before and during the current economic crisis. Rooted in a focus on gender equality, the discussion has now broadened to encompass other public debates, such as the role of racial origin or the comparably low income of people working in system-critical jobs.

In parallel, European governments have increased pressure on businesses, introducing additional legislation on disclosure and reporting of compensation differentials between employee groups as well as more robust reporting requirements for other non-financial indicators. E.g. the European Parliament and Council require all member states to implement “the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation” (Directive 2006/54/EC), which was adopted by the European Commission within the “Action Plan 2017-2019 Tackling the Gender Pay Gap” and which gave rise to various country-specific legislations.

Furthermore, increasingly sharp regulation is forcing more transparency on equal pay than most companies can currently offer. This, in turn, raises the profile of the issue among candidates, employees as well as shareholders. While employer branding and employee engagement are already embedded in corporate agendas, clear statements from institutional investors regarding equal pay are rather new. Among others, in 2018 BlackRock added to their engagement priorities: “statistics on gender and other diversity characteristics as well as promotion rates for and compensation gaps across different employee demographics”.

Given companies’ focus on good corporate governance, it would be rather surprising to find intentional or systematic discrimination. But do corporate processes effectively guarantee that all staff are treated fairly in terms of pay? Differentiated workforce analytics can help you both keep track of changes in the organization and monitor the status quo.

hkp/// group regards pay as a clear expression of corporate culture – and beyond that as one key indicator for fair treatment, in any respect. Based on a specific approach to fair pay analyses, hkp/// group experts identify not only existing pay gaps but more importantly the reasons behind these differences. Based on the results, hkp/// group consultants indicate possible areas of improvement and help you make the best use of the insights gained.

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The hkp/// group approach uses pay as an indicator for fair treatment and identifies not only existing pay gaps but more importantly the reasons behind these differences.

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Jennifer S. Schulz, Senior Manager hkp/// group



Primary questions to find out how your company can benefit from fair pay analysis

- Is “fair or equal pay” defined in your organization?
- Do you already report externally and/or communicate internally on fair pay?
- Does your current reporting capability allow to answer the following questions:
 - Do certain employee groups receive – potentially inexplicable – higher salary increases relative to other employee groups?
 - Are certain employee groups over- or underrepresented in the top performance assessment category?
 - What is the proportion of diverse employees (e.g. with regard to gender, ethnic background, age) in top executive positions and how did this develop during the last promotion cycle?
- Can you quantify the factors that drive compensation in your company and estimate whether these are in line with market practice?
- Are you certain that any differences in pay are intentional? Are such differences reviewed/monitored on a regular basis?
- How do you ensure that you are aware of any inconsistencies in pay within your company?

Equal pay for equal work

When calculating pay differentials, different approaches may yield different and sometimes even contradictory results.

Based on the most frequently used methods in scientific publications on this topic, hkp/// group has developed a structured approach to define pay differentials. With this econometric method a comparison of different (employee) groups is possible on a like-for-like basis (ceteris paribus).

The comparison parameters are cumulatively expanded step-by-step, quantifying the drivers of the pay differentials.

Fair pay analyses should consider a range of variables, provided necessary data is available. Each of these variables may help to explain differences in pay levels: gender, age (group), job (family), company grade, legal entity (within one company), industry (for a market comparison), location/country (within one company or for a market comparison) and other employee-specific characteristics, e.g. parentage, nationality, ethnicity.

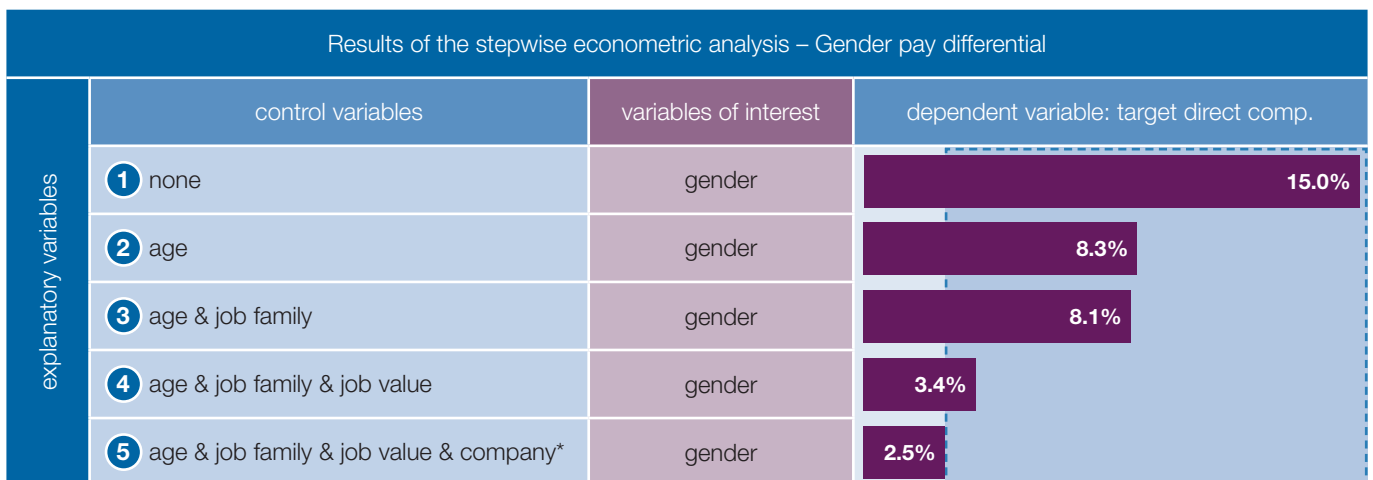
To provide context and add explanatory approaches, hkp/// group experts conduct analyses on additional aspects – from the proportion of men and women per job grade or job family to the distribution of performance categories, bonus payouts and salary increases, as well as the frequency of promotion among different employee groups.

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The most important prerequisite in order to gain valid results from a fair pay analysis is to compare jobs of comparable content, scope and/or impact.

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Barry Kitz, Senior Manager hkp/// group



* Company control variable only in case of market benchmark analysis ■ gender pay gap in % □ portion of gender pay gap explained by control variables

Fig. 1: Illustration of a stepwise econometric analysis on gender pay differentials: by adding relevant control variables the analysis derives a meaningful picture

The most important prerequisite in order to gain valid results is to compare apples to apples, i.e. jobs of comparable content, scope and/or impact. Therefore, an internal job value needs to be assigned to each position included in the analysis. The analysis can be conducted based on the company's own grades or using hkp/// Executive Levels. If no grading system is in

place, a pragmatic job mapping/grading workshop can be offered prior to initiating the fair pay analysis.

The hkp/// group fair pay analysis can be customized to the client's specific questions, targets and needs. Results can be benchmarked against the total market or a specific peer group based on industry, company size etc.

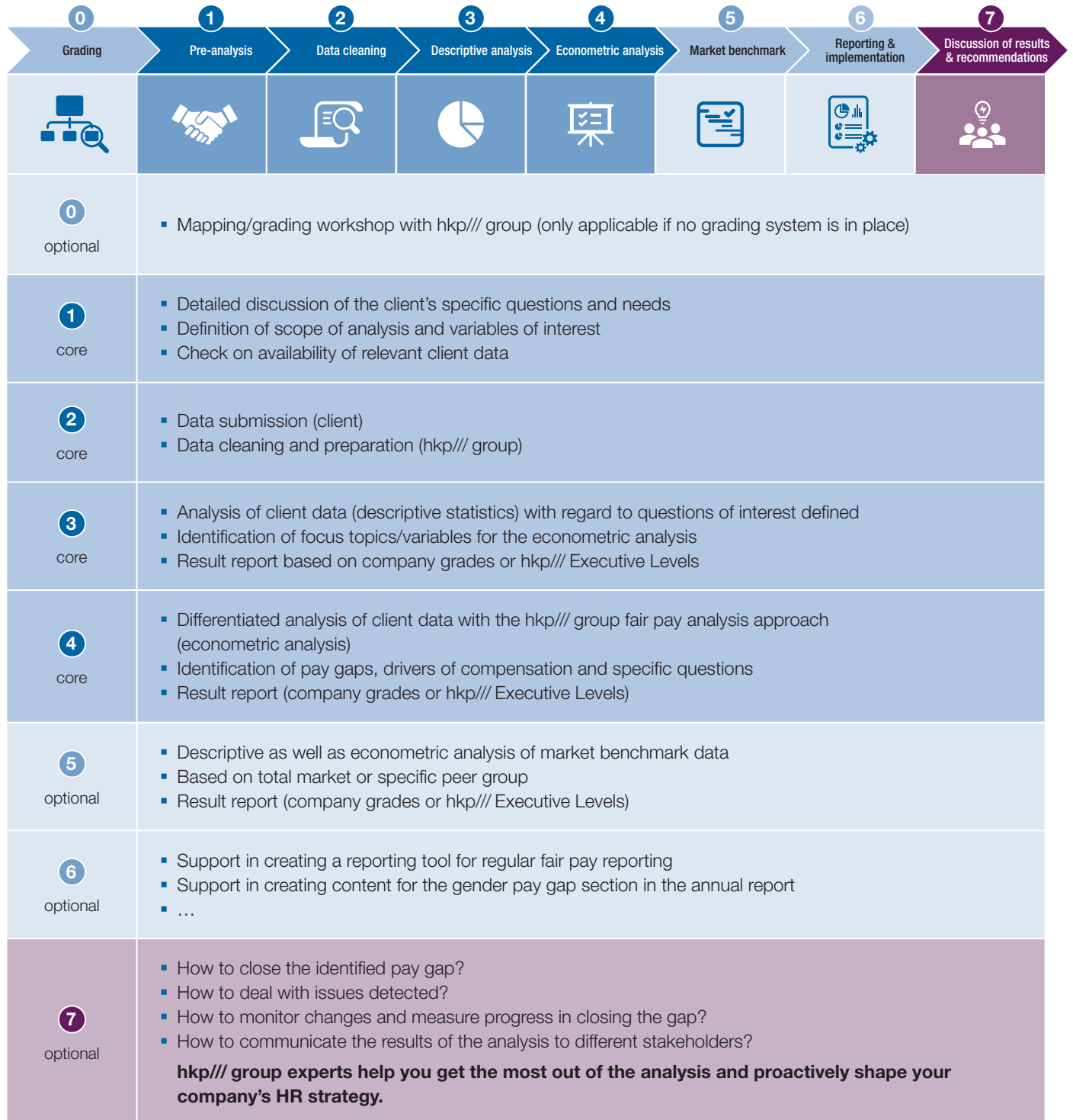


Fig. 2: Overview of core elements and additional process steps of hkp/// group fair pay analyses

USPs of hkp/// group fair pay analyses

▪ Tailor-made approach focused on client needs

Adding value for the client is key to all hkp/// group service offerings – setting new standards and taking them to the next level is always the goal.

Therefore, hkp/// group has developed a client-specific approach applying state-of-the-art methods to conduct in-depth analyses on fair pay. Discovering pay gaps by comparing pay levels of different employee groups is easy – identifying the drivers behind these gaps is where the deep dive begins.

▪ Broader perspectives: from top management to tariff and from internal analysis to international benchmark

Including different employee groups in the analysis provides a differentiated picture of the status quo within a company. hkp/// group guarantees a thorough data preparation and correct consideration of job values based on deep expertise in the analysis of companies' annual reports and in conducting compensation surveys.

In addition to company-specific results, the hkp/// group database – comprised of insights from 60 countries worldwide – provides a broad and valid base for comparative analyses and market benchmarks.

▪ Deep know-how and long-lasting experience in benchmarking

For more than 10 years, hkp/// group has provided high-quality market practice and benchmarking information regarding a full range of compensation & benefits topics for companies of all sizes and across industries. hkp/// group consultants have long-standing experience in all kinds of compensation analyses from job-specific benchmarking to performance management effectiveness.

This not only allows for solid data cleaning and a highly reliable and differentiated interpretation of results, it is also key to providing context and deriving recommendations for action tailored to the client's needs.

About hkp/// group

hkp/// group is a partner-led, international consulting firm. We are experienced in transformation and recognized innovation leader in HR, helping internationally active companies – from startups to large corporations – develop tailored, practical solutions.

The hkp/// group partners have many years of international experience in both consulting and industry. They are recognized experts for executive compensation, board services, performance & talent management, HR strategy & transformation, and HR & compensation benchmarking. They are also trusted advisors to our clients, which include supervisory and management boards, top managers as well as HR managers and experts.

Our ambition is to secure sustainable success for our clients in an increasingly dynamic world. We combine a profound understanding of corporate strategy, HR and financial know-how with outstanding industry expertise, especially for banks and insurance companies, automotive manufacturers and suppliers, the chemical and pharmaceutical industries, companies in transportation and logistics, oil and gas, real estate, IT and telecommunications as well as retail and wholesale businesses.

With more than 700,000 pieces of compensation data from more than 60 countries and all different industries at our disposal, hkp/// group is a leading supplier of compensation comparisons. In the area of board compensation alone, we offer access to remuneration data of 20,000 individuals in over 3,000 European companies (boardpay.com). We apply rigorous security standards, transmitting and analyzing data exclusively in Germany and the Netherlands.

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Verena Vandervelt, Manager hkp/// group



Your hkp/// group experts



Jennifer S. Schulz, Senior Manager, leads the Compensation Insights & Technology practice at hkp/// group. She is a highly respected expert in compensation and HR management with almost 20 years of experience in both consulting and industry in Germany and the Netherlands. Combining her industry experience in large reorganization and functional evaluation projects with market intelligence and state of the art analytical methods, Jennifer brings a new strategic perspective to benchmarking and compensation topics. Clients from DAX and mid-sized companies, Financial Institutions and smaller non-listed companies value Jennifer's broad expertise and integrative conversational approach in developing tailor-made solutions for client specific challenges.

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Verena Vandervelt, Manager, is a leading expert in the field of complex (compensation) data analyses and has taken a key role in developing the methodology of hkp/// group fair pay and management structure analyses. Verena strives to provide added-value to clients by not only advising on the most recent market trends, but also by integrating new perspectives into data analyses and developing innovative HR IT tools. Furthermore, she leads international compensation surveys for Top Executives in DAX- and mid-sized companies as well as studies on Executive und Non-Executive Director compensation in Europe. Since her start at hkp/// group in spring 2014, Verena has been working on projects in the field of compensation benchmarks, design of compensation systems and job grading with DAX- and mid-sized companies from several industries.

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Barry Kitz, Senior Manager, leads the data practice of hkp/// group RemuNet and is the network manager for several of its industry sector networks, in which companies are brought together to perform comparative analytics in the field of HR, IR and Finance. Utilizing his quantitative background, Barry's passionate about data analytics and visualization. He strives to perform data analytics more effectively and efficiently. With his team, he looks beyond the original purpose of the dataset and combines with alternative sources. In addition, he's keen on scenario modeling to show future impact of intended changes. Barry has broad industry experience that spans aviation, cleaning & facilities, technical manufacturing and professional services. He is considered an aviation expert, leading the development of new initiatives to compare costs among carriers globally, providing instrumental results for management. Barry works with numerous organizations in different continents. His recent work encompasses E2E implementing of reward strategy, optimizing workforce structure, and industry trend analytics.

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